

Offering Memorandum



Kallpa Generación S.A.
(a Peruvian corporation)

US\$350,000,000
4.875% Senior Notes due 2026

We are offering US\$350,000,000 aggregate principal amount of 4.875% senior notes due 2026 (the “notes”). The notes will mature on May 24, 2026. Interest will accrue from May 24, 2016 and will be payable on May 24 and November 24 of each year, beginning on November 24, 2016.

We may redeem the notes, in whole or in part, at any time prior to February 24, 2026, 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 February 24, 2026, we may redeem the notes, in whole or in part, by paying the outstanding principal amount of the notes plus accrued and unpaid interest. We 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 our senior unsecured obligations and will be *pari passu* in right of payment to all of our existing and future unsecured and unsubordinated indebtedness, except those obligations preferred by operation of Peruvian law.

Issue Price: 99.258% plus accrued interest, if any, from May 24, 2016

See “Risk Factors” beginning on page 15 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. We are offering the notes only to qualified institutional buyers under Rule 144A under the Securities Act and non-U.S. persons outside the United States in reliance on 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 Lima Stock Exchange (*Bolsa de Valores de Lima*). 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 or in any other jurisdiction except in compliance with the securities laws thereof.

We have applied to admit the notes to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF Market of the Luxembourg Stock Exchange. This offering memorandum shall constitute a prospectus for the purpose of Luxembourg Law dated July 10, 2005 on Prospectuses for Securities, as amended.

None of the U.S. Securities and Exchange Commission (the “Commission”), any U.S. state securities commission or any securities regulatory authority has approved or disapproved of these securities or determined whether this offering memorandum is accurate or complete. Any representation to the contrary is a criminal offense.

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 May 24, 2016.

Joint Book-Running Managers

Credit Suisse

Credicorp Capital

Morgan Stanley

Scotiabank

The date of this offering memorandum is May 19, 2016.

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Unless otherwise indicated or the context otherwise requires, all references in this offering memorandum to “Kallpa,” the “Issuer,” the “Company,” “we,” “us,” “our” and words of similar effect refer to Kallpa Generación S.A., unless the context otherwise requires.

For the sale of the notes in the United States, we are relying upon an exemption 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 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.

The contents of our website do not form part of this offering memorandum.

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 WILL NOT BE SUBJECT TO A PUBLIC OFFERING IN PERU AND HAVE NOT BEEN AND WILL NOT BE REGISTERED WITH OR APPROVED BY THE PERUVIAN SUPERINTENDENCY OF SECURITIES OR SMV (*SUPERINTENDENCIA DEL MERCADO DE VALORES*) OR THE LIMA STOCK EXCHANGE OR BVL (*BOLSA DE VALORES DE LIMA*).

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.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This offering memorandum contains forward-looking statements reflecting our current views about future events and financial performance. Words such as “believe,” “could,” “may,” “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. Forward-looking statements are not guarantees of future performance and involve inherent risks and uncertainties. Forward-looking statements are based on current plans, estimates and projections, and therefore you should not place undue reliance on them. Actual results could differ materially and adversely from those expressed or implied by the forward-looking statements as a result of various factors that may be beyond our control, including but not limited to:

- our ability to source, enter into and/or renew long-term power purchase agreements (“PPAs”) and the terms of such agreements;
- our ability to renew and/or enter into supply, transmission and/or distribution agreements on competitive terms, as such agreements expire;
- 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;
- expected trends in Peru, including trends relating to the growth in the energy market, supply and demand imbalances, and investments in competing power generation facilities;
- 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 the Las Flores plant;
- our ability to successfully integrate acquired businesses, including the Las Flores plant;
- 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 fuel price and exchange rate fluctuations;
- the maintenance of relationships with customers;
- our ability to hire and retain qualified and competent management;
- 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;
- 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;
- the results of the upcoming second round of the presidential elections in Peru and any policy changes the new administration may implement;
- new types of taxes or increases or decreases in taxes applicable to our business;
- expected or 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.

AVAILABLE INFORMATION

For so long as any notes are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, we will, during any period in which we are 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 our Chief Financial Officer, at Av. Santo Toribio N° 115 Of. 701, San Isidro, Lima Peru.

FINANCIAL INFORMATION

We present financial statements 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 our financial statements, except as otherwise indicated. In particular, this offering memorandum contains certain non-IFRS financial information which is defined under “*Summary Financial and Other Data*”.

The financial statements we have included in this offering memorandum consist of our:

- audited annual statements of profit or loss and comprehensive income, changes in equity, and cash flows for the years ended December 31, 2015, 2014 and 2013, and audited statements of financial position as of December 31, 2015, 2014 and 2013, and the notes thereto (our “audited annual financial statements”); and
- unaudited condensed statements of profit or loss and comprehensive income, changes in equity, and cash flows for the three month periods ended March 31, 2016 and 2015, and our unaudited condensed statements of financial position as of March 31, 2016, and the notes thereto (our “unaudited condensed interim financial statements”).

We present our financial statements in U.S. Dollars, our functional currency. All references in this offering memorandum to (i) “dollars,” “\$” or “US\$” are to U.S. Dollars and (ii) “Peruvian Sol” or “S/” are to the legal currency of Peru. 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. Peruvian Sol/U.S. Dollar translations included in this offering memorandum are solely illustrative, and you should not expect that any amount in Peruvian Sol actually represent a stated U.S. Dollar amount or that it could be translated into U.S. Dollars at the rate suggested.

NON-IFRS FINANCIAL INFORMATION

In this offering memorandum, we disclose non-IFRS financial measures, namely EBITDA and Net Debt, each as defined in “*Summary Financial and Other Data*.” Each of these measures is an important measure used by our company to assess financial performance. We believe that the disclosure of 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 differently, and therefore our presentation of EBITDA may not be comparable to other similarly titled measures used by other companies.

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.

REPRESENTATION OF 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.

ENFORCEMENT OF CIVIL LIABILITIES

We are a corporation (*sociedad anónima*) existing under the laws of Peru. The majority of our shares are indirectly owned by IC Power Pte Ltd., a private company limited by shares incorporated under the laws of Singapore. The remaining shares are directly owned by Energía del Pacífico S.A., a company organized under the laws of Peru.

Substantially all of our and our parent company's directors, officers and controlling persons named herein reside outside the United States, and a substantial portion of our and their 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 us 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 us in any foreign court having jurisdiction in respect of any suit, action or proceeding against us for the enforcement of any of our obligations under the federal securities laws of the United States or under the notes, 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 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) we 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 our obligations relating to the notes 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.

CERTAIN TERMS USED IN THIS OFFERING MEMORANDUM

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:

- “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 power;
- “Btu” means British thermal units;
- “CAGR” means compound annual growth rate;
- “Camisea Consortium” means a consortium formed in 2004 composed of Pluspetrol Peru Corporation S.A.; Pluspetrol Camisea S.A.; Hunt Oil Company of Peru L.L.C., Sucursal del Perú; SK Corporation Sucursal Peruana; Sonatrach Peru Corporation S.A.C.; Tecpetrol del Perú S.A.C.; and Repsol Exploración Perú Sucursal del Perú;
- “Cerro del Águila” means Cerro del Águila S.A., a Peruvian corporation owned by IC Power Peru and Energía del Pacífico;
- “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 and private Peruvian entity composed of qualified participants undertaking activities in SEIN which is responsible for planning

and coordinating the operation of the generation, transmission and distribution systems that form the SEIN;

- “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;
- “Duke” means Duke Energy Egenor S. en C. por A, a Peruvian corporation (*sociedad en comandita por acciones*);
- “Energía del Pacífico” means Energía del Pacífico S.A., a Peruvian corporation (*sociedad anónima*);
- “EPC” means engineering, procurement and construction;
- “firm capacity” means the amount of energy available for production that, pursuant to applicable regulations, must be guaranteed to be available at a given time for injection to a certain power grid;
- “Globeleq” means Inkia Americas Limited (formerly known as Globeleq Americas Limited), a Bermudian 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 Pte. Ltd., a private company limited by shares incorporated under the laws of Singapore;
- “IC Power Peru” means IC Power Holdings (Kallpa) Limited, a Bermudian corporation, 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 Bermudian corporation;
- “installed capacity” means the intended full-load sustained output of energy that a generation unit is designed to produce (also referred to as name-plate capacity);
- “KWh” means Kilowatts hour;
- “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) controlling expansion plans for SEIN; (d) approving proposed expansion plans by COES; (e) promoting scientific research and investment in energy; and (f) 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 generating 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 Sol per one U.S. Dollar for the periods indicated.

Year	Peruvian Sol/U.S. Dollar			
	Period End ⁽¹⁾	Average ⁽²⁾	High	Low
2011	2.697	2.754	2.832	2.694
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

(1) Represents the exchange rate on the last business day of the applicable period.

(2) Represents the simple average of the daily exchange rates.

Month	Peruvian Sol/U.S. Dollar			
	Period End ⁽¹⁾	Average ⁽²⁾	High	Low
November 2015	3.375	3.338	3.383	3.286
December 2015	3.411	3.384	3.411	3.368
January 2016	3.470	3.438	3.470	3.416
February 2016	3.524	3.507	3.536	3.477
March 2016	3.325	3.408	3.521	3.325
April 2016	3.276	3.301	3.404	3.249
May (through May 17, 2016)	3.316	3.326	3.339	3.293

(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 May 17, 2016, the exchange rate was S/3.316 per US 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 our notes, you should carefully read this entire offering memorandum, especially the risks of investing in our notes discussed under the heading “Risk Factors.”

Overview

We are the third largest power generation company in Peru in terms of installed capacity as of December 31, 2015. We currently own and operate two power plants, both utilizing natural gas for their operations. Our original Kallpa plant reached COD in 2007 and we completed the conversion of our three natural gas-powered open-cycle generation turbines (Kallpa I, II, and III) into combined-cycle turbines through our 292 MW steam turbine (Kallpa IV) in 2012. Compared to other thermal plants, our Kallpa plant’s combined-cycle turbines are among the most efficient in Peru in terms of heat rate in 2015, according to the COES. As of December 31, 2015, our Kallpa plant’s combined-cycle units had a capacity of 870 MW, representing approximately 9.0% of the total capacity in Peru. Additionally, in April 2014, we acquired a 193 MW single turbine natural gas-fired plant (Las Flores) that is located in close proximity to our Kallpa plant, from a subsidiary of Duke Energy Corp. Our Las Flores plant increased our total installed capacity from 870 MW to 1,063 MW, representing approximately 11.1% of the total installed capacity in Peru as of December 31, 2015. As a result of our efficiency and low cost of operations, we have a strong competitive position in the Peruvian market and are currently the largest thermoelectric power plant in Peru, with approximately 24.4% of market share in terms of energy dispatched by thermoelectric power plants during 2015.

We enter into long-term U.S. Dollar or U.S. Dollar-linked power purchase agreements, or PPAs, to sell capacity and/or energy to customers that we believe have strong credit profiles, such as large distribution companies or non-regulated customers that are subsidiaries of large corporations. As of December 31, 2015, the weighted average remaining life of our PPAs was approximately seven years. For the year ended December 31, 2015, 98.4% of our aggregate energy sales (in GWh) were made pursuant to PPAs. We believe this strategy limits our exposure to fluctuations in energy spot market rates and helps us generate strong and predictable margins and cash flows. Additionally, most of our PPAs are indexed to the cost of natural gas. Such indexing generally limits our exposure to natural gas price fluctuations, thereby helping us to maintain our margins.

During the year ended December 31, 2015, we generated 5,166 GWh, representing 11.6% of the Peruvian interconnected system’s energy production. During the years ended December 31, 2015, 2014 and 2013, we generated revenues of US\$448 million, US\$437 million and US\$394 million, respectively. During the same periods, our net income totaled US\$45 million, US\$53 million and US\$43 million, respectively, and our EBITDA totaled US\$154 million, US\$157 million and US\$142 million, respectively.

Peru is one of the fastest growing economies in Latin America, with average GDP growth of approximately 5.4% per year from 2009 through 2015, according to the International Monetary Fund, a stable regulatory framework and a well-run power system. Currently, Peru’s sovereign credit rating is A3/BBB+/BBB+ according to Moody’s Investors Service (“Moody’s”), Standard & Poor’s Ratings Services (“S&P”) and Fitch Ratings, Inc. (“Fitch”), respectively. Peru’s overall power generation is estimated to increase by an annual average of 5.2% for the period 2015 - 2024, according to MINEM. Peruvian energy demand is expected to increase over the next ten years as 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.

The map below shows the location of our generation units in Peru:



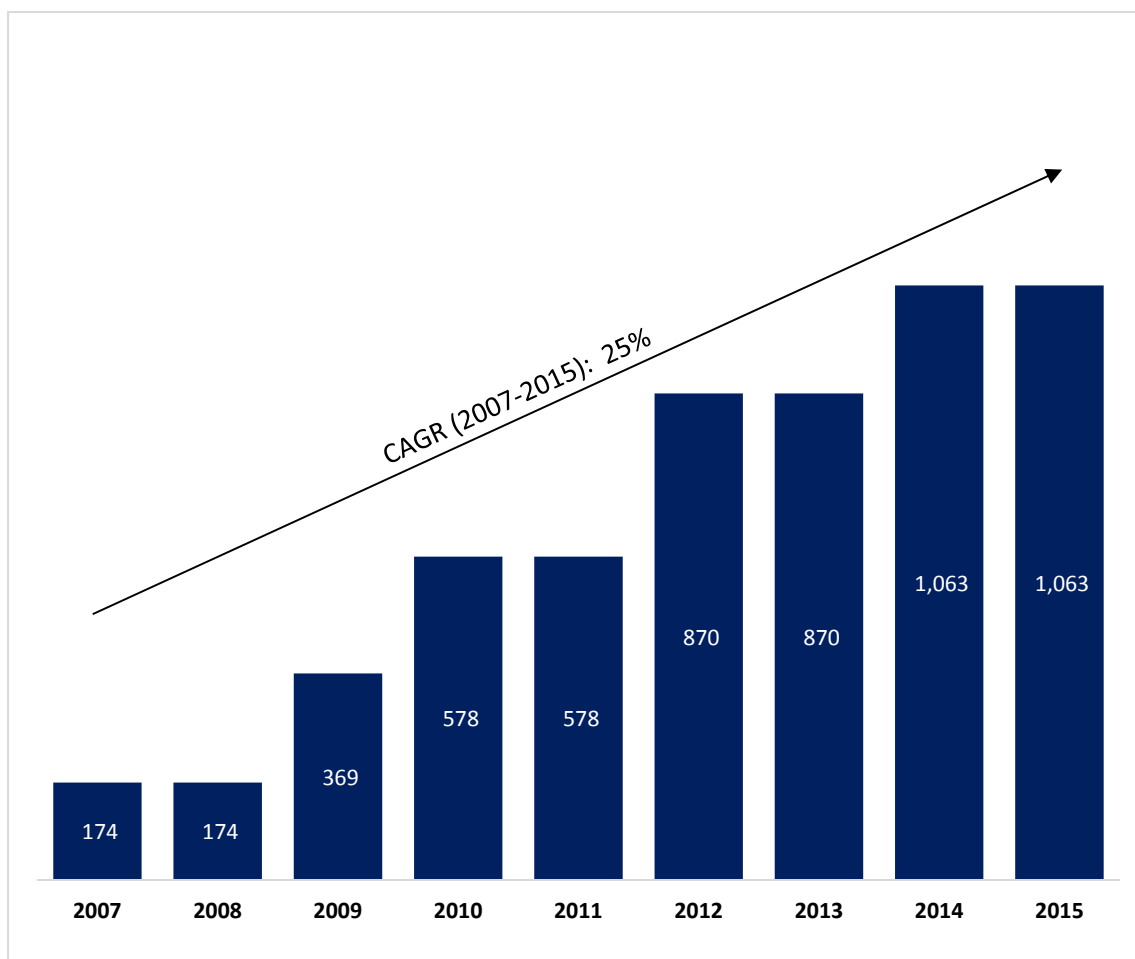
The following table sets forth certain summary operational information as of and for the year ended December 31, 2015:

<u>Turbine</u>	<u>COD</u>	<u>Installed Capacity</u> (MW)	<u>Gross Energy Generated</u> (GWh)	<u>Weighted Average Availability Factor</u> (%)
Kallpa I.....	2007	186 ⁽¹⁾	954	91.2
Kallpa II.....	2009	195	1,126	98.9
Kallpa III	2010	197	1,218	98.6
Kallpa IV ⁽²⁾ ...	2012	292	1,759	95.4
Kallpa Total .		870	5,057	96.0
Las Flores ⁽³⁾ ...	2014	193	109	99.7
Total.....		1,063	5,166	96.7

- (1) Includes upgrade of 12 MW completed in 2010.
(2) Operations of combined-cycle units started at the Kallpa Plant in August 2012.
(3) We acquired Las Flores in April 2014.

The following chart presents the growth of our installed capacity by year from 2007 through December 2015.

Installed Capacity (MW)



The following table sets forth certain financial and operational data for the periods set forth below:

	Year Ended December 31,		
	2015	2014 ⁽¹⁾	2013
	(US\$ millions, except as otherwise indicated)		
Revenues	US\$ 448	US\$ 437	US\$ 394
Net income	45	53	43
EBITDA ⁽²⁾	154	157	142

(1) We 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 Financial and Other Data.*”

Competitive Strengths

Leading market position in an attractive energy market—We operate in Peru, one of the fastest growing economies in Latin America, with an average GDP growth of approximately 5.4% per year from 2009 through 2015, according to the International Monetary Fund. Peru also enjoys low inflation levels, a stable regulatory framework, and a well-run power system. As of December 31, 2015, we had an installed capacity of 1,063 MW, representing 11.1% of Peru’s installed capacity. During the year ended December 31, 2015, we generated 11.6% of the gross energy (in GWh) in Peru. Our Kallpa facility is the largest thermoelectric power plant in Peru, with approximately 24.4% of market share in terms of energy dispatched by thermoelectric power plants for the year ended December 31, 2015.

Peruvian energy demand is expected to increase, resulting in part from Peru’s growing middle class, the substantial investments made by Peru’s energy-intensive mining industry and expected growth in its manufacturing industry. According to MINEM, Peru’s overall power generation is estimated to increase by an annual average of 5.2% for the period 2015 – 2024. 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.

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 rates, generates stable and predictable margins, and helps to create stability and predictability in our cash flows. In the year ended December 31, 2015, we made 98.4% of our aggregate energy sales (in GWh) pursuant to long-term PPAs. As of December 31, 2015, the weighted average remaining life of our PPAs was approximately seven years and 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. For example, we signed two PPAs with Southern Peru Copper Corporation, a ten-year PPA for 120 MW and a twelve-year PPA for 70 to 85MW, both starting in 2017. In addition, we recently extended the 100 MW Antapaccay PPA from 2021 to 2025.

As of December 31, 2015, 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 fuel price and exchange rate fluctuations. With respect to our non-regulated customers, we invoice and collect payments in U.S. Dollars. With respect to our distribution company customers, for which we invoice and collect payments in Peruvian Soles, the underlying tariff is linked to the U.S. Dollar and is reset quarterly when the tariff resulting from applying the indexation formula fluctuates by more than 5%. 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 Edelnor S.A.A. and Luz del Sur S.A.A. (subsidiaries of Enel S.p.A. and Sempra Energy, respectively) and, non-regulated customers such as Southern Peru Copper Corporation, Sociedad Minera Cerro Verde S.A.A., a subsidiary of Freeport-McMoRan, Compañía Minera Antapaccay S.A., a subsidiary of Glencore plc.

As our power facilities utilize and are dependent upon natural gas, we seek to enter into long-term supply, transportation and distribution agreements to acquire the necessary natural gas for our facilities. We purchase our natural gas requirements for our generation facilities from the Camisea Consortium pursuant to a long-term natural gas supply agreement. Our natural gas transportation services are rendered by TGP pursuant to long-term

agreements, and our 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 Siemens and General Electric) and entering into long-term service agreements with leading, multinational original equipment manufacturers, or OEMs. 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 our generation units’ weighted average availability rate of 96.7% for the year ended December 31, 2015 was the result of our optimization efforts and commitment to improving our operating efficiency and performance.

Additionally, our construction of power generation assets that use efficient technologies (e.g., the conversion of our facility into a combined-cycle operation in 2012) places our generation assets competitively in the dispatch merit order. The Kallpa facility is a base load plant combined-cycle gas turbine, and, according to 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—Our controlling shareholder, IC Power Peru, is a wholly owned subsidiary of IC Power Pte. Ltd., or IC Power, who is a leading owner, developer and operator of power facilities located in key power generation markets in Latin America, the Caribbean and Israel, utilizing a range of technologies, including natural gas, HFO, diesel, hydroelectric and wind. As of December 31, 2015, IC Power had 2,080 MW of installed capacity in Latin America, 127 MW of installed capacity in the Caribbean, 458 MW of installed capacity in Israel, and 1,202 MW of assets in advanced stages of construction in Peru and Panama. Between 2007 and December 31, 2015, IC Power invested approximately US\$2.7 billion in the acquisition, development and expansion of its power generation assets. IC Power has the proven ability to identify and execute large, complex greenfield projects and a strong track record of disciplined acquisitions. The international profile, experience and commitment of IC Power in operating growth-oriented businesses lends us credibility in conducting our operations.

Furthermore, in January 2016, IC Power completed the acquisition of Energuate, the indirect owner of two distribution companies in Guatemala (Distribuidora de Electricidad de Oriente, S.A. (Deorsa) and Distribuidora de Electricidad de Occidente, S.A. (Deocsa), and two smaller, related companies Comercializadora Mayorista de Electricidad, S.A. and Redes Eléctricas de Centroamérica, S.A. (RECSA)). Energuate provides services to approximately 1.6 million households in Guatemala (representing approximately 54% of Guatemala’s distribution customers in 2014) and distributes energy approximately across 100,000 km² in Guatemala, covering a population of 12 million.

IC Power’s and our management teams have extensive experience in the power generation business. IC Power’s and our executive officers have an average of approximately 20 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. IC Power’s and our management teams provide in-depth market knowledge and power industry experience, with significant experience in the Peruvian energy industry and government regulators. We believe that this overall level of experience allows our management team to lead the Company 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—In the year ended December 31, 2015, we made 98.4% of our aggregate energy sales (in GWh) pursuant to PPAs, all of which are either in U.S. Dollars or linked to the U.S. Dollar, and most of which were indexed to the price of natural gas in U.S. Dollars. We seek to enter into long-term capacity 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. As an example, we signed two PPAs with Southern

Peru Copper Corporation, a ten-year PPA for 120 MW and a twelve-year PPA for 70 to 85MW, both starting in 2017. In addition, we recently extended the 100 MW Antapaccay PPA from 2021 to 2025.

Optimize operations through developments and expansions—We have been successful in developing our facilities in stages and we will continue to evaluate expansion and acquisition opportunities to optimize our operations. For example, prior to our 2014 acquisition of the Las Flores plant, 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. Our original Kallpa plant, which is located near the Las Flores plant, had an excess supply of natural gas. We identified these and other potential synergies and, since our acquisition of the Las Flores plant, 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, we intend to use the proceeds of the offering of the notes to refinance substantially all of our debt allowing us to reduce our financing costs and extend our debt maturity profile. We currently have 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, our turbines are remotely monitored in real time by Siemens in the United States, providing an additional level of predictive maintenance on our 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

Our controlling shareholder, IC Power Peru, is a wholly owned subsidiary of IC Power Pte. Ltd., or IC Power. IC Power is a leading owner, developer and operator of power facilities located in key power generation markets in Latin America, the Caribbean and Israel, utilizing a range of fuels, including natural gas, hydroelectric, HFO, diesel and wind. Currently, its principal focus is on Latin American markets, which typically have higher

GDP growth rates and lower overall and per capita energy consumption, as compared with more developed markets. For the year ended December 31, 2015, we represented approximately 40% of IC Power's generating capacity and 47% of IC Power's EBITDA.

IC Power's activities in Latin America began in 2007 when Inkia Energy Limited, or Inkia, a subsidiary of Israel Corporation Ltd., an Israeli conglomerate, acquired Globeleq Americas Limited's, or Globeleq's, power generation assets in Latin America, which represented 549 MW of installed capacity.

In 2010, Israel Corporation Ltd. formed IC Power and contributed to it both Inkia and O.P.C. Rotem Ltd, a generation company in Israel. In January 2015, Israel Corporation Ltd. transferred IC Power to Kenon Holdings Ltd. ("Kenon"), a holding company organized under the laws of Singapore, whose shares are traded in the New York Stock Exchange, in connection with Israel Corporation's spin-off of Kenon. Kenon is currently IC Power's sole shareholder.

As of December 31, 2015, IC Power's installed capacity was 2,665 MW. IC Power expects to increase its installed capacity by 1,202 MW, or 45.1%, to 3,867 MW by the second half of 2016, upon the completion of assets in advanced stages of construction.

Background and History

We were founded in 2005 as a Peruvian corporation under the name Globeleq Peru S.A. At that time, we belonged to Globeleq Ltd, a subsidiary of CDC Group PLC (United Kingdom). As noted above, 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, our 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 us through a capital increase that we undertook. In January 2012, Quimpac transferred all its shares in us to Energía del Pacífico S.A., or Energía del Pacífico, a member of the Quimpac group, a Peruvian company focused on the investments of the group in the energy sector.

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

Kallpa – Cerro del Águila Potential Merger

As part of a strategy to optimize and diversify our operations, Kallpa's shareholders may evaluate the possibility of a merger with Cerro del Águila, our affiliated company in Peru, which is currently finalizing the completion of a 510 MW hydroelectric plant. Cerro del Águila is expected to reach COD in the second half of 2016. Construction of the hydroelectric plant is significantly underway and, as of March 31, 2016, was approximately 94% completed, with dam construction completion standing at 99.9% and the tunnel drilling completion standing at 100%.

Once completed, Cerro del Águila will be the largest privately-owned hydroelectric power plant in Peru with a generation capacity of 510MW. It will consist of a dam, a powerhouse, a 6 kilometer headrace tunnel and a 17 kilometer transmission line that will operate on the Mantaro River in central Peru.

The Cerro del Águila plant is located 16 kilometers downstream of Peru's largest hydroelectric complex, formed by the Mantaro and the Restitución hydroelectric plants, with a combined installed capacity of 1,008MW. The Mantaro complex is the largest hydroelectric complex in Peru (in terms of capacity and generation), runs as a year round base load unit, has stable generation levels and also has the largest reservoir 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 15 years. The Mantaro basin is expected to provide a relatively constant water flow for downstream power plants, thereby benefiting Cerro del Águila's hydrology. The Cerro del Águila plant is estimated to have a capacity factor of approximately 70% and produce an average of 3,200 Gwh per year. The plant's firm energy is contracted under long term PPAs.

The merger, if it were to occur, would take place after Cerro del Águila reaches COD. If such merger were to take place, Cerro del Águila would likely be the surviving entity and would assume all of our obligations, including the notes being offered hereby.

Any merger of Kallpa and Cerro del Águila would be subject to approval by our mutual shareholders and could possibly require regulatory approval in Peru. We cannot assure you that we and Cerro del Águila would undertake, or be able to consummate, any such merger.

See “*Business – Cerro del Águila*” for a more complete description of the Cerro del Águila hydroelectric power plant.

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 N°115, Of. 701, San Isidro, Lima, Peru. We are registered on entry file no. 11767759 of the Peruvian Corporate Record, Lima Office (*Oficina Registral de Lima del Registro de Personas Jurídicas*). We have no direct or indirect subsidiaries. Our telephone number is +511 706 7878. Our website is <http://www.kallp generacion.com.pe/>. The information included on our website or which may be accessed through our website 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	Kallpa Generación S.A.
Securities Offered	US\$350,000,000 aggregate principal amount of 4.875% Senior Notes due 2026
Issue Price.....	99.258% plus accrued interest, if any, from May 24, 2016
Maturity Date	May 24, 2026
Interest	The notes will accrue interest at a rate of 4.875% per year, payable semi-annually in arrears on May 24 and November 24 of each year, commencing on November 24, 2016.
Ranking	The notes will be our senior unsecured obligations and will, at all times, be <i>pari passu</i> in right of payment with all of our other existing and future unsecured and unsubordinated debt, except for those obligations preferred by operation of Peruvian law, including labor and tax claims.

The notes will be effectively subordinated to our 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 our subsidiaries, if any.

As of March 31, 2016 our total outstanding indebtedness was US\$401 million, US\$356 million of which was secured. Our total outstanding short term debt (including current portion of the long term debt) was US\$97 million. As adjusted for this offering and the use of proceeds therefrom, our total outstanding debt would be US\$ 441.2 million, of which the US\$91.2 million related to Las Flores leasing would be secured.

Additional Amounts	All payments 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 we or any successor of us 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, we 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.”
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Optional Redemption.....	The notes will not be redeemable by us or by the holders of the notes prior to maturity except as set forth below.
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Make-Whole Redemption. At any time prior to February 24, 2026 (three months prior to the maturity date of the notes), we 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 February 24, 2026 (three months prior to the maturity date of the notes), we 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. We may also redeem the notes, in whole but not in part, at our 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 our ability to:

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

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

Change of Control.....

If we experience a Change of Control that results in a Ratings Decline (each as defined in “Description of the Notes”), we 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

We intend to use the net proceeds from the sale of the notes to repay existing indebtedness. 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 US\$200,000 and integral multiples of US\$1,000 in excess thereof. The notes will be delivered through the facilities of the Depository Trust Company (“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 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

We have applied to list the notes on the Official List of the Luxembourg Stock Exchange for trading on the Euro MTF Market. We cannot assure you,

however, that this application will be accepted, or if accepted, that the notes will remain so listed.

Governing Law State of New York

Trustee, Registrar,
Transfer Agent and
Paying Agent Citibank N.A.

Luxembourg Paying
Agent and Transfer
Agent Banque Internationale à Luxembourg SA

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 DATA

The following tables present our summary financial and operating data. The summary financial data as of and for the years ended December 31, 2015, 2014 and 2013 presented below have been derived from our audited annual financial statements included elsewhere in this offering memorandum. Our historical results for any prior period are not necessarily indicative of results expected in any future period.

You should read the summary financial and operating information set forth below in conjunction with the sections entitled “Financial Information,” “Use of Proceeds,” “Capitalization,” “Selected Financial and Other Data,” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” as well as in conjunction with our audited annual financial statements and notes thereto included elsewhere in this offering memorandum.

The following table presents our summary statement of profit or loss data:

	Year Ended December 31,		
	2015	2014 ⁽¹⁾	2013
	(US\$ millions)		
Summary Statement of Profit or Loss Data			
Sales			
Contract energy and capacity sales	US\$ 359	US\$ 361	US\$ 333
Spot market energy and capacity sales	-	3	-
Other revenue ⁽²⁾	89	73	61
Total sales	448	437	394
Cost of sales			
Fuel consumption	(140)	(139)	(113)
Energy and capacity purchases	(32)	(32)	(41)
Other cost of sales	(107)	(99)	(85)
Total cost of sales (excluding depreciation)	(279)	(270)	(239)
Depreciation	(50)	(45)	(40)
Gross profit	119	122	115
General, selling and administrative expenses	(17)	(17)	(16)
Other income	2	6	3
Results from operating activities	104	111	102
Financing costs, net	(35)	(35)	(33)
Profit before income taxes	69	76	69
Income tax expense	(24)	(23)	(26)
Net income for the year	45	53	43

(1) Las Flores was acquired in April 2014.

(2) Ancillary services which consist mainly of transmission tolls.

The following table presents our summary statement of financial position data:

	As of December 31,		
	2015	2014 ⁽¹⁾	2013
	(US\$ millions)		
Summary Statement of Financial Position Data			
Cash and cash equivalents	US\$ 28	US\$ 25	US\$ 14
Trade receivables	42	39	33
Other receivables	10	6	9
Prepaid expenses	-	1	2
Inventories	14	13	12
Other assets	-	-	2
Total current assets	94	84	72
Property, plants and equipment	612	633	535
Intangibles	17	13	6
Other Assets	9	-	-
Total assets	732	730	613
Short term debt	45	29	-
Current portion of the long term debt	56	53	42

Trade payables	74	50	44
Other payables.....	12	17	14
Current income tax.....	-	2	10
Advances from clients.....	2	2	2
Derivative instruments	-	1	2
Total current liabilities	189	154	114
Advances from clients.....	1	3	4
Derivative instruments	-	-	1
Deferred income tax liabilities.....	29	22	19
Loans and debentures.....	315	371	323
Provisions	12	9	5
Total liabilities	546	559	466
Share capital	71	71	71
Share premiums.....	54	54	54
Hedging reserves.....	-	-	(1)
Other reserves.....	14	14	12
Retained earnings.....	47	32	11
Total equity	186	171	147
Total liabilities and equity	US\$ 732	US\$ 730	US\$ 613

(1) Las Flores was acquired in April 2014.

The following table presents our summary cash flow data for the periods presented:

	Year Ended December 31,		
	2015	2014 ⁽¹⁾	2013
	(US\$ millions)		
Summary Statement Cash Flow Data			
Net cash provided by operating activities	US\$ 113	US\$ 117	US\$ 144
Net cash (used in) investing activities.....	(13)	(26)	(17)
Net cash (used in) financing activities	(97)	(79)	(158)
Net increase (decrease) in cash and cash equivalents	3	12	(31)
Cash and cash equivalents at beginning of the year.....	25	14	47
Effect of changes in the exchange rate on cash and cash equivalents.....	-	(1)	(2)
Cash and cash equivalents at end of the year	US\$ 28	US\$ 25	US\$ 14

(1) Capital expenditure related to Las Flores is not included as it was financed through a financing lease. Due to this financing arrangement, the acquisition expenses related to the Las Flores plant and its respective financing are not reflected in our annual audited financial statements as capital expenditures or cash flow from financing, but accounted for as a fixed asset and debt in our statement of financial position.

Key Financial and Other Operating Information

The following tables set forth certain key financial and operating information for the periods presented:

	Year Ended December 31,		
	2015	2014	2013
	(US\$ millions, except as otherwise indicated)		
EBITDA ⁽¹⁾	154	157	142
Interest coverage ratio ⁽²⁾	5.1	4.6	4.6
Total debt.....	416	453	365
Total debt / Shareholders' equity	2.2	2.6	2.5
Net debt ⁽³⁾	388	428	351
Total debt / EBITDA	2.7	2.9	2.6
Net debt/EBITDA.....	2.5	2.7	2.5
Installed capacity at end of period (MW)	1,063	1,063	870
Weighted average availability during the period (%).....	96.7%	96.7%	93.5%
Gross energy generated (GWh).....	5,166	5,920	5,459
Own consumption of energy and losses (GWh)	139	222	194
Net energy generated (GWh)	5,027	5,698	5,265
Energy purchased on the spot market (GWh).....	1,406	861	1,087
Energy sold under PPAs (GWh)	6,327	6,324	6,268
Average monomic price (US\$/MWh) ⁽⁴⁾	56.7	57.0	53.2

- (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 net income to our EBITDA for the periods presented:

	Year Ended December 31,					
	2015		2014		2013	
	(US\$ millions)					
Net income for the period.....	US\$	45	US\$	53	US\$	43
Depreciation		50		46		40
Financing costs, net		35		35		33
Income tax expense		24		23		26
EBITDA	US\$	154	US\$	157	US\$	142

- (2) Our interest coverage ratio is defined as EBITDA divided by finance cost, excluding finance income and net foreign exchange loss.
- (3) Net debt is calculated as total debt minus cash and cash equivalents. Net debt is not a recognized financial measure under IFRS. The table below sets forth a reconciliation of our total debt to net debt.

	As of December 31,					
	2015		2014		2013	
	(US\$ millions)					
Total debt	US\$	416	US\$	453	US\$	365
Cash and cash equivalents		(28)		(25)		(14)
Net debt	US\$	388	US\$	428	US\$	351

- (4) Our 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 Peruvian government has a high degree of influence in our market.

We operate a power generation business and, therefore, are subject to significant government 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. Peruvian government actions 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;
- 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; and
- other political, social and economic developments in or affecting Peru.

Uncertainty over whether the current Peruvian government or the new government scheduled to take office on July 28, 2016 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 were provided access to the spot market on January 1, 2016. However, as the regulatory rules that would govern their access have not yet been approved, there remains uncertainty as to how such access will be implemented and the impact such access may have on power companies in Peru, including our company. 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 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 our thermal generation units, which may have a material adverse effect on our 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, cyber security, 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.

The Peruvian power market is highly competitive in terms of pricing, quality, development and introduction time, customer service and financing terms. In our market, we face 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.

We expect generation capacity and, to a lesser extent, the demand for electricity, to increase in Peru over the next ten years. As the increase in demand is expected to be less than the increase in capacity, this oversupply in the Peruvian market is expected to put downward pressure on prices in Peru. 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 or 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 and gas-fired power plants 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.

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 and transmission 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.

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 ten 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 or its expansion.

Furthermore, the introduction of a more efficient energy generation technology could adversely affect the competitiveness of our gas-fired energy plants in the dispatch order. As such, our company faces 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 and thereby 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. 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.

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

We rely on natural gas to fuel our power generation facilities. The delivery of natural gas to our 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 our generation facilities.

This risk of disruption is compounded by supplier concentration that characterizes our generation units. Our gas suppliers are sole or monopolistic suppliers, and may exercise monopolistic control over their supply of natural gas to us. Our plants' generation facilities rely on a consortium, composed of Pluspetrol Peru Corporation S.A., Pluspetrol Camisea S.A., Hunt Oil Company of Peru L.L.C. Sucursal del Perú, SK Corporation Sucursal Peruana, Sonatrach Peru Corporation S.A.C., Tecpetrol del Perú S.A.C. and Repsol Exploración Perú Sucursal del Perú, which we collectively refer to as 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, our plants would be unable to generate electricity at their facilities, and such a failure could prevent us from fulfilling our contractual obligations, which could have a material adverse effect on our business and financial results. Continued supply of natural gas to our plants is dependent upon a number of factors, over which we have 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 we use 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 our 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 us 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 our plants.

Moreover, our contracts for natural gas supply and transportation are scheduled to expire prior to the end of the operational life of our plants. These contracts have not yet been extended or replaced with one or more contracts on comparable terms. For example, we purchase the natural gas for our 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 we are unable to renew, or enter into supply contracts and, in particular, enter into long-term supply contracts, we may be required to purchase our natural gas on the spot market at prices that may be significantly greater than the prices we previously paid for gas, or may be unable to purchase gas on competitive prices at all. As a result, 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.

We cannot ensure that any merger with Cerro del Águila will be undertaken or consummated.

As part of a strategy to optimize and diversify our operations, our shareholders may evaluate the possibility of a merger with Cerro del Águila, our affiliate company in Peru, which is currently finalizing the completion of a 510 MW hydroelectric plant. For more information on such potential merger, see “Business – Kallpa – Cerro del Águila Potential Merger.” Such merger of Kallpa and Cerro del Águila would be subject to approval by our mutual shareholders and could possibly require regulatory approval. Accordingly, we cannot assure you that we and Cerro del Águila would undertake, or be able to consummate, any such merger. In addition, if any such merger were consummated, we cannot ensure you that there would not be a material adverse impact on our results of operations, our capital structure, our financial condition or on the trading price of the notes.

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, which 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, we may face a reduction in our margins due to lower dispatch or due to sales occurring at the lower spot prices.
- During periods of drought, natural gas plants are used more frequently.
- Our plants require water for cooling and a drought not only reduces the availability of water, but also increases the concentration of chemicals, such as sulfates in the water. The high concentration of chemicals in the water we use for cooling increases the risk of damaging the equipment at our thermal plants as well as the risk of violating relevant environmental regulations. As a result, we may have to purchase water from areas that are also experiencing shortages of water. These water purchases may increase our operating costs, as well as the costs relating to our social responsibility commitments.

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 2015, 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 changes 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.

We purchase and sell electricity in the wholesale spot market. During the years ended December 31, 2015, 2014 and 2013, we purchased 22%, 14% and 17%, respectively, of the electricity that we sold (in GWh) from the spot market. As a result, we are exposed to spot market prices, which tend to fluctuate substantially. Unlike most

other commodities, electric power can only be stored on a very limited basis and generally must be produced concurrently with our 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. 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, and any 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.

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 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, we were required to make energy purchases on the spot market to meet our obligations under our PPAs. For further information on the effect of our generation units'

unscheduled maintenance stoppage on our cost of sales in 2013, see “*Management’s Discussion and Analysis of Financial Condition and Results of Operations—Operating Results—Year Ended December 31, 2013 Compared to Year Ended December 31, 2012—Cost of Sales (Excluding Depreciation).*”

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 Administración Tributaria*), known as *SUNAT* for its abbreviation in Spanish, has issued tax assessments to us and our lenders (as lessors under our financial leases) for payment of import taxes allegedly owed by us and our 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 we and our 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. We disagree 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 we paid our corresponding taxes. We and our lenders disputed the tax assessments before *SUNAT* and, after *SUNAT* confirmed the assessments, appealed before the Peruvian Tax Administrative Court, or the *Tribunal Fiscal*, except for the assessment of Kallpa IV. In January 2015, we and our lenders were notified that the *Tribunal Fiscal* had rejected our appeal in respect of the Kallpa I assessment. We and our lenders disagreed with the *Tribunal Fiscal*'s decision and challenged this decision in the Peruvian courts. In order to challenge the Kallpa I ruling, we and our lenders were required to pay the tax assessment of Kallpa I in the aggregate amount of approximately S/37.9 million (US\$12.3 million), which amount consists of the tax assessment for Kallpa I, plus related interest and fines. In April 2015, we and our lenders made the final payment (under protest) regarding Kallpa I's tax assessment in order to appeal the administrative ruling of the *Tribunal Fiscal* in the judicial system. We have reimbursed the lenders for each of the amounts due under the terms and conditions set forth in 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 and us. To the extent that the appeal is successful, we and our lenders will be entitled to seek the return of the amounts paid to *SUNAT*. The amount paid with respect to Kallpa I was recorded as 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 "VAT") has been recovered. In January 2016, *SUNAT* issued a ruling in favor of Kallpa, releasing Kallpa from substantially all claims and associated fines related to Kallpa IV. A decision of the *Tribunal Fiscal* of our appeals in respect of the Kallpa II and III assessments is still pending. As of March 31, 2016, the total tax exposure related to the Kallpa I, II, III and IV assessments was S/76.6 million (US\$ 23.1 million), including the amount already paid under protest.

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, the *Tribunal Fiscal*'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 our management's attention and resources from other matters, each of which could also have a material adverse effect on our business, financial condition, results of operations or liquidity.

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

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, 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.*”

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 IC Power. Pursuant to our organizational documents and share-ownership structure, IC Power 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. IC Power’s interests may not in all cases be aligned with your interests as a holder of the notes offered hereby. IC Power 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, IC Power 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.

Our controlling shareholder has granted rights to our minority shareholder.

Our controlling shareholder, IC Power Peru, a wholly owned subsidiary of IC Power, 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 US\$5 million and dispositions of assets over US\$7.5 million, as well as the incurrence of significant debt over US\$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 our outstanding shares (owned by Energía del Pacífico) were 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 company 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 wastes 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.

Potential expansion 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, our Las Flores plant has the environmental approvals and a permit to increase its installed capacity through the construction of a 190 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. We have not committed to either expansion. These activities consume a portion of our management's focus and could increase our leverage or reduce our profitability.

Furthermore, if we decide to proceed with the expansion of a generation unit, its construction or conversion 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 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 us 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 our 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 differing 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, including the new administration of the elected candidate in the 2016 presidential elections and future administrations, 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. 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.

Elections in Peru can generate a climate of political and economic turmoil.

The first round of general presidential elections for Peru took place on April 10, 2016. Since no presidential candidate received more than half of all valid votes during the first round, there will be a second round of elections scheduled to be held on June 5, 2016. Presidential and congressional elections may impact the development of certain industries, affect the interpretation of existing legislation or result in the enactment of additional regulations, actions or agencies, which may result in changes in regulations in Peru that could adversely affect our business. Political campaigns and presidential elections in Peru can generate a climate of political and economic turmoil. Additionally, the president of Peru has considerable power in determining governmental policies and actions that relate to the Peruvian economy and as a consequence, to our company. Peruvian regulators may also enact processes to expand generation capacity in Peru in excess of the rate of demand growth, which expansion could therefore have a negative impact on spot and contractual prices in Peru, which in turn could reduce our margins. Although recent administrations in Peru have maintained market-oriented economic policies, a responsible fiscal policy and an autonomous monetary policy, we cannot assure you that future Peruvian administrations will maintain the current economic, fiscal and monetary policies, or that a future Peruvian government will refrain from adopting new policies that could have an adverse effect on the Peruvian economy or on our company. Future government policies could include, among others, expropriation, nationalization, suspension of the enforcement of creditors' rights, new taxation regimes and adjustments of certain conditions under our main agreements (such as our PPAs). 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.

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, or limit our ability to trigger the minimum thresholds set forth in the price adjustment mechanisms in our PPAs or long-term supply agreements or access foreign financial markets, 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 reimplementaion 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. 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 the last year, 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.

The market volatility generated by distortions in the international financial markets may affect the Peruvian capital markets and the Peruvian banking system.

The global financial and economic crisis of 2008 and 2009 adversely affected and increased the volatility of the performance of the BVL. In recent years, the BVL has experienced increased participation from local and international retail investors that react rapidly to the effects of international markets. The general index of the BVL decreased by 16.7% in 2011, increased by 5.9% in 2012, decreased by 23.6% in 2013, decreased by 6.1% in 2014 and decreased by 33.4% in 2015. The volatility in the international markets may adversely affect the Peruvian capital markets and could therefore impact our ability to raise funds from the capital markets at a level necessary to fund our 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.

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.

We have signed legal stability agreements with the relevant tax authority in Peru pursuant to which, during the term of the corresponding agreement, we will be subject to the income tax regime in place at the time each 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 in 2020. 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.*”

We are subject to more limited financial reporting and securities disclosure requirements than companies regulated in the United States.

While we currently submit quarterly and annual financial reports to the SMV under IFRS, financial reporting and securities disclosure requirements in Peru differ from those applicable in the United States. Accordingly, the information about us available to you may not be the same as the information available to security holders of a U.S. company. There may be less publicly available information about us than is regularly published about companies in the United States and certain other jurisdictions. We are not subject to the periodic reporting requirements of the Exchange Act and, therefore, are not required to comply with the information disclosure requirements that it imposes. In addition, although we will have reporting obligations under the terms of the notes offered hereby, once we repay our outstanding bonds registered before the SMV and the BVL with the proceeds of this offering (see “*Use of Proceeds*”), and delist such bonds from the applicable SMV registry, we will request the exclusion of such securities before the SMV and BVL and therefore we will cease to have an obligation to submit quarterly and annual financial reports to the SMV.

We are currently a reporting company in Peru, and as a result we are subject to the disclosure and reporting rules contained in the Peruvian securities market law and the internal regulations of the BVL. These laws and regulations are more limited than those in the United States in certain important respects. In addition, although we will have reporting obligations under the terms of the notes offered hereby, once we repay our outstanding bonds with the proceeds of this offering (see “*Use of Proceeds*”), we will cease to be a reporting company in Peru. Moreover, although Peruvian law imposes restrictions on insider trading and price manipulation, applicable Peruvian laws are different from those in the United States, and the Peruvian securities markets are not as highly regulated and supervised as the U.S. securities markets.

Risks Related to the Notes

Your right to receive payment on the notes will be effectively subordinated to certain statutory liabilities, to our existing and future secured debt and future debt and liabilities of our subsidiaries, if any.

Under Peruvian bankruptcy law, our obligations under the notes are subordinated to certain statutory preferences. In the event of our 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 our other existing and future unsecured indebtedness and will be effectively subordinated to all of our existing and future secured debt to the extent of the assets securing such debt. The notes will also be structurally subordinated to future indebtedness and other liabilities, including trade payables. As of March 31, 2016 our total outstanding indebtedness was US\$401 million, US\$356 million of which was secured. As adjusted for this offering and the use of proceeds therefrom, our total outstanding indebtedness would be US\$441.2 million, of which the US\$91.2 related to Las Flores leasing would be 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.

We 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*”), we 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 our available cash or cash generated from our operations or other sources, including borrowings, sales of assets or sales of equity. We may not be able to repurchase the notes upon a change of control event because we may not have sufficient financial resources to purchase all of the notes that are tendered upon a change of control event. Our failure to repurchase the notes upon a change of control event would cause a default under the indenture governing the notes. Our future debt agreements may contain similar provisions.

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.

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 have made an application to list the notes on the Official List of the Luxembourg Stock Exchange for trading on the Euro MTF Market. We cannot assure you, however, 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.

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, 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 expenses and the underwriting discount associated with the offering, are estimated to be approximately US\$341 million.

We intend to use the net proceeds from the offering to repay in full (i) the US\$27 million outstanding on the financial lease agreement we entered into with Banco de Crédito del Perú S.A. for the Kallpa II turbine, (ii) the US\$36 million outstanding on the financial lease agreement we entered into with Scotiabank Perú S.A.A. for the Kallpa III turbine, (iii) the US\$146 million outstanding under our 8.50% bonds due 2022 issued in the local market, (iv) the US\$54 million outstanding on the secured credit facility we entered into with The Bank of Nova Scotia, Banco de Crédito del Perú S.A. and DEG - Deutsche Investitions- und Entwicklungsgesellschaft, and (v) US\$45 million we have outstanding on our short-term loans from Banco de Crédito del Perú S.A. and Scotiabank Perú S.A.A. The remainder, if any, will be used for general corporate purposes, including our working capital needs and transaction-related expenses. The amounts above reflect the outstanding amounts as of March 31, 2016, and actual amounts to be repaid will be lower given the amortization schedules of these obligations.

After the offering, the Las Flores leasing will remain outstanding and will be secured by the Las Flores assets under leasing. See “*Management’s Discussion and Analysis of Financial Condition and Results of Operations – Material Indebtedness – Lease Agreements.*”

Certain of the initial purchasers and their affiliates will be receiving payments in connection with the financial lease agreements, secured credit facility and short-term loans as listed above. See “*Plan of Distribution.*”

CAPITALIZATION

The following table shows our capitalization as of March 31, 2016 and 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 in “*Financial Information*,” “*Summary Financial and Other Data*,” “*Selected Financial and Other Data*,” “*Use of Proceeds*,” “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*” and our audited annual financial statements and the related notes thereto included elsewhere in this offering memorandum.

	<u>As of March 31, 2016</u>	<u>As Adjusted</u>
	(US\$ millions)	
Long-term debt, excluding current portion:		
Notes offered hereby	–	350
Secured ⁽¹⁾	304	86
Lease Kallpa II	16	-
Lease Kallpa III	28	-
Lease Las Flores	86	86
Bonds	135	-
Syndicate	39	-
Unsecured	–	-
Total long-term debt	<u>US\$ 304⁽²⁾</u>	<u>US\$ 436⁽³⁾</u>
Equity:		
Total capital attributable to our equity holders	192	192
Total equity	192	192
Total capitalization	<u>US\$ 496⁽²⁾</u>	<u>US\$ 628⁽³⁾</u>

- (1) After giving effect to the offering of the notes and the application of the proceeds thereof, our only secured indebtedness outstanding will be the financial leasing related to Las Flores.
- (2) Total long-term debt and total capitalization on an actual basis exclude unsecured short term debt (US\$45 million) and secured current portion of long term debt (US\$52 million).
- (3) Total long-term debt and total capitalization on an as-adjusted basis reflect our full repayment of US\$45 million of our unsecured short term debt and partial payment of the current portion of our long term debt. Our unsecured short term debt balance on an as-adjusted basis is US\$0 and our secured current portion of long term debt on an as-adjusted basis is US\$6 million.

SELECTED FINANCIAL AND OTHER DATA

The following tables present our selected financial and operating data. The selected financial data presented below have been derived from our audited annual financial statements included elsewhere in this offering memorandum. Our historical results for any prior period are not necessarily indicative of results expected in any future period.

You should read the financial and operating information set forth below in conjunction with the sections entitled “Use of Proceeds,” “Capitalization,” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” as well as in conjunction with our audited annual financial statements and notes thereto included elsewhere in this offering memorandum.

The following table presents our selected summary statement of profit or loss data:

	Year Ended December 31,		
	2015	2014 ⁽¹⁾	2013
	(US\$ millions)		
Selected Statement of Profit or Loss Data			
Sales			
Contract energy and capacity sales	US\$ 359	US\$ 361	US\$ 333
Spot market energy and capacity sales	-	3	-
Other revenue ⁽²⁾	89	73	61
Total sales	448	437	394
Cost of sales			
Fuel consumption	(140)	(139)	(113)
Energy and capacity purchases	(32)	(32)	(41)
Other cost of sales	(107)	(99)	(85)
Total cost of sales (excluding depreciation)	(279)	(270)	(239)
Depreciation	(50)	(45)	(40)
Gross profit	119	122	115
General, selling and administrative expenses	(17)	(17)	(16)
Other income	2	6	3
Results from operating activities	104	111	102
Financing costs, net	(35)	(35)	(33)
Profit before income taxes	69	76	69
Income tax expense	(24)	(23)	(26)
Net income for the year	45	53	43

(1) Las Flores was acquired in April 2014.

(2) Ancillary services which consist mainly of transmission tolls.

The following table presents our selected statement of financial position data:

	As of December 31,		
	2015	2014 ⁽¹⁾	2013
	(US\$ millions)		
Selected Statement of Financial Position Data			
Cash and cash equivalents	US\$ 28	US\$ 25	US\$ 14
Trade receivables	42	39	33
Other receivables	10	6	9
Prepaid expenses	-	1	2
Inventories	14	13	12
Other assets	-	-	2
Total current assets	94	84	72
Property, plants and equipment	612	633	535
Intangibles	17	13	6
Other Assets	9	-	-
Total assets	732	730	613
Short term debt	45	29	-
Current portion of the long term debt	56	53	42
Trade payables	74	50	44

Other payables.....	12	17	14
Current income tax.....	-	2	10
Advances from clients.....	2	2	2
Derivative instruments.....	-	1	2
Total current liabilities	189	154	114
Advances from clients.....	1	3	4
Derivative instruments.....	-	-	1
Deferred income tax liabilities.....	29	22	19
Loans and debentures.....	315	371	323
Provisions.....	12	9	5
Total liabilities	546	559	466
Share capital.....	71	71	71
Share premiums.....	54	54	54
Hedging reserves.....	-	-	(1)
Other reserves.....	14	14	12
Retained earnings.....	47	32	11
Total equity	186	171	147
Total liabilities and equity	US\$ 732	US\$ 730	US\$ 613

(1) Las Flores was acquired in April 2014.

The following table presents our selected statement of cash flow data:

	Year Ended December 31,		
	2015	2014 ⁽¹⁾	2013
	(US\$ millions)		
Selected Cash Flow Data			
Net cash provided by operating activities.....	US\$ 113	US\$ 117	US\$ 144
Net cash (used in) investing activities.....	(13)	(26)	(17)
Net cash (used in) financing activities.....	(97)	(79)	(158)
Net increase (decrease) in cash and cash equivalents.....	3	12	(31)
Cash and cash equivalents at beginning of the year.....	25	14	47
Effect of changes in the exchange rate on cash and cash equivalents.....	-	(1)	(2)
Cash and cash equivalents at end of the year	US\$ 28	US\$ 25	US\$ 14

(1) Capital expenditure related to Las Flores is not included as it was financed through a financing lease. Due to this financing arrangement, the acquisition expenses related to the Las Flores plant and its respective financing are not reflected in our annual audited financial statements as capital expenditures or cash flow from financing, but accounted for as a fixed asset and debt in our statement of financial position.

Key Financial and Other Operating Data

The following tables set forth certain key financial and operating data for the periods presented:

	Year Ended December 31,		
	2015	2014	2013
	(US\$ millions, except as otherwise indicated)		
EBITDA ⁽¹⁾	154	157	142
Interest coverage ratio ⁽²⁾	5.1	4.6	4.6
Total debt.....	416	453	365
Total debt / Shareholders' equity.....	2.2	2.6	2.5
Net debt ⁽³⁾	388	428	351
Total debt / EBITDA.....	2.7	2.9	2.6
Net debt / EBITDA.....	2.5	2.7	2.5
Installed capacity at end of period (MW).....	1,063	1,063	870
Weighted average availability during the period (%).....	96.7%	96.7%	93.5%
Gross energy generated (GWh).....	5,166	5,920	5,459
Own consumption of energy and losses (GWh).....	139	222	194
Net energy generated (GWh).....	5,027	5,698	5,265
Energy purchased on the spot market (GWh).....	1,406	861	1,087
Energy sold under PPAs (GWh).....	6,327	6,324	6,268
Average monomic price (US\$/MWh) ⁽⁴⁾	56.7	57.0	53.2

(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 net income to our EBITDA for the periods presented:

	Year Ended December 31,					
	2015		2014		2013	
			(US\$ millions)			
Net income for the period.....	US\$	45	US\$	53	US\$	43
Depreciation		50		46		40
Financing costs, net		35		35		33
Income tax expense		24		23		26
EBITDA	US\$	154	US\$	157	US\$	142

- (2) Our interest coverage ratio is defined as EBITDA divided by finance cost, excluding finance income and net foreign exchange loss.
- (3) Net debt is calculated as total debt minus cash and cash equivalents. Net debt is not a recognized financial measure under IFRS. The table below sets forth a reconciliation of our total debt to net debt.

	As of December 31,					
	2015		2014		2013	
			(US\$ millions)			
Total debt	US\$	416	US\$	453	US\$	365
Cash and cash equivalents		(28)		(25)		(14)
Net debt	US\$	388	US\$	428	US\$	351

- (4) Our 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.

RECENT DEVELOPMENTS

Summary Financial and Other Data for the Three Month Period Ended March 31, 2016

The following tables present our summary financial and operating information. The financial information as of and for the three month periods ended March 31, 2016 and 2015 presented below have been derived from our unaudited condensed interim financial statements included elsewhere in this offering memorandum. Our historical results for any prior period are not necessarily indicative of results expected in any future period.

You should read the summary financial and operating information set forth below in conjunction with the section entitled “– Operating Results for the Three Month Period Ended March 31, 2016 compared to Three Month Period Ended March 31, 2015” below as well as in conjunction with our unaudited condensed interim financial statements included elsewhere in this offering memorandum.

The following table presents our summary statement of profit or loss information:

	Three Month Period Ended March 31,	
	2016	2015
	(US\$ millions)	
Summary Statement of Profit or Loss		
Sales		
Contract energy and capacity sales	US\$ 76	US\$ 73
Spot market energy and capacity sales	19	17
Other revenue ⁽¹⁾	26	18
Total sales	121	108
Cost of sales		
Fuel consumption	(33)	(31)
Energy and capacity purchases	(10)	(12)
Other cost of sales	(35)	(28)
Total Cost of sales (excluding depreciation)	(78)	(71)
Depreciation	(12)	(13)
Gross profit	31	24
General, selling and administrative expenses	(5)	(3)
Other income	-	-
Results from operating activities	26	21
Financing costs, net	(6)	(9)
Profit before income taxes	20	12
Income tax expense	(7)	(4)
Net income for the period	US\$ 13	US\$ 8

(1) Mostly consists of revenue from ancillary services, which consist mainly of transmission tolls.

The following table presents our summary statement of financial position information as of the dates presented:

	As of March 31, 2016		As of December 31, 2015	
	(US\$ millions)			
Summary Statement of Financial Position Data				
Cash and cash equivalents	US\$ 22		US\$ 28	
Trade receivables	46		42	
Other receivables	15		10	
Prepaid expenses	-		-	
Inventories	15		14	
Total current assets	98		94	
Property, plants and equipment	624		612	
Intangibles	17		17	
Other Assets	10		9	
Total assets	749		732	
Short term debt	45		45	
Current portion of the long term debt	52		56	
Trade payables	99		74	

Other payables	12	12
Advances from clients	2	2
Total current liabilities	210	189
Advances from clients	1	1
Deferred income tax liabilities	30	29
Loans and debentures	304	315
Provisions	12	12
Total liabilities	557	546
Share capital	71	71
Share premiums	54	54
Legal reserves	14	14
Retained earnings	53	47
Total equity	192	186
Total liabilities and equity	US\$ 749	US\$ 732

The following table presents our summary cash flow information for the periods presented:

	Three Month Period Ended March 31,	
	2016	2015
	(US\$ millions)	
Summary Statement Cash Flow Information		
Net cash provided by operating activities	US\$ 26	US\$ 13
Net cash (used in) investing activities	(3)	(2)
Net cash (used in) financing activities	(29)	(17)
Net (decrease) in cash and cash equivalents	(6)	(6)
Cash and cash equivalents at beginning of the period	28	25
Cash and cash equivalents at end of the period	US\$ 22	US\$ 19

Key Financial and Other Operating Data

The following tables set forth certain key financial and operating data for the periods presented:

	Three Month Period Ended March 31,	
	2016	2015
	(US\$ millions, except as otherwise indicated)	
EBITDA ⁽¹⁾	38	34
Last twelve months EBITDA ⁽²⁾	158	151
Interest coverage ratio ⁽³⁾	5.4	4.3
Total debt	401	446
Total debt / Shareholders' equity	2.1	2.5
Net debt ⁽⁴⁾	379	427
Total debt / Last twelve months EBITDA	2.5	3.0
Net debt / Last twelve months EBITDA	2.4	2.8
Installed capacity at end of period (MW)	1,063	1,063
Weighted average availability during the period (%)	93.0	89.2
Gross energy generated (GWh)	1,433	873
Own consumption of energy and losses (GWh)	30	20
Net energy generated (GWh)	1,403	852
Energy purchased on the spot market (GWh)	320	746
Energy sold under PPAs (GWh)	1,723	1,598
Average monomic price (U.S./MWh) ⁽⁵⁾	54.9	56.6

- (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 net income to our EBITDA for the periods presented:

Three Month Period Ended March 31,	
2016	2015
(US\$ millions)	

Net income for the period.....	US\$	13	US\$	8
Depreciation.....		12		13
Financing costs, net.....		6		10
Income tax expense.....		7		3
EBITDA.....	US\$	38	US\$	34

- (2) Last twelve months EBITDA for 2016 is EBITDA for the year ended December 31, 2015, less EBITDA for the three months ended March 31, 2015, plus EBITDA for the three months ended March 31, 2016. Last twelve months EBITDA for 2015 is EBITDA for the year ended December 31, 2014, less EBITDA for the three months ended March 31, 2014, plus EBITDA for the three months ended March 31, 2015.
- (3) Our interest coverage ratio is defined as last twelve months EBITDA divided by finance cost, excluding finance income and net foreign exchange loss for the same period.
- (4) Net debt is calculated as total debt minus cash and cash equivalents. Net debt is not a recognized financial measure under IFRS. The table below sets forth a reconciliation of our total debt to net debt.

	As of March 31,			
	2016		2015	
	(US\$ millions)			
Total debt.....	US\$	401	US\$	446
Cash and cash equivalents.....		22		19
Net debt.....	US\$	379	US\$	427

- (5) Our 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.

Operating Results for the Three Month Period Ended March 31, 2016 compared to the Three Month Period Ended March 31, 2015

The following discussion of our results of operations is based on our condensed interim financial statements prepared in accordance with IAS 34 Interim Financial Reporting. In the following discussion, references to increases or declines in any period are made by comparison with the corresponding period in the preceding year, except as the context otherwise indicates.

Sales

Our sales increased by US\$13 million, or 12.0%, to US\$121 million for the three month period ended March 31, 2016 as compared to US\$108 million for the three month period ended March 31, 2015. This increase was primarily as a result of:

- a 41.2% increase in revenue from ancillary services (other revenues) to US\$24 million for the three month period ended March 31, 2016 as compared to US\$17 million in the three month period ended March 31, 2015, primarily as a result of an increase in tolls due to higher injection of energy into the system;
- a 4.1% increase in revenue from energy sales to US\$76 million during the three month period ended March 31, 2016 as compared to US\$73 million in the three month period ended March 31, 2015, primarily as a result of a greater volume of energy sales, which increased 7.8% to 1,723 GWh for the three month period ended March 31, 2016 from 1,598 GWh for the corresponding period in 2015; and
- a 11.8% increase in revenue from capacity sales to US\$19 million for the three month period ended March 31, 2016 as compared to US\$17 million in the three month period ended March 31, 2015, primarily as a result of (i) a 8.6% increase in the average volume of capacity sales per month to 981 MW for the three month period ended March 31, 2016 as compared to 903 MW on average in the three month period ended March 31, 2015, due to a long-term PPA that began in May 2015, and (ii) a 1.1% increase in average capacity sales prices due to the 12% devaluation of the Peruvian Sol against the U.S. Dollar between March 2015 and January 2016. This devaluation of the Peruvian

Sol increased our PPAs' prices with distributors as the exchange rate fluctuations surpassed the threshold set for price adjustments in such PPAs.

Cost of Sales (Excluding Depreciation)

Our cost of sales (excluding depreciation) increased by US\$7 million, or 9.9%, to US\$78 million for the three month period ended March 31, 2016 as compared to US\$71 million for the corresponding period in 2015, primarily as a result of:

- a US\$8 million increase in tolls, primarily as a result of a higher injection of energy into the system;
- a 13.8% increase in gas transportation and distribution costs to US\$33 million for the three month period ended March 31, 2016 as compared to US\$29 million for the three month period ended March 31, 2015, primarily as a result of (i) a 53.2% increase in the volume of our gas consumption due to a 64.1% increase in our gross energy generation, which was partially offset by a 12.7% decrease in the gas price to US\$2.95/MMBTU for the three month period ended March 31, 2016 from US\$3.38/MMBTU for the corresponding period in 2015;
- an increase in spot capacity purchases to US\$4 million for the three month period ended March 31, 2016 as compared to US\$2 million for the three month period ended March 31, 2015, primarily as a result of a 6.7% increase in the net volume of spot capacity purchases for the three month period ended March 31, 2016 as compared to the three month period ended March 31, 2015; and
- a 40.0% decrease in spot energy purchases to US\$6 million for the three month period ended March 31, 2016 as compared to US\$10 million in three month period ended March 31, 2015, primarily as a result of a decrease in the spot market price to US\$12.9/kW-month for the three month period ended March 31, 2016 as compared to US\$16.5/kW-month for three month period ended March 31, 2015, and the fact that we had to make more spot energy purchases in the three month period ended March 31, 2015, due to the scheduled maintenance at Kallpa I during such period.

Depreciation

Our depreciation expense decreased by 7.7% to US\$12 million for the three month period ended March 31, 2016 as compared to US\$13 million for the corresponding period in 2015, primarily as a result of a US\$1 million decrease in depreciation of our machinery and equipment given replacements of significant components during the scheduled maintenance of our Kallpa I and Kallpa IV turbines in 2015 while in 2016 there was only one scheduled maintenance, that for our Kallpa II turbine.

Gross Profit

As a result of the above, our gross profit increased by 29.2% to US\$31 million for the three month period ended March 31, 2016, resulting in a gross margin of 25.6%, as compared to a gross profit and gross profit margin of US\$24 million and 22.2%, respectively, for the three month period ended March 31, 2015.

General, Selling and Administrative Expenses

Our general, selling and administrative expenses increased by 66.7% to US\$5 million in the three month period ended March 31, 2016 as compared to US\$3 million in the three month period ended March 31, 2015, primarily as a result of a US\$ 2 million increase in personnel expenses.

Results from Operating Activities

As a result of the above, our results from operating activities increased by 23.8% to US\$26 million for the three month period ended March 31, 2016, resulting in an operating margin of 21.5%, as compared to results from operating activities and an operating margin of US\$21 million and 19.4%, respectively, for the corresponding period in 2015.

Financing Costs, Net

Our financing costs, net, decreased by 33.3% to US\$6 million for the three month period ended March 31, 2016 as compared to US\$9 million in the three month period ended March 31, 2015. We experienced a gain in foreign exchange rate difference of US\$2 million due to the strengthening of the Peruvian Sol against the U.S. Dollar by the end of the three month period ended March 31, 2016. There was also a decrease in our financing expenses due to our amortizing debt and repayment of the Kallpa I lease.

Income Tax Expense

Our income tax expense increased to US\$7 million for the three month period ended March 31, 2016 as compared to US\$4 million for the corresponding period in 2015, primarily as a result of the increase in our taxable income for the three month period ended March 31, 2016. Our effective tax rate increased to 35.0% for the three month period ended March 31, 2016 as compared to 33.3% for the corresponding period in 2015, primarily due to an increase in our deferred taxes related to the effect of foreign exchange on our non-monetary assets.

Net Income

As a result of the factors discussed above, our net income for the period increased to US\$13 million for the three month period ended March 31, 2016 as compared to US\$8 million for the corresponding period in 2015.

Cash Flows

Cash Flows Provided by Operating Activities

Cash flows provided by our operating activities are our primary source of liquidity and increased to US\$26 million for the three month period ended March 31, 2016 from US\$13 million for the corresponding period in 2015. This increase was primarily driven by a US\$15 million increase in cash collections from clients mainly due to an increase in sales, and by a US\$3 million increase in payments to suppliers and third parties, as compared to the three month period ended March 31, 2015.

Cash Flows Used in Investing Activities

Cash flows used in our investing activities increased by 50.0% to US\$3 million for the three month period ended March 31, 2016 from US\$2 million for the three month period ended March 31, 2015.

During the three month period ended March 31, 2016, investing activities for which we used cash primarily consisted of US\$2 million in property, plant and equipment acquisitions and US\$1 million in other intangible acquisitions related to development costs.

Cash Flows Used in Financing Activities

Cash flows used in our financing activities were US\$29 million for the three month period ended March 31, 2016, compared to US\$17 million for the three month period ended March 31, 2015.

During the three month period ended March 31, 2016, we used cash to pay long-term debt for US\$15 million and make dividend payments of US\$7 million (net of withholding tax).

During the three month period ended March 31, 2015, we received net proceeds of US\$35 million from our drawings of short-term loans and used cash to pay long-term debt for US\$14 million and short-term borrowings for US\$30 million.

Net cash flows from financing activities in the three month periods ended March 31, 2016 and 2015 also included our use of cash to pay interest of US\$7 million and US\$8 million on our indebtedness, respectively.

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

This information should be read in conjunction with our audited annual financial statements, included elsewhere in this offering memorandum. Our annual financial statements have been prepared in accordance with IFRS as issued by the IASB. The financial information below also includes certain non-IFRS measures, which are defined under "Summary Financial and Other Data" and are used by us to evaluate our economic and financial performance. These measures are not identified as accounting measures under IFRS and therefore should not be considered as an alternative measure to evaluate our performance.

Certain information included in this discussion and analysis 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 our actual results to differ materially from the results described in the forward-looking statements contained in this discussion and analysis, see "Cautionary Statement Regarding Forward-Looking Statements" and "Risk Factors."

Overview

We are the third largest power generation company in Peru in terms of installed capacity as of December 31, 2015. We currently own and operate two power plants, both utilizing natural gas for their operations. Our original Kallpa plant reached COD in 2007 and we completed the conversion of our three natural gas-powered open-cycle generation turbines (Kallpa I, II, and III) into combined-cycle turbines through our 292 MW steam turbine (Kallpa IV) in 2012. Compared to other thermal plants, our Kallpa plant's combined-cycle turbines are among the most efficient in Peru in terms of heat rate in 2015, according to the COES. As of December 31, 2015, our Kallpa plant's combined-cycle units had a capacity of 870 MW, representing approximately 9.0% of the total capacity in Peru. Additionally, in April 2014, we acquired a 193 MW single turbine natural gas-fired plant (Las Flores) that is located in close proximity to our Kallpa plant, from a subsidiary of Duke Energy Corp. Our Las Flores plant increased our total installed capacity from 870 MW to 1,063 MW, representing approximately 11.1% of the total installed capacity in Peru as of December 31, 2015. As a result of our efficiency and low cost of operations, we have a strong competitive position in the Peruvian market and are currently the largest thermoelectric power plant in Peru, with approximately 24.4% of market share in terms of energy dispatched by thermoelectric power plants during 2015.

We enter into long-term U.S. Dollar or U.S. Dollar-linked power purchase agreements, or PPAs, to sell capacity and/or energy to customers that we believe have strong credit profiles, such as large distribution companies or non-regulated customers that are subsidiaries of large corporations. As of December 31, 2015, the weighted average remaining life of our PPAs was approximately seven years. For the year ended December 31, 2015, 98.4% of our aggregate energy sales (in GWh) were made pursuant to PPAs. We believe this strategy limits our exposure to fluctuations in energy spot market rates and helps us generate strong and predictable margins and cash flows. Additionally, most of our PPAs are indexed to the cost of natural gas. Such indexing generally limits our exposure to natural gas price fluctuations, thereby helping us to maintain our margins.

During the year ended December 31, 2015, we generated 5,166 GWh, representing 11.6% of the Peruvian interconnected system's energy production. During the years ended December 31, 2015, 2014 and 2013, we generated revenues of US\$448 million, US\$437 million and US\$394 million, respectively. During the same periods, our net income totaled US\$45 million, US\$53 million and US\$43 million, respectively, and our EBITDA totaled US\$154 million, US\$157 million and US\$142 million, respectively.

Peru is one of the fastest growing economies in Latin America, with average GDP growth of approximately 5.4% per year from 2009 through 2015, according to the International Monetary Fund, 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 power generation is estimated to increase by an annual average of 5.2% for the period 2015 - 2024, according to MINEM. Peruvian energy demand is expected to increase over the next ten years as 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.

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 our audited annual financial statements as of December 31, 2015 for a description of our critical accounting policies.

Material Factors Affecting Results of Operations

Capacity Growth

As set forth below, our capacity was 1,063 MW as of December 31, 2015, representing a 471% growth in capacity since December 31, 2007. Our 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, we developed the Kallpa II and Kallpa III turbines and, with the Kallpa IV steam turbine, completed the conversion of our facility from an open-cycle to a combined-cycle operation. In April 2014, we acquired Las Flores, a 193 MW single turbine natural gas-fired plant.

	COD /Date of Acquisition	Installed Capacity (MW)
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
Total increase in capacity since December 31, 2007	-	877
Capacity as of December 31, 2015	-	1,063

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 percentage growth in GDP, the currency appreciation/depreciation (relative to the U.S. Dollar), and the annual inflation rate for the periods presented for Peru:

	Year Ended December 31,		
	2015	2014	2013
Inflation Rate	3.5%	3.2%	2.8%
GDP Growth (%)	3.3%	2.4%	5.8%
Currency Depreciation (%)	14%	7%	10%

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

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

Availability and Dispatch

The regulatory framework in Peru establishes a marginal cost system, and the Committee for the Economic Operation of the System, or COES, determines which generation units are to dispatch, so as to minimize the cost of energy supplied.

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 they generally maintain the highest place in the dispatch merit order due to their efficiency and low generation costs, hydroelectric plants are unavailable when they are removed from operation to conserve water in the associated reservoirs or river basins or for maintenance, or when there are unscheduled outages. Thermal plants, which are lower in the dispatch merit order than hydroelectric plants, are unavailable for dispatch when they are removed from operation for maintenance or when there are unscheduled outages. COES considers the average availability of generation plants when it allocates firm capacity, which is the amount of capacity that, pursuant to applicable regulations, an energy sector regulator recognizes and remunerates to each power generation unit for being available to cover the demand in peak hours.

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

	Year Ended December 31,		
	2015	2014	2013
Kallpa I.....	91.2%	95.9%	96.3%
Kallpa II.....	98.9%	97.1%	96.6%
Kallpa III.....	98.6%	96.1%	95.0%
Kallpa IV.....	95.4%	97.8%	86.1%
Total Kallpa.....	96.0%	96.7%	93.5%
Las Flores.....	99.7%	96.3% ⁽¹⁾	-
Total.....	96.7%	96.7%	93.5%

(1) We acquired the Las Flores plant 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 and Las Flores plants are among the first thermal plants to be dispatched in Peru after the hydroelectric plants, since our generation plants are among the lowest-cost thermal generation units in Peru. As a result, a key factor for our financial performance is that our plants must be available for dispatch and not be offline for maintenance. Scheduled maintenance is the only time that our generation units should not be available for dispatch. In that regard, we have a disciplined maintenance strategy that has led to high availability of our units. In addition, pursuant to COES rules, we are required to program our 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. The price of such energy has been lower than our own generation cost, increasing our commercial margin.

Similarly, if our generation units are not allocated sufficient firm capacity to satisfy our obligations under our PPAs, we 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.

Our dispatch pattern will be affected in the short term by an increase in capacity coming from new hydroelectric power plants (our affiliate Cerro del Águila – 510MW and Chaglla – 456 MW).

The reserve margin, which indicates excess capacity over expected maximum demand, will increase from 43.4% (2015) to 52.2% (2016) according to the COES. However, the COES expects medium term trends to reverse, and forecasts a reduction in reserve margin to 39.4% in 2019. This may provide for a more stable supply-demand balance and may result in higher average spot prices.

In addition, the governments of Peru and Chile are contemplating the construction of infrastructure to interconnect the Peruvian and Chilean electricity systems. Considering that Chile has low hydroelectric generation compared to Peru (Chile's electricity grids, the Sistema Interconectado Central ("SIC") and the Sistema Interconectado del Norte Grande ("SING"), supply a combined hydroelectric generation of approximately 30% versus Peru's hydroelectric generation of approximately 50%) and high dependence on coal and liquefied natural gas as a fuel source, Peruvian generation companies, such as Kallpa, are expected to be better placed on the dispatch curve. Considering that average spot prices in Chile are around US\$50/MWh (SING) and US\$43/MWh (SIC) as of December 2015, while Peruvian average spot prices are below US\$15/MWh as of December 2015, Kallpa could benefit from this possible interconnection.

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)	
Year Ended December 31, 2015	6,327	106	5,027	1,406
Year Ended December 31, 2014	6,324	235	5,698	861
Year Ended December 31, 2013	6,268	84	5,265	1,087

- (1) The information included within the table reflects 100% of the energy sold under PPAs, sold in the spot market, generated, and purchased by our company 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.

Significant PPAs

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

Principal Customer	Commencement	Expiration	Contracted Capacity (MW)
Edelnor 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. ⁽²⁾	January 2014	December 2021	350
Edelnor S.A.A., Luz del Sur S.A.A., Hidrandina S.A., Electro Sur Este S.A.A., Sociedad Eléctrica de Sur Oeste S.A., Electrosur S.A. ⁽³⁾	January 2014	December 2023	210
Sociedad Minera Cerro Verde S.A.A. ⁽⁴⁾	January 2011	December 2020	140
Southern Perú Copper Corporation	April 2017	April 2027	120
Southern Perú Copper Corporation (Toquepala) ⁽⁵⁾	May 2017 January 2022	December 2021 April 2029	70 – 85
Compañía Minera Antapaccay S.A. ⁽⁶⁾	November 2011	December 2025	100
Inretail Properties Management S.R.L.	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) We executed 14 PPAs, two PPAs with each of the following six entities: (i) Edelnor 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.
- (3) We executed 12 PPAs with each of the following six entities: (i) Edelnor 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.
- (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.

Cost of Sales

Our principal costs of sales are natural gas, lubricants, purchases of capacity and energy on the spot market, transmission costs, personnel, third party services and maintenance costs.

Our costs for natural gas, which include transportation costs, vary primarily based on the quantity of natural gas consumed and whether we burn all of the natural gas that we are obligated to purchase under our natural gas supply contracts. As of December 31, 2015, 52% of the fuel supply we contracted was under such take-or-pay contracts. Our long-term gas supply contract with the Camisea Consortium, which is also used to supply gas to Las Flores, enables us to hedge against fluctuations in the price of natural gas; however, our 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 our costs. However, as prices in the spot market tend to reflect current fuel prices and, as most of our 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 our operating margins. In some cases, however, our PPAs' fuel price adjustment mechanisms may reflect such adjustments on a lagging basis as a result of the indexation mechanisms of our PPAs (which update only periodically and have minimum thresholds) and the indexations of our long-term supply agreements.

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

Effects of Outstanding Indebtedness, including Financial Leases

Our total outstanding indebtedness was US\$416 million as of December 31, 2015. 21.6% 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 either denominated in, or indexed to, the U.S. Dollar. For further information on our outstanding indebtedness, including the interest rate and currency applicable to the indebtedness, see “—*Material Indebtedness.*” We intend to fully repay all of our outstanding indebtedness, except for our indebtedness under the Las Flores lease, 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 and 2013. The general corporate income tax rate decreased to 28% in 2015 and is scheduled to

decrease to 27% in 2017 and 2018 and 26% in 2019. We have signed legal stability agreements with the relevant tax authority in Peru pursuant to which, during the term of the corresponding agreement, we will be subject to the income tax framework in place at the time each such agreement was entered into, which stipulates a 30% income tax rate, and not the general income tax regime applicable to other firms in Peru. This stability agreement expires in 2020. Only after this tax agreement expires, or if we decide to terminate the corresponding agreement, will we be subject to the general income tax regime of Peru and receive the benefit of the changes in the Peruvian income tax rates described above.

For further information on our tax rates, including withholding tax rates, see notes 14 and 18 of our audited annual financial statements included in this offering memorandum.

Operating Results

The following discussion of our results of operations is based on our annual 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.

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

Set forth below are our statements of profit or loss information for the years ended December 31, 2015 and 2014:

	Years Ended December 31,		% Change
	2015	2014	
	(US\$ millions)		
Statements of Profit or Loss Information			
Sales			
Contract energy and capacity sales	US\$ 359	US\$ 361	(0.6)
Spot market energy and capacity sales	-	3	(100)
Other revenue	89	73	21.9
Total sales	448	437	2.5
Cost of sales			
Fuel consumption	(140)	(139)	0.7
Energy and capacity purchases	(32)	(32)	-
Other cost of sales	(107)	(99)	8.1
Total cost of sales (excluding depreciation)	(279)	(270)	3.3
Depreciation	(50)	(45)	11.1
Gross profit	119	122	(2.5)
General, selling and administrative expenses	(17)	(17)	-
Other income	2	6	(66.7)
Results from operating activities	104	111	(6.3)
Financing costs, net	(35)	(35)	-
Profit before income taxes	69	76	(9.2)
Income tax expense	(24)	(23)	(4.3)
Net income for the year	US\$ 45	US\$ 53	(15.1)

Sales

Our sales increased by US\$11 million, or 2.5%, to US\$448 million for the year ended December 31, 2015 as compared to US\$437 million for 2014. This increase was primarily as a result of:

- a 20.9% increase in revenue from ancillary services (mostly transmission tolls) to US\$81 million for the year ended December 31, 2015 as compared to US\$67 million in 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 we were able to pass through to our customers;
- stable revenue from energy sales remaining at US\$291 million during the year ended December 31, 2015 as compared to US\$291 million in 2014, primarily as a result of stable volume of energy sales, which increased only slightly to 6,327 GWh for the year ended December 31, 2015 from 6,324 GWh for the corresponding period in 2014; and

- a 6.8% decrease in revenue from capacity sales to US\$68 million for the year ended December 31, 2015 as compared to US\$73 million in 2014, primarily as a result of (i) a 1.7% decrease in the volume of capacity sales to 913 MW for the year ended December 31, 2015 as compared to 929 MW in 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 our distribution PPAs' prices as the exchange rate fluctuations did not reach the minimum thresholds set for price adjustments in such PPAs.

Cost of Sales (Excluding Depreciation)

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

- a US\$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 US\$134 million for the year ended December 31, 2015 as compared to US\$138 million for 2014, primarily as a result of an 11.0% decrease in the volume of our 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

Our depreciation expense increased by 11.1% to US\$50 million for the year ended December 31, 2015 as compared to US\$45 million for 2014, primarily as a result of a US\$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, our gross profit decreased by 2.5% to US\$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 US\$122 million and 27.9%, respectively, for 2014.

Other Income

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

General, Selling and Administrative Expenses

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

Results from Operating Activities

As a result of the above, our results from operating activities decreased by 6.3% to US\$104 million for the year ended December 31, 2015, resulting in an operating margin of 23.3%, as compared to 25.4% for the year ended December 31, 2014.

Financing Costs, Net

Our financing costs, net, remained relatively flat at US\$35 million for the year ended December 31, 2015 as compared to US\$35 million in 2014. We experienced an increase in foreign exchange rate losses of US\$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 our amortizing debt.

Income Tax Expense

Our income tax expense increased to US\$24 million for the year ended December 31, 2015 as compared to US\$23 million for 2014, primarily due to deferred taxes of US\$8 million for 2015 and US\$2 million for 2014, which in each year primarily related to the effect of foreign exchange on our non-monetary assets. 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 34.8% for the year ended December 31, 2015 as compared to 30.3% for 2014.

Net Income

As a result of the factors discussed above, our net income for the period decreased to US\$45 million for the year ended December 31, 2015 as compared to US\$53 million for 2014.

Year Ended December 31, 2014 Compared to Year Ended December 31, 2013

Set forth below are our statements of profit or loss information for the years ended December 31, 2014 and 2013:

	Years Ended December 31,		% Change
	2014	2013	
	(US\$ millions)		
Statements of Profit or Loss Information			
Sales			
Contract energy and capacity sales	US\$ 361	US\$ 333	8.4
Spot market energy and capacity sales	3	-	N/A
Other revenue	73	61	19.7
Total sales	437	394	10.9
Cost of sales (excluding depreciation)			
Fuel consumption	(139)	(113)	23.0
Energy and capacity purchases	(32)	(41)	(22.0)
Other cost of sales	(99)	(85)	16.5
Total cost of sales (excluding depreciation)	(270)	394	13.0
Depreciation	(45)	(40)	12.5
Gross profit	122	115	6.1
General, selling and administrative expenses	(17)	(16)	6.3
Other income	6	3	100
Results of operating activities	111	102	8.8
Financing costs, net	(35)	(33)	6.1
Profit before income taxes	76	69	10.1
Income tax expense	(23)	(26)	(11.5)
Net income for the year	US\$ 53	US\$ 43	23.3

Sales

Our sales increased by US\$43 million, or 10.9%, to US\$437 million for the year ended December 31, 2014 from US\$394 million for 2013, primarily as a result of:

- a 17.5% increase in revenue from ancillary services to US\$67 million for the year ended December 31, 2014, primarily as a result of a 19% increase in the primary transmission toll system tariff for the year ended December 31, 2014, which we were able to pass through to our customers;
- a 9.4% increase in revenue from energy sales to US\$291 million for the year ended December 31, 2014 as compared to US\$266 million for 2013, primarily as a result of an increase in our average

energy sales price to US\$46 per MWh for the year ended December 31, 2014 as compared to US\$42 per MWh for 2013. This price increase is mainly explained by the commencement of service under certain PPAs with distribution companies with higher prices and the pass-through to customers of a gas distribution tariff that was imposed on generators in Chilca as of January 1, 2014. This tariff was related to the completion of a gas pipeline constructed by Calidda, which has a concession to distribute gas from Chilca to Lima and within Lima; and

- a 7.4% increase in revenue from capacity sales to US\$73 million for the year ended December 31, 2014 as compared to US\$68 million for 2013, primarily as a result of an increase in the volume of capacity sales to an average of 929 MW for the year ended December 31, 2014 as compared to an average of 880 MW for 2013, principally due to our acquisition of the Las Flores plant in April 2014.

Cost of Sales (Excluding Depreciation)

Our cost of sales (excluding depreciation) increased by US\$31 million, or 13.0%, to US\$270 million for the year ended December 31, 2014 as compared to US\$239 million for 2013, primarily as a result of:

- a 23.2% increase in gas and gas transportation and distribution costs to US\$138 million in 2014 as compared to US\$112 million for 2013, as a result of (i) the commencement of Calidda's gas distribution services, which increased our gas costs by US\$18 million, and (ii) a US\$8 million increase in our natural gas costs, primarily as a result of an 8% increase in gross energy we generated to 5,920 GWh for the year ended December 31, 2014 as compared to 5,459 GWh for 2013;
- a 20.3% increase in transmission costs to US\$77 million for the year ended December 31, 2014 as compared to US\$64 million for 2013, primarily as a result of a 19% increase in the primary toll system tariff for the year ended December 31, 2014; and
- a 22.0% decrease in the cost for purchases of energy and capacity to US\$32 million for the year ended December 31, 2014 as compared to US\$41 million for 2013, primarily as a result of an 8% increase in gross energy we generated to 5,920 GWh for the year ended December 31, 2014 as compared to 5,459 GWh for 2013, which resulted in a reduction in our spot market purchases.

Depreciation

Our depreciation expense increased by 12.5% to US\$45 million for the year ended December 31, 2014 as compared to US\$40 million for 2013, primarily as a result of the acquisition of Las Flores in April 2014, which increased our depreciation expense by US\$5 million for the year ended December 31, 2014.

Gross Profit

As a result of the above, our gross profit increased by 6.1% to US\$122 million for the year ended December 31, 2014, resulting in a gross margin of 27.9%, as compared to a gross profit of US\$115 million for 2014, which gives a gross profit margin of 29.2%.

General, Selling and Administrative Expenses

Our general, selling and administrative expenses increased by 6.3% to US\$17 million for the year ended December 31, 2014 as compared to US\$16 million for 2013, primarily as a result of a US\$1 million increase in consulting expenses and personnel transportation expenses due to an increase in internal audit and other expenses related to our purchase of the Las Flores plant and increased travel by our personnel.

Other Income

Our other income increased to US\$6 million for the year ended December 31, 2014 as compared to US\$3 million for 2013. For the year ended December 31, 2014, our other income consisted primarily of US\$2

million in management fees we earned from Cerro del Águila and Samay I for our provision of back-office services, US\$2 million in additional income related to compensation received from our EPC contractors, and US\$1 million in tax credit. For 2013, our other income consisted of US\$2 million in management fees we earned from Cerro del Águila for our provision of back-office services.

Results from Operating Activities

As a result of the above, our results from operating activities increased by 8.8% to US\$111 million for the year ended December 31, 2014, resulting in an operating margin of 25.4%, as compared to an operating income and operating margin of US\$102 million and 25.9%, respectively, for 2013.

Financing Costs, Net

Our financing costs, net, increased to US\$35 million for the year ended December 31, 2014 as compared to US\$33 million for 2013, reflecting a US\$3 million increase in interest expense from banks, primarily as a result of interest expenses relating to Las Flores' lease that accrued since our acquisition in April 2014. This increase was partially offset by a US\$2 million decline in foreign currency loss due to the depreciation of the Peruvian Soles against the U.S. Dollar during the year ended December 31, 2014.

Income Tax Expense

Our income tax expense decreased to US\$23 million for the year ended December 31, 2014 as compared to US\$26 million for 2013. This decrease was primarily the result of a US\$4 million decrease in deferred income tax expenses to US\$2 million for the year ended December 31, 2014, resulting from the translation effects of our non-monetary assets as a result of our payment of taxes in a currency that is different from our functional currency. Our effective tax rate decreased to 30.3% for the year ended December 31, 2014 as compared to 37.7% for the year ended December 31, 2013, due to the deferred taxes related to the effect of foreign exchange on our non-monetary assets.

Net Income

As a result of the factors discussed above, our net income for the period increased by 23.3% to US\$53 million for the year ended December 31, 2014 as compared to US\$43 million for 2013.

Liquidity and Capital Resources

As of December 31, 2015, we had cash and cash equivalents of US\$28 million and trade payables of US\$74 million. Our trade payables mostly related to the long term service agreements with Siemens, which provide for the purchase of spare parts, technical services and labor for the maintenance of our Kallpa generating units. We expect 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 sales of bonds in domestic 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 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

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

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

	Year Ended December 31,	
	2015	2014⁽¹⁾
	(US\$ millions)	
Net cash provided by operating activities.....	US\$ 113	US\$ 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.....	3	12
Cash and cash equivalent—opening balance.....	25	14
Effect of exchange rate on cash and cash equivalents.....	–	(1)
Cash and cash equivalents—closing balance.....	US\$ 28	US\$ 25

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

Cash Flows Provided by Operating Activities

Net cash provided by our operating activities, which is our primary source of liquidity, decreased by 3.4% to US\$113 million for the year ended December 31, 2015 from US\$117 million for the year ended December 31, 2014. This decrease was primarily driven by a US\$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 the Las Flores plant following our acquisition in April 2014, partially offset by a US\$6 million increase in customer collections and a US\$8 million decrease in our 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 our investing activities decreased by 50% to US\$13 million for the year ended December 31, 2015 from US\$26 million for the year ended December 31, 2014.

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

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

Cash Flows Used in Financing Activities

Net cash used in our financing activities were US\$97 million for the year ended December 31, 2015, compared to cash flows used in financing activities of US\$79 million for the year ended December 31, 2014.

During the year ended December 31, 2015, we received net proceeds of US\$16 million from short-term loans and used cash to make dividend payments of US\$29 million (net of withholding tax).

During the year ended December 31, 2014, we received net proceeds of US\$30 million from our drawings of short-term loans and used cash to make dividend payments of US\$29 million (net of withholding tax).

Net cash used in financing activities in the year ended December 31, 2015 and 2014 also included our use of cash to make payments of US\$54 million and US\$50 million, respectively, on our long-term debt and to pay interest of US\$30 million on our indebtedness in both years.

Year Ended December 31, 2014 Compared to Year Ended December 31, 2013

The following table sets forth our summary cash flows information for the years ended December 31, 2014 and 2013:

	Year Ended December 31,	
	2014	2013
	(US\$ millions)	
Net cash provided by operating activities	US\$ 117	US\$ 144
Net cash (used in) investing activities	(26)	(17)
Net cash (used in) financing activities	(79)	(158)
Net increase (decrease) in cash and cash equivalents for the year	12	(31)
Cash and cash equivalents—opening balance	14	47
Effect of exchange rate on the cash and cash equivalents	(1)	(2)
Cash and cash equivalents—closing balance.....	US\$ 25	US\$ 14

Cash Flows Provided by Operating Activities

Net cash provided by our operating activities decreased by 18.8% to US\$117 million for 2014 from US\$144 million for 2013. This decrease was primarily driven by a US\$50 million increase in cash payments made to suppliers and third parties primarily for gas supply, transportation and distribution expenses and other expenses generated by our acquisition of Las Flores and a US\$21 million increase in tax payment, partially offset by a US\$48 million increase in customer collections in the year ended December 31, 2014, as compared to the previous year.

Cash Flows Used in Investing Activities

Net cash used in our investing activities increased by 52.9% to US\$26 million for 2014 from US\$17 million for 2013. This increase was primarily driven by US\$8 million in property, plant and equipment acquisitions.

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

During the year ended December 31, 2013, investing activities for which we used cash primarily consisted of US\$11 million in property, plant and equipment acquisitions and US\$6 million in intangible disbursements related to development costs.

Cash Flows Used in Financing Activities

Net cash used in our financing activities were US\$79 million for the year ended December 31, 2014, compared to cash flows used in financing activities of US\$158 million for the corresponding period in 2013.

During the year ended December 31, 2014, we received net proceeds of US\$30 million from our drawings on short-term loans and used cash to make dividend payments of US\$29 million (net of withholding tax).

During the year ended December 31, 2013, we paid US\$1 million on our short-term debt (net of proceeds) and used cash to make dividend payments of US\$90 million (net of withholding tax).

Net cash used in financing activities also included our use of cash to make payments of US\$50 million in 2014 and US\$38 million in 2013, respectively, on our long-term debt and interest payments of US\$30 million and US\$29 million in 2014 and 2013, respectively.

Tabular Disclosure of Contractual Obligations

The following table sets forth our contractual obligations and commercial commitments (including future interest payments) as of December 31, 2015:

	Payments Due by Period				
	Total	Less than One Year	One to Three Years	Three to Five Years	More than Five Years
			(US\$ millions)		
Short term borrowings.....	US\$ 45	US\$ 45	US\$ –	US\$ –	US\$ –
Loans from banks and others, bonds, and lease agreements ⁽¹⁾	472	82	145	141	104
Purchase obligations ⁽²⁾	2,282	146	335	365	1,436
Operating and maintenance agreements ⁽³⁾	74	14	22	24	14
Total contractual obligations and commitments	US\$ 2,873	US\$ 287	US\$ 502	US\$ 530	US\$ 1,554

- (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 December 31, 2015 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 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 December 31, 2015.
- (3) Consists of future payments to be made under services contract with Siemens based on its projections of the hours of service of our turbines.

Capital Expenditures

Our capital expenditures from January 1, 2013 through December 31, 2015, have amounted to US\$37 million, and we have budgeted an additional US\$10 million for 2016. Our capital expenditures from January 1, 2013 through December 31, 2015, include ongoing maintenance and environmental improvement works.

The acquisition cost of Las Flores plant totaled US\$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 subsidiary of Duke Energy Corp. in an aggregate amount of US\$108 million, and (ii) US\$6 million of Kallpa's own funds. Due to this financing arrangement, the acquisition expenses related to the Las Flores plant, and its respective financing are not reflected in our annual audited financial statements as capital expenditures or cash flow from financing, but accounted for as a fixed asset and debt in our statement of financial position.

The following table presents our capital expenditures by principal category for the periods indicated:

	For the year ended December 31,		
	2015	2014	2013
		(In US\$ millions)	
Acquisitions.....	–	6	–
Overhaul power plants & equipment maintenance and refurbishing.....	9	13	9
Environmental improvement works.....	–	–	–
Total capital expenditures.....	9	19	9

Material Indebtedness

As of March 31, 2016, our total outstanding indebtedness (including financial leases) was US\$401 million, consisting of US\$45 million of short-term indebtedness and US\$356 million of long-term indebtedness (including US\$52 million of the current portion of long-term debt).

Our outstanding indebtedness is primarily denominated in, or linked to, the U.S. Dollar.

The following table sets forth selected information regarding our principal outstanding short-term and long-term debt, as of March 31, 2016:

	Outstanding Principal Amount as of March 31, 2016 (US\$ millions)	Interest Rate	Final maturity	Amortization
Kallpa II lease.....	27	LIBOR+2.05%	December 2017	Monthly principal payments to maturity
Kallpa III lease	36	7.57%	July 2018	Monthly principal payments to maturity
Las Flores lease	93	7.15%	October 2023	Quarterly principal payments to maturity
Bonds.....	146	8.50%	May 2022	Between 0.25 and 5.00% of principal payable on a quarterly basis commencing in May 2013–maturity
Syndicated loan.....	54	LIBOR+5.50%	October 2019	Monthly principal payments January 2013–maturity
Short-term loans	45	5.06 and 5.10%	Renewable annually	Quarterly principal payments to maturity
Total	401			

Some of the debt instruments require that we comply with financial covenants semi-annually or quarterly. For further information, see Note 13 to our audited annual financial statements included in this offering memorandum. Under these debt instruments, the creditor has the right to accelerate the debt or restrict the Company 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 December 31, 2015, substantially all of our assets, other than the Kallpa I, Kallpa II, Kallpa III and Las Flores turbines, which are under leasing agreements with financial institutions, are mortgaged or pledged as security for the financing agreements to which we are a party.

Lease Agreements

In March 2006, we entered into separate financial lease agreements with Citibank del Perú S.A., Citi Leasing S.A. and Banco de Crédito del Perú S.A., each amended in November 2006, December 2007 and July 2008, followed by a leaseback agreement with Citibank del Perú in April 2007, amended in December 2007 and July 2008, under which the lessors provided financing for the construction of the Kallpa I facility in an aggregate amount of US\$56 million. Under these financial lease agreements, we made monthly payments to the lessors until these lease agreements expired in March 2016. We have repaid this lease in full and executed our option to purchase the property related to the Kallpa I plant for a nominal cost.

In December 2007, we entered into a financial lease agreement with Banco de Crédito del Perú S.A. under which the lessor provided a total amount of approximately US\$82 million for the construction of the Kallpa II turbine. Under this financial lease agreement, we will make aggregate monthly payments to the lessors until the expiration of this lease in December 2017. Upon expiration, we have an option to purchase the property related to the Kallpa II plant for a nominal cost. This lease is secured by substantially all of our assets, including our sales under our PPAs.

In October 2008, we entered into a financial lease agreement with Scotiabank Perú S.A. A. under which the lessor provided financing for the construction of the Kallpa III turbine in an aggregate amount of US\$88 million. Under this financial lease agreement, we will make monthly payments to the lessors until the expiration of this lease

in July 2018. Upon expiration, we have an option to purchase the property related to the Kallpa III plant for a nominal cost. This lease is secured by substantially all of our assets, including our sales under our PPAs.

In April 2014, we 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 an affiliate of Duke Energy Corp. in an aggregate amount of US\$108 million. Under this financial lease agreement, we will make quarterly payments to the lessors until the expiration of this lease in October 2023. Upon expiration, we have an option to purchase the property related to Las Flores plant for a nominal cost. This lease is secured by substantially all of our assets, including our sales under our PPAs. After the completion of this offering, the lease will be secured only by the Las Flores plant.

As of December 31, 2015, the aggregate principal amount outstanding under these leases was US\$163 million. We expect to use the net proceeds of this offering to make payments in full on the financial lease agreements for Kallpa II and Kallpa III. See “*Use of Proceeds.*” Our financial lease agreement in the amount of US\$94 million with Banco de Crédito del Perú S.A. for the acquisition of our Las Flores plant (described in the paragraph immediately above) will remain outstanding.

Bonds

In November 2009, we issued US\$172 million aggregate principal amount of our 8.50% rate bonds due 2022. Holders of these bonds were required to make subscription payments under a defined payment schedule during the 21 months following the date of issue. We received proceeds of these bonds in the aggregate amount of US\$19 million, US\$36 million and US\$117 million in 2009, 2010 and 2011, respectively. The proceeds of these bonds were used for capital expenditures related to conversion of our open-cycle turbines to a combined-cycle plant. Interest on these bonds is payable quarterly. Principal amortization payments under these bonds vary between 0.25% and 5.00% of the outstanding principal amount of these bonds. The first amortization payment commenced in May 2013 and will continue until maturity in May 2022. These bonds are secured by our combined-cycle plant and substantially all of our other assets, including our sales under our PPAs. As of December 31, 2015, the aggregate principal amount outstanding under these bonds was US\$149 million. We expect to use the net proceeds of this offering to make principal payments in full under these bonds. See “*Use of Proceeds.*”

Syndicated Loans

In November 2009, we entered into a secured credit agreement with The Bank of Nova Scotia, Banco de Crédito del Perú and DEG - Deutsche Investitions- und Entwicklungsgesellschaft in the aggregate amount of up to US\$150 million to finance capital expenditures related to our combined-cycle plant. The loans under this credit agreement are secured by our combined-cycle plant and substantially all of our other assets, including our sales under our PPAs. The loans under this credit agreement bear interest payable monthly in arrears at a rate of LIBOR plus a margin of 5.50% per annum through November 2012, 5.75% per annum from November 2012 through November 2015 and 6.00% from November 2015 until maturity in October 2019. Scheduled amortizations of principal are payable monthly commencing in January 2013 through maturity in October 2019. As of December 31, 2015, the aggregate principal amount outstanding under these loans was US\$59 million. We expect to use the net proceeds of this offering to fully repay this facility. See “*Use of Proceeds.*”

Short-Term Loans

Our short-term debt was US\$45 million as of December 31, 2015. We have entered into lines of credit with financial institutions in Peru (Banco de Crédito del Perú and Scotiabank Perú) pursuant to which we are permitted to borrow up to US\$45 million, renewable annually. These lines of credit are used to finance our operating activities. We expect to use the net proceeds of this offering to pay US\$45 million we have outstanding on these short-term loans.

Trend Information

Fluctuations in Oil Prices and Currency Exchange Rates

As fuel is a significant cost for our business, the price of natural gas utilized by our generation units has a significant effect on our 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 our agreements are indexed to the cost of natural gas. Additionally, as of December 31, 2015, all of our PPAs were either in U.S. Dollars or linked to the U.S. Dollar, thereby limiting our exposure to fuel price and exchange rate fluctuations. 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 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 our revenues, there is generally not a corresponding effect on our margins.

However, these adjustments do not fully hedge our margins against exchange rate fluctuations or changes in natural gas prices or such other factors. In addition, we remain 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 our sales are made pursuant to PPAs, we do make sales in the spot market and are 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 we are also subject to changes in market rates (which are influenced by fuel prices and inflation and exchange rates) when we renew our 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 our margins.

Peru Power Market

As a result of the completion of various plants under construction in Peru, we expect the generation capacity in Peru to increase at a faster rate than the demand for such electricity, resulting in an oversupply of capacity in the Peruvian market and a downward pressure on 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 also expect to enter into, and renegotiate, PPAs during this expected period of oversupply and downward pressure on 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.

Quantitative and Qualitative Disclosures about Market Risk

For quantitative and qualitative information on our market risk, refer to notes 2 and 24 of our audited annual financial statements included in this offering memorandum.

Research and Development, Patents and Licenses, Etc.

We did not have significant research and development expenses during the years ended December 31, 2015, 2014 and 2013.

Dividend Policy

Our shareholders are obliged pursuant to their shareholders' agreement (see "*Principal Shareholders – IC Power Peru Shareholders' Agreement*") to distribute 100% of our net income for the year as dividends, 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) our financing needs, (ii) our capital expenditure needs, and (iii) our operational contingencies and needs.

Dividend payment amounts and dates are determined by our board of directors, subject to the aforementioned requirements, and subsequently submitted for approval at our regular annual shareholders' meeting as established by Peruvian law. We have made the following dividend payments for the years ended December 31, 2015, 2014 and 2013:

<u>Period</u>	<u>Dividend Payments⁽¹⁾</u> (US\$ millions)
Year Ended December 31, 2015	30

Year Ended December 31, 2014	30
Year Ended December 31, 2013 ⁽²⁾	93

- (1) The dividend payment amounts reflected in the table above are gross. Dividend payments net of withholding taxes were US\$29 million in 2015 and 2014 and US\$90 million in 2013.
- (2) Dividends during the Kallpa IV construction period were deferred until it reached COD. Dividends were paid out after COD in 2013.

Off-Balance Sheet Arrangements

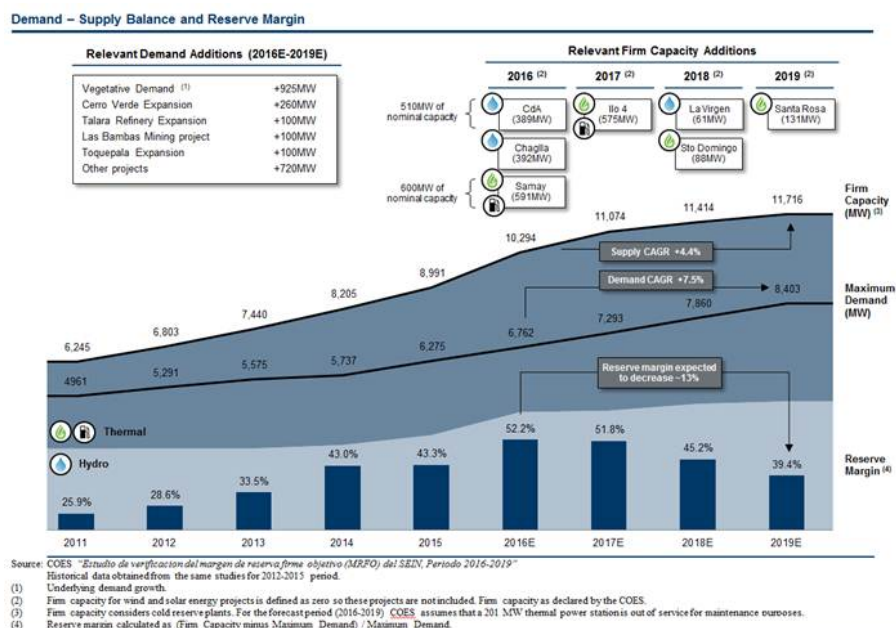
We are not party to any off-balance sheet arrangements.

INDUSTRY

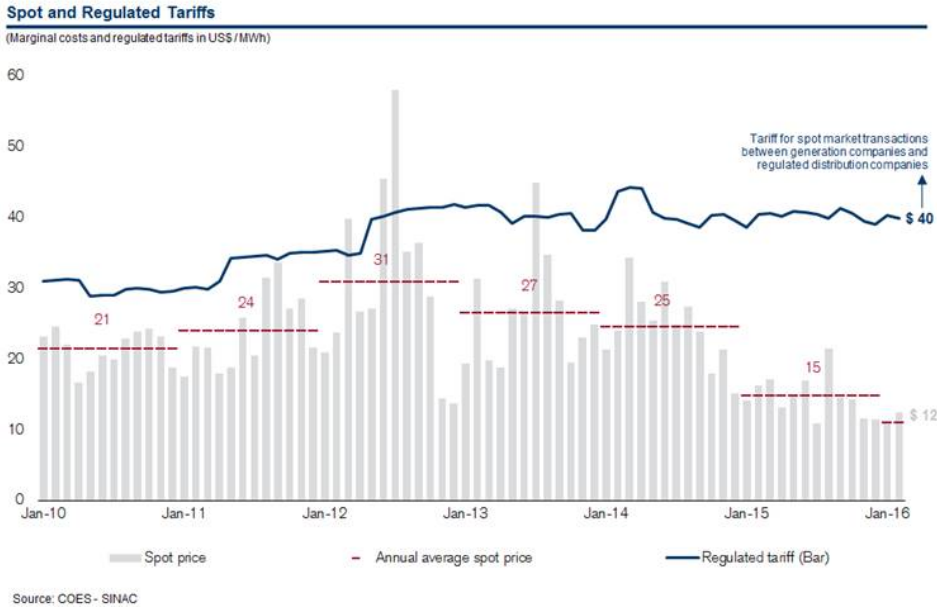
The power utility market in Peru is currently our sole market and, driven by the growth in GDP and the expansion of energy coverage, Peruvian energy consumption has grown in recent years. According to the Peruvian National Institute of Statistics and Informatics (*Instituto Nacional de Estadística e Informática—INEI*), Peru had a population of approximately 31 million as of December 31, 2015. According to the World Bank, Peruvian GDP grew by 3.3%, 2.4% and 5.8% in 2015, 2014 and 2013, 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 MINEM, has supported the increase in Peru’s energy consumption from 29,492 GWh in 2010 to 39,582 GWh in 2015, representing a compound average growth rate of 6.1%. Nonetheless, the generation capacity in Peru is expected to increase at a faster rate than the demand for such electricity, resulting in an 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 low historical levels (approximately US\$12/MWh) mainly due to a sustained increase in installed capacity, which has been boosted by thermal power plants fueled on Camisea gas. A moderate demand growth, coupled with the aforementioned increase in supply has increased the reserve margin from 25.9% in 2011 to 43.3% in 2015 and it is expected to peak at 52.2% in 2016 after Cerro del Águila, Chaglla and Samay I reach COD. However, looking forward, according to COES demand is expected to pick up due to large mining and industrial projects such as Las Bambas, Cerro Verde, Toquepala, Antamina, Toromocho and Cuajone, among others, as well as sustained growth in underlying demand. As a result, maximum demand is expected to grow at 7.5% CAGR between 2016 and 2019, according to COES. On the supply side, after 2016, the only relevant expected increase in supply is expected to come from the second plant which belongs to the southern energy node, similar to Samay’s plant: Ilo 4 (more than 575MW of additional firm capacity) with the remaining projects being of less material magnitudes. Total firm capacity is expected to increase by only 4.4% CAGR between 2016 and 2019. According to COES, this low increase in supply (after 2016) coupled with sustained demand growth is expected to push the reserve margin down. COES expects it to reach 39.4% in 2019 (a decrease of 13 percentage points versus 2016). These factors may have implications for spot prices in the middle term and may provide for an improvement in future PPA prices.

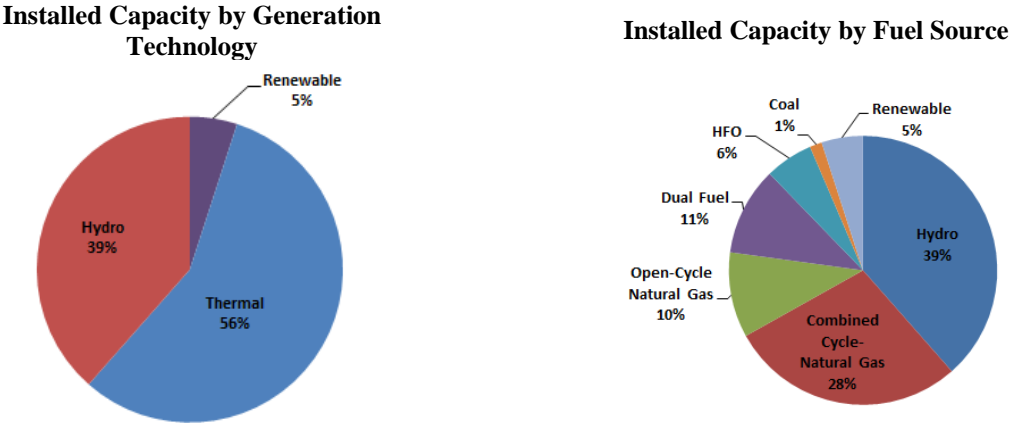
The following chart sets forth the historical and expected evolution of firm capacity, demand and the reserve margin in Peru:



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



The following chart presents a breakdown of installed capacity in Peru based on generation technology and fuel source, as of December 31, 2015:



The power utility market in Peru has experienced significant changes in the past 20 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, 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, or 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 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.

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	22,029	17,553

The demand for power and electricity in Peru is served by a variety of generation companies, including the Company, Edegel S.A.A., a subsidiary of Enel, ElectroPerú S.A., a state-owned generation company whose primary generation facilities are hydroelectric plants, Engie Energía Perú S.A., a subsidiary of Engie, and Duke, a subsidiary of Duke Energy Corp.

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, 2015:

	Capacity as of December 31, 2015							Percentage of Installed Capacity (%)	
	Hydro	Combined Cycle-Natural Gas	Open-Cycle Natural Gas	Dual Fuel (MW)	HFO	Coal	Other		Total
Engie Energía Perú....	137	806	—	497	156	142	—	1,738	18.1
Edegel	783	484	313	106	—	—	—	1,686	17.5
Kallpa	—	870	193	—	—	—	—	1,063	11.1
ElectroPerú	898	—	—	—	13	—	—	911	9.5
Fenix Power	—	570	—	—	—	—	—	570	5.9
Egenor.....	359	—	175	—	—	—	16	550	5.7
Other generation companies	1,526	—	306	416	387	—	464	3,099	32.2
Total.....	3,703	2,730	987	1,019	556	142	480	9,617	100.0

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

We are the third largest power generation company in Peru in terms of installed capacity as of December 31, 2015. We currently own and operate two power plants, both utilizing natural gas for their operations. Our original Kallpa plant reached COD in 2007 and we completed the conversion of our three natural gas-powered open-cycle generation turbines (Kallpa I, II, and III) into combined-cycle turbines through our 292 MW steam turbine (Kallpa IV) in 2012. Compared to other thermal plants, our Kallpa plant's combined-cycle turbines are among the most efficient in Peru in terms of heat rate in 2015, according to the COES. As of December 31, 2015, our Kallpa plant's combined-cycle units had a capacity of 870 MW, representing approximately 9.0% of the total capacity in Peru. Additionally, in April 2014, we acquired a 193 MW single turbine natural gas-fired plant (Las Flores) that is located in close proximity to our Kallpa plant, from a subsidiary of Duke Energy Corp. Our Las Flores plant increased our total installed capacity from 870 MW to 1,063 MW, representing approximately 11.1% of the total installed capacity in Peru as of December 31, 2015. As a result of our efficiency and low cost of operations, we have a strong competitive position in the Peruvian market and are currently the largest thermoelectric power plant in Peru, with approximately 24.4% of market share in terms of energy dispatched by thermoelectric power plants during 2015.

We enter into long-term U.S. Dollar or U.S. Dollar-linked power purchase agreements, or PPAs, to sell capacity and/or energy to customers that we believe have strong credit profiles, such as large distribution companies or non-regulated customers that are subsidiaries of large corporations. As of December 31, 2015, the weighted average remaining life of our PPAs was approximately seven years. For the year ended December 31, 2015, 98.4% of our aggregate energy sales (in GWh) were made pursuant to PPAs. We believe this strategy limits our exposure to fluctuations in energy spot market rates and helps us generate strong and predictable margins and cash flows. Additionally, most of our PPAs are indexed to the cost of natural gas. Such indexing generally limits our exposure to natural gas price fluctuations, thereby helping us to maintain our margins.

During the year ended December 31, 2015, we generated 5,166 GWh, representing 11.6% of the Peruvian interconnected system's energy production. During the years ended December 31, 2015, 2014 and 2013, we generated revenues of US\$448 million, US\$437 million and US\$394 million, respectively. During the same periods, our net income totaled US\$45 million, US\$53 million and US\$43 million, respectively, and our EBITDA totaled US\$154 million, US\$157 million and US\$142 million, respectively.

Peru is one of the fastest growing economies in Latin America, with average GDP growth of approximately 5.4% per year from 2009 through 2015, according to the International Monetary Fund, 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 power generation is estimated to increase by an annual average of 5.2% for the period 2015 - 2024, according to MINEM. Peruvian energy demand is expected to increase over the next ten years as 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.

The map below shows the location of our generation units in Peru:



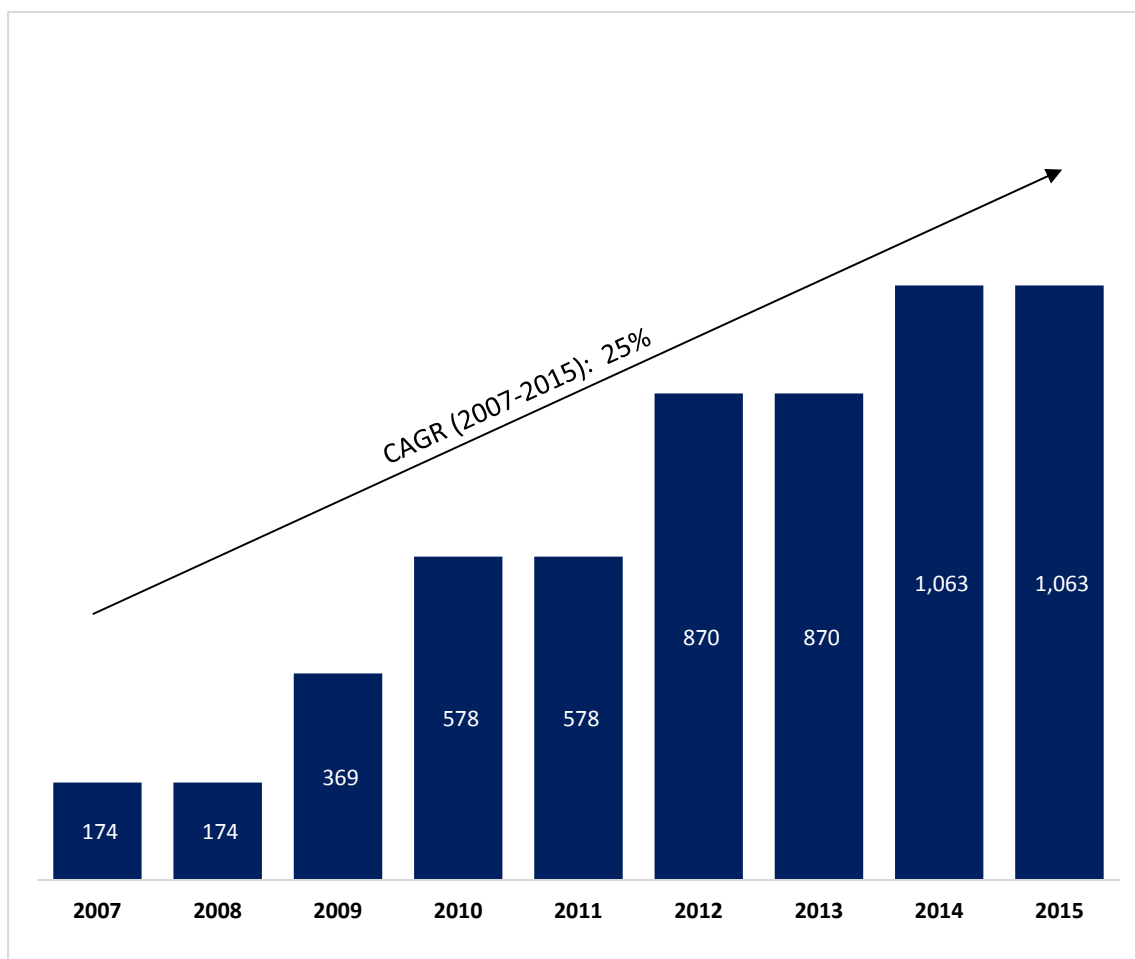
The following table sets forth certain summary operational information as of and for the year ended December 31, 2015:

<u>Turbine</u>	<u>COD</u>	<u>Installed Capacity</u> (MW)	<u>Gross Energy Generated</u> (GWh)	<u>Weighted Average Availability Factor</u> (%)
Kallpa I.....	2007	186 ⁽¹⁾	954	91.2
Kallpa II.....	2009	195	1,126	98.9
Kallpa III	2010	197	1,218	98.6
Kallpa IV ⁽²⁾ ...	2012	292	1,759	95.4
Kallpa Total .		870	5,057	96.0
Las Flores ⁽³⁾ ..	2014	193	109	99.7
Total.....		1,063	5,166	96.7

- (1) Includes upgrade of 12 MW completed in 2010.
- (2) Operations of combined-cycle units started at the Kallpa Plant in August 2012.
- (3) We acquired Las Flores in April 2014.

The following chart presents the growth of our installed capacity by year from 2007 through December 2015.

Installed Capacity (MW)



The following table sets forth certain financial and operational data for the periods set forth below:

	Year Ended December 31,		
	2015	2014 ⁽¹⁾	2013
	(US\$ millions, except as otherwise indicated)		
Revenues	US\$ 448	US\$ 437	US\$ 394
Net income	45	53	43
EBITDA ⁽²⁾	154	157	142

(1) We 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 Financial and Other Data.*”

Competitive Strengths

Leading market position in an attractive energy market—We operate in Peru, one of the fastest growing economies in Latin America, with an average GDP growth of approximately 5.4% per year from 2009 through 2015, according to the International Monetary Fund. Peru also enjoys low inflation levels, a stable regulatory framework, and a well-run power system. As of December 31, 2015, we had an installed capacity of 1,063 MW, representing 11.1% of Peru’s installed capacity. During the year ended December 31, 2015, we generated 11.6% of the gross energy (in GWh) in Peru. Our Kallpa facility is the largest thermoelectric power plant in Peru, with approximately 24.4% of market share in terms of energy dispatched by thermoelectric power plants for the year ended December 31, 2015.

Peruvian energy demand is expected to increase, resulting in part from Peru’s growing middle class, the substantial investments made by Peru’s energy-intensive mining industry and expected growth in its manufacturing industry. According to MINEM, Peru’s overall power generation is estimated to increase by an annual average of 5.2% for the period 2015 – 2024. 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.

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 rates, generates stable and predictable margins, and helps to create stability and predictability in our cash flows. In the year ended December 31, 2015, we made 98.4% of our aggregate energy sales (in GWh) pursuant to long-term PPAs. As of December 31, 2015, the weighted average remaining life of our PPAs was approximately seven years and 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. For example, we signed two PPAs with Southern Peru Copper Corporation, a ten-year PPA for 120 MW and a twelve-year PPA for 70 to 85MW, both starting in 2017. In addition, we recently extended the 100 MW Antapaccay PPA from 2021 to 2025.

As of December 31, 2015, 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 fuel price and exchange rate fluctuations. With respect to our non-regulated customers, we invoice and collect payments in U.S. Dollars. With respect to our distribution company customers, for which we invoice and collect payments in Peruvian Soles, the underlying tariff is linked to the U.S. Dollar and is reset quarterly when the tariff resulting from applying the indexation formula fluctuates by more than 5%. 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 Edelnor S.A.A. and Luz del Sur S.A.A. (subsidiaries of Enel S.p.A. and Sempra Energy, respectively) and, non-regulated customers such as Southern Peru Copper Corporation, Sociedad Minera Cerro Verde S.A.A., a subsidiary of Freeport-McMoRan, Compañía Minera Antapaccay S.A., a subsidiary of Glencore plc.

As our power facilities utilize and are dependent upon natural gas, we seek to enter into long-term supply, transportation and distribution agreements to acquire the necessary natural gas for our facilities. We purchase our natural gas requirements for our generation facilities from the Camisea Consortium pursuant to a long-term natural

gas supply agreement. Our natural gas transportation services are rendered by TGP pursuant to long-term agreements, and our 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 Siemens and General Electric) and entering into long-term service agreements with leading, multinational original equipment manufacturers, or OEMs. 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 our generation units' weighted average availability rate of 96.7% for the year ended December 31, 2015 was the result of our optimization efforts and commitment to improving our operating efficiency and performance.

Additionally, our construction of power generation assets that use efficient technologies (e.g., the conversion of our facility into a combined-cycle operation in 2012) places our generation assets competitively in the dispatch merit order. The Kallpa facility is a base load plant combined-cycle gas turbine, and, according to 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—Our controlling shareholder, IC Power Peru, is a wholly owned subsidiary of IC Power Pte. Ltd., or IC Power, who is a leading owner, developer and operator of power facilities located in key power generation markets in Latin America, the Caribbean and Israel, utilizing a range of technologies, including natural gas, HFO, diesel, hydroelectric and wind. As of December 31, 2015, IC Power had 2,080 MW of installed capacity in Latin America, 127 MW of installed capacity in the Caribbean, 458 MW of installed capacity in Israel, and 1,202 MW of assets in advanced stages of construction in Peru and Panama. Between 2007 and December 31, 2015, IC Power invested approximately US\$2.7 billion in the acquisition, development and expansion of its power generation assets. IC Power has the proven ability to identify and execute large, complex greenfield projects and a strong track record of disciplined acquisitions. The international profile, experience and commitment of IC Power in operating growth-oriented businesses lends us credibility in conducting our operations.

Furthermore, in January 2016, IC Power completed the acquisition of Energuate, the indirect owner of two distribution companies in Guatemala (Distribuidora de Electricidad de Oriente, S.A. (Deorsa) and Distribuidora de Electricidad de Occidente, S.A. (Deocsa), and two smaller, related companies Comercializadora Mayorista de Electricidad, S.A., and Redes Eléctricas de Centroamérica, S.A. (RECSA)). Energuate provides services to approximately 1.6 million households in Guatemala (representing approximately 54% of Guatemala's distribution customers in 2014) and distributes energy approximately across 100,000 km² in Guatemala, covering a population of 12 million.

IC Power's and our management teams have extensive experience in the power generation business. IC Power's and our executive officers have an average of approximately 20 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. IC Power's and our management teams provide in-depth market knowledge and power industry experience, with significant experience in the Peruvian energy industry and government regulators. We believe that this overall level of experience allows our management team to lead the Company 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—In the year ended December 31, 2015, we made 98.4% of our aggregate energy sales (in GWh) pursuant to PPAs, all of which are either in U.S. Dollars or linked to the U.S. Dollar, and most of which were indexed to the price of natural gas in U.S. Dollars. We seek to enter into long-term capacity 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. For example, we signed two PPAs with Southern Peru

Copper Corporation, a ten-year PPA for 120 MW and a twelve-year PPA for 70 to 85MW, both starting in 2017. In addition, we recently extended the 100 MW Antapaccay PPA from 2021 to 2025.

Optimize operations through developments and expansions—We have been successful in developing our facilities in stages and we will continue to evaluate expansion and acquisition opportunities to optimize our operations. For example, prior to our 2014 acquisition of the Las Flores plant, 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. Our original Kallpa plant, which is located near the Las Flores plant, had an excess supply of natural gas. We identified these and other potential synergies and, since our acquisition of the Las Flores plant, 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, we intend to use the proceeds of the offering of the notes to refinance substantially all of our debt allowing us to reduce our financing costs and extend our debt maturity profile. We currently have 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, our turbines are remotely monitored in real time by Siemens in the United States, providing an additional level of predictive maintenance on our 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

Our controlling shareholder, IC Power Peru, is a wholly owned subsidiary of IC Power Pte. Ltd., or IC Power. IC Power is a leading owner, developer and operator of power facilities located in key power generation markets in Latin America, the Caribbean and Israel, utilizing a range of fuels, including natural gas, hydroelectric, HFO, diesel and wind. Currently, its principal focus is on Latin American markets, which typically have higher

GDP growth rates and lower overall and per capita energy consumption, as compared with more developed markets. For the year ended December 31, 2015, we represented approximately 40% of IC Power's generating capacity and 47% of IC Power's EBITDA.

IC Power's activities in Latin America began in 2007 when Inkia Energy Limited, or Inkia, a subsidiary of Israel Corporation Ltd., an Israeli conglomerate, acquired Globeleq Americas Limited's, or Globeleq's, power generation assets in Latin America, which represented 549 MW of installed capacity.

In 2010, Israel Corporation Ltd. formed IC Power and contributed to it both Inkia and O.P.C. Rotem Ltd, a generation company in Israel. In January 2015, Israel Corporation Ltd. transferred IC Power to Kenon, in connection with Israel Corporation's spin-off of Kenon. Kenon is currently IC Power's sole shareholder.

As of December 31, 2015, IC Power's installed capacity was 2,665 MW. IC Power expects to increase its installed capacity by 1,202 MW, or 45.1%, to 3,867 MW by the second half of 2016, upon the completion of assets in advanced stages of construction.

Background and History

We were founded in 2005 as a Peruvian corporation under the name Globeleq Peru S.A. At that time, we belonged to Globeleq Ltd, a subsidiary of CDC Group PLC (United Kingdom). As noted above, 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, our 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 us through a capital increase that we undertook. In January 2012, Quimpac transferred all its shares in us to Energía del Pacífico S.A., or Energía del Pacífico, a member of the Quimpac group, a Peruvian company focused on the investments of the group in the energy sector.

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

Kallpa – Cerro del Águila Potential Merger

As part of a strategy to optimize and diversify our operations, Kallpa's shareholders may evaluate the possibility of a merger with Cerro del Águila, our affiliated company in Peru, which is currently finalizing the completion of a 510 MW hydroelectric plant. Cerro del Águila is expected to reach COD in the second half of 2016. Construction of the hydroelectric plant is significantly underway and, as of March 31, 2016, was approximately 94% completed, with dam construction completion standing at 99.9% and the tunnel drilling completion standing at 100%.

Once completed, Cerro del Águila will be the largest privately-owned hydroelectric power plant in Peru with a generation capacity of 510MW. It will consist of a dam, a powerhouse, a 6 kilometer headrace tunnel and a 17 kilometer transmission line that will operate on the Mantaro River in central Peru.

The Cerro del Águila plant is located 16 kilometers downstream of Peru's largest hydroelectric complex, formed by the Mantaro and the Restitución hydroelectric plants, with a combined installed capacity of 1,008MW. The Mantaro complex is the largest hydroelectric complex in Peru (in terms of capacity and generation), runs as a year round base load unit, has stable generation levels and also has the largest reservoir 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 15 years. The Mantaro basin is expected to provide a relatively constant water flow for downstream power plants, thereby benefiting Cerro del Águila's hydrology. The Cerro del Águila plant is estimated to have a capacity factor of approximately 70% and produce an average of 3,200 Gwh per year. The plant's firm energy is contracted under long term PPAs.

The merger, if it were to occur, would take place after Cerro del Águila reaches COD. If such merger were to take place, Cerro del Águila would likely be the surviving entity and would assume all of our obligations, including the notes being offered hereby.

Any merger of Kallpa and Cerro del Águila would be subject to approval by our mutual shareholders and could possibly require regulatory approval in Peru. We cannot assure you that we and Cerro del Águila would undertake, or be able to consummate, any such merger.

See “*Cerro del Águila*” for a more complete description of the Cerro del Águila hydroelectric power plant.

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 N°115, Of. 701, San Isidro, Lima, Peru. Our telephone number is +511 706 7878. Our website is <http://www.kallpageneracion.com.pe/>. The information included on our website or which may be accessed through our website is not part of this offering memorandum and is not included herein by reference or otherwise.

Our Facilities

We currently own and operate two power plants, both utilizing natural gas for their operations. Our original Kallpa plant reached COD in 2007 and we completed conversion of our three natural gas-powered open-cycle generation turbines (Kallpa I, II, and III) into combined-cycle turbines through our 292 MW steam turbine (Kallpa IV) in 2012. Our Kallpa plant’s combined-cycle turbines are among the most efficient thermal power plants in Peru in terms of heat rate in 2015, according to the COES. As of December 31, 2015, our Kallpa plant’s combined-cycle units have a capacity of 870 MW, representing approximately 9.0% of the total capacity in Peru. Additionally, in April 2014, we acquired a 193 MW single turbine natural gas-fired plant (Las Flores) from an affiliate of Duke Energy Corp. Our Las Flores plant increased our total capacity from 870 MW to 1,063 MW, representing approximately 11.1% of the total capacity in Peru as of December 31, 2015. As a result of our efficiency and low cost of operations, we have a competitive position in Peru’s market and are currently the largest thermoelectric power plant in Peru, with approximately 24.4% of market share in terms of energy dispatched by thermoelectric power plants during 2015.

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

Additionally, Las Flores holds environmental permits for a future 190 MW gas-fired expansion and has sufficient space to locate such a facility, as well as a combined-cycle expansion, on its existing premises. In July 2015, we received environmental approval to convert both our existing unit and the future gas turbine in Las Flores, if developed, into a combined-cycle plant. If completed, this expansion would increase the capacity of Las Flores’ plant by approximately 400 MW, from 193 MW to approximately 593 MW. As of the date of this offering memorandum, we have not committed to carrying out such expansion.

The following table sets forth certain information regarding each of our turbines for each of the periods presented:

Turbine	COD/Date of Acquisition	For the years ended December 31,					
		2015		2014		2013	
		Gross Energy Generated (GWh)	Availability Factor (%)	Gross Energy Generated (GWh)	Availability Factor (%)	Gross Energy Generated (GWh)	Availability Factor (%)
Kallpa I.....	2007	954	91.2	1,243	95.9	1,251	96.3
Kallpa II.....	2009	1,126	98.9	1,266	97.1	1,229	96.6
Kallpa III.....	2010	1,218	98.6	1,262	96.1	1,212	95.0
Kallpa IV ⁽¹⁾	2012	1,759	95.4	2,027	97.8	1,767	86.1
Las Flores.....	2014	109	99.7	122	96.3	—	—
Total		5,166	96.7	5,920	96.7	5,459	93.5

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

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

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

Commercial Strategy

Our commercial strategy involves entering into long-term PPAs with power purchasers. Most of our PPAs are indexed to the underlying cost of natural gas under the related long-term supply agreements, which generally limits our exposure to natural gas price fluctuations, helping us to maintain our margins in the event of variations in natural gas prices. Further, we have 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 our Kallpa and Las Flores plants. The price that we pay for our 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.

In the year ended December 31, 2015, approximately 98.4% of our aggregate energy sales (in GWh) were made pursuant to PPAs. As of December 31, 2015, most of our PPAs were indexed to the price of natural gas in U.S. Dollars and all were either in U.S. Dollars or linked to the U.S. Dollar, thereby generally limiting our exposure to fuel price and exchange rate fluctuations. 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 readjusted at each quarter when the tariff resulting from applying the indexation formula fluctuates by more than 5%.

As of December 31, 2015, the weighted average remaining life of our PPAs based on firm capacity was approximately seven years. We have committed to sell more than 80% of our available energy (in MWh) in every year up to 2021. For further information on our PPAs, see “—Our Customers.”

Potential Expansion

Peru represents an attractive geography for further expansion, as 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.

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 Kallpa or through another vehicle 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, we may pursue opportunities to increase the installed capacity of the Las Flores plant, which has the environmental approvals and a permit to increase its installed capacity through the construction of a 190 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 the Las Flores plant, neither of which we have committed to do, the Las Flores plant 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.

Our Customers

Our customers include distribution companies and non-regulated consumers. We seek to enter into long-term PPAs with power purchasers. In the year ended December 31, 2015, we made 98.4% of our aggregate energy sales (in GWh) pursuant to long-term PPAs. As of December 31, 2015, most of our PPAs were indexed to the price of natural gas in U.S. Dollars; additionally, as of December 31, 2015, all of our PPAs were either in U.S. Dollar or linked to the U.S. Dollar, generally limiting our exposure to fuel price and exchange rate fluctuations. With respect to our non-regulated customers, we invoice and collect payments in U.S. Dollars. With respect to our customers that are large local 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%.

The majority of our capacity has been contracted for sale under long-term agreements. In 2015, we had 65 long-term PPAs, with various distribution companies and non-regulated clients (which accounts for most of our current generation capacity) and we have commitments to sell over 80% of our 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.

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 the credit support.

As of December 31, 2015, the weighted average remaining life of our PPAs based on firm capacity was approximately seven years.

Under the terms of our 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 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, our 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. Utilizing PPAs allows us to lock in prices and increases our earnings stability.

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

Principal Customer	Commencement	Expiration	Contracted Capacity (MW)	Monomic Price (U.S. Dollars)
Edelnor 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. ⁽²⁾	January 2014	December 2021	350	55.21
Edelnor S.A.A., Luz del Sur S.A.A., Hidrandina S.A., Electro Sur Este S.A.A., Sociedad Eléctrica de Sur Oeste S.A., Electro Sur S.A. ⁽³⁾	January 2014	December 2023	210	57.20
Sociedad Minera Cerro Verde S.A.A. ⁽⁴⁾	January 2011	December 2020	140	61.66
Southern Perú Copper Corporation	April 2017	April 2027	120	53.30
Southern Perú Copper Corporation (Toquepala) ⁽⁵⁾	May 2017	December 2021	70 – 85	43.92
	January 2022	April 2029		46.02
Compañía Minera Antapaccay S.A. ⁽⁶⁾	November 2011	December 2025	100	50.09
Inretail Properties Management S.R.L.	September 2016	December 2021	93	42.47
Others			238	47.67

- (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) We executed 14 PPAs, two PPAs with each of the following six entities: (i) Edelnor 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.
- (3) We executed 12 PPAs, two PPAs with each of the following six entities: (i) Edelnor 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.
- (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 year ended December 31, 2015.

	Contracted Demand (MW)	Actual Demand (MW)	Actual Demand % of Total Demand	Load Factor	Expiration Date
Edelnor 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	303	37%	59%	2021
Edelnor S.A.A., Luz del Sur S.A.A., Hidrandina S.A., Electro Sur Este S.A.A., Sociedad Eléctrica de Sur, Oeste S.A., Electro Sur S.A.	210	178	22%	59%	2023
Sociedad Minera Cerro Verde S.A.A.	140	128	16%	84%	2020
Southern Perú Copper Corporation.....	120	120	15%	92%	2027
Compañía Minera Antapaccay S.A.	100	92	11%	81%	2025
Total Sales		821	100%		

Fuel, Transportation and Distribution

Our power facilities utilize natural gas. The price, availability and other purchase conditions of natural gas depends upon the specific fuel and the market in which the fuel is purchased. We are party to several long-term supply agreements, including natural gas supply agreements and transportation services agreements that are material to our operations.

We purchase our natural gas requirements for our 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 our 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 our facility and we are 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, 2015, 52% of the fuel supply we contracted was under such take-or-pay contracts. The price that we 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, 2015 was US\$3.03/MMBtu. This agreement expires in June 2022. Any terms negotiated in a renewal, extension or replacement of this agreement will be passed through to our customers. For information on the risks related to our inability to renew, extend or replace this agreement prior to its expiration, see “*Risk Factors—Risks Related to Our Business—Supplier concentration may expose us to significant financial credit or performance risk, particularly with respect to those agreements which may expire during the life of our power plants.*”

Our 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 our acquisition of the Las Flores plant, the natural gas firm transportation agreement was further modified to include the transportation agreement between Duke and TGP for Las Flores. Additionally, on April 1, 2014, we 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, we pay a regulated tariff approved by the OSINERGMIN, which was 1.0131 US\$/MMBTU as of April 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
3/20/20 – 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

Natural gas distribution services are rendered to us by Cálidda, under a natural gas distribution agreement dated October 5, 2010. Under such agreement, which expires on December 31, 2033, Cálidda is obliged to distribute up to approximately 3.71 million cubic meters of natural gas per day to us. As consideration, we started paying to Cálidda, in 2014, a distribution tariff in U.S. Dollars, which was US\$0.42 for 2014 and US\$0.49 for 2015. This tariff is periodically updated by OSINERGMIN on an annual basis.

Our Competition

Our major competitors are generally the large international power utility 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:

Company	Gross Energy Generation					
	For the year ended December 31,					
	2015		2014		2013	
(GWh)	Market Share (%)	(GWh)	Market Share (%)	(GWh)	Market Share (%)	
Kallpa Generación S.A.....	5,166	11.60	5,924	14.17	5,458	13.76
Edegel S.A.A. ⁽¹⁾ (a subsidiary of Enel).....	8,370	18.79	8,848	21.17	8,700	21.93
ENGIE Energía Perú S.A. (a subsidiary of Engie).....	7,172	16.10	7,098	16.98	7,719	19.46
ElectroPerú S.A. (a state-owned generation company).....	7,172	16.10	7,041	16.85	7,272	18.33
Duke ⁽²⁾	2,648	5.95	2,534	6.06	2,727	6.87
Other generation companies.....	14,012	31.46	10,351	24.77	7,792	19.64
Total	44,540	100.0	41,796	100.0	39,669	100.0

(1) Includes Edegel S.A.A. and Chinango S.A.C.

(2) Includes Egenor and Termoselva S.R.L.

Seasonality

Within Peru, power is generally generated by hydroelectric or thermal power stations, including those facilities which 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, our revenues are subject to seasonality and the effects of rainfall. Although we act to reduce this exposure to seasonality by contracting long-term PPAs for most of our capacity, this effect cannot be completely neutralized.

Property, Plants and Equipment

The following table provides certain information regarding our generation units that are owned or leased, as of December 31, 2015:

Generation Unit	Location	Installed Capacity (MW)	Fuel Type
Generation Unit:			
Kallpa I, II, III and IV	Chilca district, Peru	870	Natural gas (combined cycle)
Las Flores	Chilca district, Peru	193	Natural gas
Total		1,063	

We lease our principal executive offices in Lima, Peru. We lease the Kallpa II and Kallpa III and Las Flores generation units under capital leases as described in “*Management’s Discussion and Analysis of Financial Condition and Results of Operations—Material Indebtedness—Lease Agreements.*”

We believe that all of our 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. As of December 31, 2015, the net book value of our property, plant and equipment was US\$612 million.

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.

Our turbines are maintained according to a predefined schedule based upon the running hours of each turbine and the manufacturer specifications particular to it. We anticipate the first maintenance of our Kallpa IV turbine to occur in 2017 or 2018. Our maintenance schedule is coordinated with, and approved by, the COES. We are a 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 an 18-year term of service for each of the Kallpa I, II and III turbines, or the equivalent of 100,000 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, we have relationships with the OEM, 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

We carry insurance for our generation units against material damage and consequent business interruption through comprehensive “all-risks” insurance policies that are renewed annually. We are currently covered by insurance policies which provide for total replacement values of up to US\$734 million for property damages per year and US\$265 million for business interruption damages per 18-month period. In some cases, we rely on our insurance policies in the event that any of our 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, ACE Limited, American International Group, Inc., 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 US\$600 million per event (combined material damage and business interruption coverage). These policies have deductibles of US\$1 million.

Our 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 plant production is fully re-established, with a maximum indemnity period of 18 months.

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. We also received environmental permits and approvals for expansion of generation units, which we have not committed to initiate, for a 190 MW gas-fired expansion of Las Flores and conversion of our 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. See “*Summary—Business Strategy—Provide high rates of availability while operating our facilities safely and efficiently*.”

Employees

As of December 31, 2015, we had a total of 183 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:

	As of December 31,		
	2015	2014	2013
Number of employees by category of activity:			
Plant operation and maintenance	94	59	47
Administrative support	48	47	47
Corporate management, budget and finance.....	40	30	23
Other, including project management.....	1	–	–
Total	183	136	117

We do not employ a material number of temporary employees. As of December 31, 2015, 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, a wholly-owned subsidiary of IC Power, holds a majority stake in us and our operations are subject to the shareholders’ agreement between IC Power Peru and Energía del Pacífico, our minority shareholder. The terms of the shareholders’ agreement provides, in certain circumstances and subject to certain conditions: (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 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 US\$5 million and dispositions of assets over US\$7.5 million, as well as the incurrence of significant debt over US\$20 million; (4) each party with a right of first refusal with respect to any potential sale of our 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 us and will not develop generation projects other than through us, unless both parties agree to incorporate a new investment vehicle.

Moreover, Energía del Pacífico and Banco de Crédito del Perú entered into the Share Pledge Agreement pursuant to which 25.1% of our outstanding shares (owned by Energía del Pacífico) were 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.

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 these matters, see Note 26 to our audited annual financial statements included in this offering memorandum.

Since 2010, SUNAT has issued tax assessments to us and our lenders (as lessors under our leases) for payment of import taxes allegedly owed by us and our lenders in connection with the engineering services related to the EPC contractors of Kallpa I, II, III and IV. The assessments were mainly made on the basis that we and our 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. We disagree with these tax assessments on the grounds that the engineering services rendered to design and build the power plant are not part of the imported goods but a separate service for which we paid our corresponding taxes. We and our lenders disputed the tax assessments before SUNAT and, after SUNAT confirmed the assessments, appealed before the Peruvian Tax Administrative Court, or the Tribunal Fiscal, except for the assessment of Kallpa IV. In January 2016, SUNAT issued a ruling in favor of Kallpa, releasing Kallpa from substantially all claims and associated fines related to Kallpa IV.

In January 2015, we and our lenders were notified that the Tribunal Fiscal had rejected our appeal in respect of the Kallpa I assessment. We and our lenders disagreed with the Tribunal Fiscal’s decision and challenged this decision in the Peruvian courts. In order to challenge the Kallpa I ruling, we and our lenders were required to pay the tax assessment of Kallpa I in the aggregate amount of approximately S/37.9 million (US\$12.3 million), which amount consists of the tax assessment for Kallpa I, plus related interest and fines. After application of the sales tax credit of S/5.4 million, the amount was reduced to S/32.5 million (approximately US\$ 9.5 million) including interest and penalties. In April 2015, we and our lenders made the final payment (under protest) regarding Kallpa I’s tax assessment in order to appeal the administrative ruling of the Tribunal Fiscal in the judicial system. We have reimbursed the lenders for each of the amounts due under the terms and conditions set forth in the operation agreement dated July 31, 2008, as amended, by and among Citibank del Perú S.A., Citi leasing S.A., Banco de Crédito del Perú, Scotiabank Perú, and us. To the extent that the appeal is successful, we and our lenders will be entitled to seek the return of the amounts paid to SUNAT. The amount paid with respect to Kallpa I was recorded as long term receivable and was originally S/37.9 million, but S/5.4 million related to VAT was recovered.

In January 2016, SUNAT issued a ruling in favor of Kallpa, releasing Kallpa from substantially all claims and associated fines related to Kallpa IV. A decision of the Tribunal Fiscal of our appeals in respect of the Kallpa II and III assessments is still pending.

As of March 31, 2016, the total tax exposure related to these assessments is as follows:

	Stage	Amount (in S/million)	Amount (in U.S. million)
Kallpa I.....	Superior Court of Lima	32.5	9.6
Kallpa II.....	Peruvian Tax Court	22.0	6.6
Kallpa III	Peruvian Tax Court	21.3	6.4
Kallpa IV	SUNAT	0.8	0.3
		<u>76.6</u>	<u>22.9</u>

On February 15, 2016, as a result of the 2012 income tax audit, SUNAT issued a preliminary income tax assessment against us for approximately S/22 million (US\$ 6.5 million) on the basis that certain interest accrued on our debt and some maintenance expenses should not have been deducted from our 2012 taxable income but rather

treated as an asset. On March 11, 2016, SUNAT issued a final tax assessment for approximately S/16.5 million (US\$ 4.8 million), related to the interest expenses accrued during construction. We will appeal this assessment before SUNAT. Our management and our tax counsel consider that this appeal will more likely than not be successful on the basis that the Peruvian Tax Court has issued precedents that allow the deduction of interest expenses in similar circumstances based on the clear language of article 37 a) of the Peruvian Income Tax Law; accordingly, no provision has been recorded in our financial statements.

Cerro del Águila

Cerro del Águila will be, once its expected completion date is reached in the second half of 2016, the largest privately owned hydroelectric power plant in Peru with a generation capacity of 510MW, consisting of a six kilometer headrace tunnel and a 17 kilometer transmission line. 74.9% of Cerro del Águila is owned by IC Power Peru, our controlling shareholder and the remaining 25.1% is owned by Energía del Pacífico, our minority shareholder. Cerro del Águila'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.

The Cerro del Águila plant is located 16 kilometers downstream of Peru's largest hydroelectric complex (the 'Mantaro Complex'), owned by ElectroPerú, formed by the Mantaro and the Restitución hydroelectric plants, with a combined installed capacity of 1,008MW, and the Junin water reservoir, the largest in Peru. The Mantaro complex is the largest hydroelectric complex in Peru (in terms of capacity and generation), runs as a year round base load unit and has stable generation levels. 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 15 years. The Junin water reservoir basin is expected to provide a relatively constant water flow for the downstream power plants benefiting Cerro del Águila's hydrology. The Cerro del Águila plant is expected to have an average annual load factor of 70%, which is significantly above the average (54%) for similar projects in Latin America but below Mantaro's complex load factor of approximately 80%.

Cerro del Águila has entered into three PPAs, a 15-year PPA with ElectroPerú covering 200 MW of capacity that commences in 2016, and two 10-year PPAs with Luz del Sur S.A.A., Edelnor and Edecañete, the first covering 202 MW of capacity and which commences in January 2018, and the second covering 81 MW of capacity and which commences in 2022. Assuming a load factor of 0.70 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 Cerro del Águila's PPA with ElectroPerú will generate annual revenues of approximately US\$87 million per year, Cerro del Águila's first PPA with Luz del Sur S.A.A., Edelnor S.A.A. and Edecañete S.A. will generate annual revenues of approximately US\$69 million per year and Cerro del Águila's second PPA with Luz del Sur S.A.A., Edelnor S.A.A. and Edecañete S.A. will generate annual revenues of approximately US\$22 million per year. As of March 31, 2016, the weighted average remaining life of Cerro del Águila's PPAs based on firm capacity was 12 years. The PPA with ElectroPerú has an average price of US\$54/MWh, capacity payments of US\$6.3/kW-month, is denominated in U.S. Dollars and is indexed to the U.S. producer price index. The first PPA with Luz del Sur S.A.A., Edelnor S.A.A. and Edecañete S.A. has an average price of US\$50/MWh, capacity payments of US\$6.5/kW-month, is denominated in the Peruvian Sol, but indexed to natural gas prices in Peru, which are denominated in U.S. Dollars, and indexed to the U.S. producer price index. The second PPA with Luz del Sur S.A.A., Edelnor S.A.A. and Edecañete S.A. has an average price of US\$37/MWh, capacity payments of US\$6.0/kW-month, is denominated in the Peruvian Sol, but indexed to natural gas prices in Peru, which are denominated in U.S. Dollars, and indexed to the U.S. producer price index.

As noted above, Cerro del Águila is expected to reach its COD in the second half of 2016. Construction of the hydroelectric plant is underway and, as of March 31, 2016, was approximately 94% completed, with 99% of the dam construction and 100% of the tunnel drilling having been completed. Each of the Cerro del Águila's plant's three turbines will have separate CODs. The first COD is expected to occur in the second quarter of 2016 and the last COD is expected to take place in the second half of 2016.

Construction of the Cerro del Águila plant is being performed under a turnkey engineering, procurement and construction contract with a consortium formed by Astaldi S.p.A. and GyM S.A., with an estimated cost of approximately US\$959 million. The Cerro del Águila plant is expected to be fully operational at a cost of US\$1.9 million per MW, making it one of the most efficiently constructed hydroelectric facilities in Latin America in terms of cost per MW. Development of the Cerro del Águila plant is being financed with the Cerro del Águila Finance

Facility, a US\$591 million syndicated credit, with export credit agencies, development banks and private banks that is collateralized by the assets and rights of the project. The remaining portion of the cost of the Cerro del Águila plant has been substantially financed with equity from IC Power Peru and Energía del Pacífico. As of March 31, 2016, IC Power Peru and Energía del Pacífico have invested US\$246 million and US\$82 million in equity in Cerro del Águila, respectively. In connection with the Cerro del Águila Finance Facility, IC Power Peru and Energía del Pacífico entered into an equity contribution and retention agreement to cover cost overruns (this support obligation is limited, in the case of IC Power Peru, to US\$44 million). As of March 31, 2016, Cerro del Águila had invested US\$873 million into its development and had drawn US\$591 million under the Cerro del Águila Finance Facility, respectively.

The project construction has been mostly completed, minimizing development risk and potential cost overruns. As of the date of this offering memorandum, the only material cost overrun has been a US\$40 million budget increase which was requested in April 2014 by Astaldi S.p.A. and GyM S.A., the contractors under the Cerro del Águila EPC. The contractors demanded a six-month extension for the COD (from early 2016 to the second half of 2016) and approximately a US\$92 million increase in the total contract price. In March 2015, Cerro del Águila, together with the Cerro del Águila EPC contractors, amended the Cerro del Águila EPC to address such claims. Pursuant to the amendment, Cerro del Águila agreed to pay, subject to certain conditions, an additional US\$40 million, divided into four payments over the course of the remaining construction period, and granted certain time extensions previously requested by Cerro del Águila EPC contractors. The additional equity investment of \$40 million has been partially funded as of March 31, 2016 with a US\$10 million investment in 2015, and, as mentioned above, the project is underway to achieve its COD in the second half of 2016.

Cerro del Águila Finance 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 US\$591 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 US\$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. 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 US\$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 US\$65 million, will initially bear interest at the rate of LIBOR plus 2.75% per annum, increasing over time beginning on the date after the interest payment date occurring after August 2017 to LIBOR plus 3.60% per annum. 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. Tranche D loans will be secured by a credit insurance policy provided by SACE S.p.A.—Servizi Assicurativi del Commercio Estero, or SACE

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

As of March 31, 2016, the aggregate principal amount outstanding under this facility was US\$591 million.

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 industrial 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 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 for power generation, 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, power 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 or distribute power to third parties in Peru operate subject to the general electricity laws in Peru. Power generating companies in Peru, such as our company, are impacted by, among other things, 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 State of Peru has remained, in actual fact, in the role of supervisor and regulator. In addition, the State 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 five entities in charge of regulation, operation and supervision of the electricity market in Peru in general, and of our operations in Peru, in particular:

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

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

Generation tariffs for the sale of energy by generation companies to distribution companies 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. The prices of energy and power fixed by OSINERGMIN shall not differ by more than 10% of the weighted average prices of the referred tender procedures. OSINERGMIN also determines the annual capacity prices 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 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 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; and (g) proposing expansion plans for the transmission grid.

INDECOPI—the Antitrust and Intellectual Property Authority in Peru.

OEFA—the governmental body responsible for the power stations compliance with the environmental regulations.

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 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, 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. 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 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 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 once a year and such declared cost may differ from the actual cost of such plant and this declaration will be the variable cost applicable for dispatch purposes for the next 12 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 power 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. 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 COES, respectively, not being 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.

Power generation companies are also paid capacity fees by 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 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 availability. Generation companies that generate over any 15-minute period insufficient energy to satisfy the supply obligations under their PPAs 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, and the capacity price is regulated and set by OSINERGMIN. 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, extended by Emergency Decree 079-2010 and Law 30115. 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 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 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. As of the date of this offering memorandum, the aforementioned government decree will be in force until December 2016. 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 period.

Sales of electricity under PPAs are not regulated unless they involve sales to distribution companies for resale 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 only when the price is not 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 State 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 and have basically, the same obligations than concessionaires.

Definitive concessions and authorizations may be terminated by relinquishment or breach upon the occurrence of certain termination events set forth in Law 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 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 COES' 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.

Without prejudice to the above, Law 25844 provides that if the State 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 Government of Peru invoking its authority to terminate at will.

Termination of a definitive concession is declared by a ministerial resolution issued by MINEM. In such case, 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. 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. 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 grid is operated by the individual companies that conform the transmission system and is centrally coordinated by COES. Expansion plans for the transmission grid are proposed by COES to MINEM for final approval; prior to executing the COES expansion plan, the Government of Peru 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 group of transmission lines created pursuant to such tenders after 2006 are known as “guaranteed transmission lines.” 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.

Transmission lines created prior to 2006 are categorized into two groups. Transmission lines available for use by all generation companies 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. Our facilities transmit the power generated by our generation units through secondary transmission lines built prior to 2006, which then connect to primary and guaranteed transmission lines.

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. As of the date of this offering memorandum, the only private distribution companies holding a distribution concession are: Luz del Sur, Edelnor, Electro Dunas and Coelvisac. These five companies distributed 73% of all energy distributed by distribution companies in Peru in 2014. The remainder of power is sold by government-owned entities.

Prior to July 2006, pricing in all contracts between generation companies and distribution companies with respect to sale of power to end customers at regulated prices, included energy tariffs 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.

The energy purchased by distribution companies from generation companies at regulated prices pursuant to old PPAs accounted for less than 56% of total purchasing in 2014—and is expected to decrease in coming years.

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 Government of Peru has a subsidiary role in the economy as mandated by the Peruvian Constitution;
- universal access to energy supply. Among other guidelines, the Government of Peru 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 Peruvian government, cooperating with the Ministry of Environment and other administrative entities, has 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.

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. Before undertaking any kind of activity in the electricity sector, they must submit the applicable environmental management instrument to the General Energy Environmental Affairs Bureau (*Dirección General de Asuntos Ambientales Energéticos*, or “DGAAE”) of the MINEM or the National Service for Environmental Certification of Sustainable Investments (“*Servicio Nacional de Certificación Ambiental para las Inversiones Sostenibles*” or “SENACE”) for its approval, depending on the particular case.

SENACE was created by means of Law 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 detailed Environmental Impact Assessments or “EIA” related to projects involving activities, works or services that may cause significant impacts to the environment. In this regard, 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. Environmental Impact Statements and semi-detailed EIAs) will continue being approved by the DGAAE of the MINEM.

Pursuant to the REPEA, an applicant for definitive concessions or authorizations for carrying out generation activities must prepare and submit an EIA to the DGAAE or SENACE, as applicable, for its corresponding approval, prior to the commencement of construction activities. The EIA is the environmental management instrument that includes a description of 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, the EIA must identify and classify potential or existing environmental impacts throughout the life of the project and propose mitigating actions for avoiding, reducing, and/or compensating for those impacts by developing an environmental management strategy. This strategy includes the preparation an environmental management plan detailing how a company will comply with environmental quality standards and other obligations, a contingency plan, a compensation plan, a community participation plan and a closure plan. The generation must strictly compliance with its environmental commitments included in the EIA throughout the life-cycle of the project. Once the EIA is approved, a company is allowed to initiate its project.

Based to 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 the OSINERGMIN.
- Registry in the Registry for Regulated Assets (*Registro para el Control de Bienes Fiscalizados*) before 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 SERFOR.
- Authorization for the use of explosives, granted on request by the SUCAMEC.

The following is a description of the most relevant environmental permits obtained for the construction and operation of the Kallpa plants:

By means of Resolution No. 051-2006-MEM/AAE, dated February 24, 2006, the DGAAE approved the EIA requested by Globeleq Peru S.A. Since then, we have obtained the approval of two amendments to that EIA through the following documents:

- Official communication of the DGAAE, submitting the Report 070-2008-MEM-AAE/MU, dated June 25, 2008, which provides conformity to the Environmental Management Plan (*Plan de Manejo Ambiental*, or “PMA”) for increasing the installed capacity of the Kallpa power plant from 380 MW to 562.1 MW; and,
- Directorial Resolution 335-2009-MEM/AEE, dated September 11, 2009, by which the DGAAE approved the PMA for the conversion to a combined-cycle plant. With this PMA, we increased the installed capacity of Kallpa to 842.19 MW.

Other permits obtained for the operation of Kallpa include:

- Authorization for the execution of the Archeological Monitoring Plan, granted by Directorial Resolution 1644/INC, dated October 6, 2006.
- License for using underground water with industrial purposes for an approximately volume of 120 137 cubic meters, granted by Resolution 726-2008-IRH, dated August 7, 2008, and modified by Administrative Resolution 059-2009-ANA/ALA.CHRL, dated April 7, 2009.
- Registry as a direct consumer of liquid fuels and/or other products derived from hydrocarbons, granted by Registration Form 115885-051-220715, dated July 24, 2015.

The following is a description of the most relevant environmental permits obtained for the construction and operation of the Las Flores plant:

By means of Resolution No. 369-2008-MEM/AAE, dated August 29, 2008, the DGAAE approved the EIA requested by Duke. Through this EIA, Duke established the activities for the construction, operation and

maintenance of the Power Plant with an installed capacity of 395 MW and a transmission line to the substation Chilca.

In addition, Duke obtained the approval of an amendment to the EIA. By an official communication of the DGAAE, submitting the Report 055-2009-MEM-AAE/RP/MM, dated December 18, 2009, the DGAAE provided conformity to the PMA for the variant of the transmission line of the Las Flores plant.

Other permits obtained for the operation of Las Flores plant include:

- Authorization for the execution of the Archaeological Rescue Project (*Proyecto de Rescate Arqueológico*), granted by Directorial Resolution 1665/INC, dated November 13, 2008.
- CIRA 2009-530, dated September 18, 2009, which includes approvals of: (a) the Las Flores plant with an area of 10.91 Ha. and a perimeter of 1,389.25 m; (b) a transmission line with a length of 3,246.36 m and an easement strip of 25 m; and (c) a variant of the transmission line with a length of 3,647.55 m and an easement strip of 25 m.
- Authorization for the execution of the Archeological Monitoring Plan, comprising the area corresponding to the Las Flores plant, the transmission line and its easement strip, granted by Directorial Resolution 1841/INC, dated December 17, 2008.
- Approval of the final report of the Archeological Monitoring Plan for the Las Flores plant granted by Directorial Resolution 1366/INC, dated June 18, 2010.
- Environmental approval for the combined cycle, by Directorial Resolution 225-2015-MEM/DGAAE, dated July 15, 2015.

Since March 4, 2011, OEFA is the competent authority in charge of regulating, supervising and imposing sanctions to companies in the electric industry with respect of 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 has been instructed to prioritize preventive and corrective actions for a period of three years. Thus, during such period, if OEFA declares the existence of an infringement in the context of an administrative sanctioning proceeding, this authority shall order the execution of corrective measures that seek to reverse the alleged infringement. Only if the investigated company fails to comply with these administrative measures, OEFA will impose pecuniary sanctions (which shall not exceed 50% of the penalty that would otherwise be applicable to such Infringement).

Despite that the period of three years will expire approximately in July, 2017, by means of Resolution 016-2015-OEFA/CD, dated March 28th, 2015, OEFA issued the new Regulations for Direct Supervision, which establishes that the role of direct supervision aims to prevent environmental damage and promote voluntary correction of alleged breaches of environmental obligations in order to ensure adequate environmental protection. Thus, it promotes the implementation of corrective measures and the correction of infringements in order to avoid initiating unnecessary administrative sanctioning proceedings.

The final decision regarding the extension and/or renewal of the regime established by Law 30230 will depend on the government then in office.

The described benefits will 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) companies that are reoffenders.

Notwithstanding the above, 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 damages. Therefore, any third

party, under the principles of tort liability, could file a civil claim against the titleholder of a project for causing environmental damages 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 ten 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 members within the company's business structure (including managers) that 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.

MANAGEMENT

Directors and Senior Management

The following table sets forth information regarding our directors as of the date of this offering memorandum.

Name	Age	Position	Current Position Held Since	Term Expires
Javier García Burgos	46	Executive Chairman	06/14/2005	11/24/2016
Marcos Fishman	70	Vice Chairman	11/24/2009	11/24/2016
Esteban Viton	64	Director	11/24/2009	11/24/2016
Juan Carlos Camogliano	53	Director	11/30/2007	11/24/2016
Alberto Triulzi	59	Director	03/20/2013	11/24/2016
Roberto Cornejo	53	Director	11/30/2007	11/24/2016
Francisco Sagrañes	51	Director	11/24/2009	11/24/2016
Giora Almogy	46	Director	07/11/2007	11/24/2016

The following table sets forth information regarding our senior management as of the date of this offering memorandum. As of the date of this offering memorandum, our Board of Directors announced the replacement of Raul Díaz, our current chief financial officer, by Arturo Silva- Santisteban, effective June 1, 2016.

Name	Age	Position
Rosa María Flores-Araoz	43	Chief Executive Officer
Raul Díaz ⁽¹⁾	41	Chief Financial Officer
Irwin Frisancho	45	Commercial Officer
Hugo Alvear	41	Operations Officer
Daniel Urbina	47	General Counsel

(1) Replacement effective June 1, 2016

Our business address is the business address of all of our directors and senior management.

Biographies of our Directors and Senior Management

Javier García-Burgos. Besides being Executive Chairman of 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 20 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 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 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 foreigner 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 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. Carmogliano worked at Suez Energy Peru, a member of the Suez 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 over 18 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 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 Kallpa, Mr. Cornejo has served as IC Power Chief Operating Officer since 2011. Previously, Mr. Cornejo served as the Chief Operating Officer and Commercial Vice President of Inkia from 2007 to 2011, 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 Perú and a Master's Degree in Business Administration from the Universidad del Pacífico in Peru.

Francisco Sagrañes. Besides being Director of Kallpa, Mr. Sagrañes has served as our Chief Technical Officer 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, or 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 Kallpa, Mr. Almogy has served as Chief Executive Officer of OPC 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 IC. 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 Kallpa since July 2015. She has over 13 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 Perú 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.

Raul Díaz. Mr. Díaz has been the Chief Financial Officer of Kallpa since May 2013. He has over ten years of experience in the financial area, previously holding the position of Financial Director at Merck, a multinational company in the pharmaceuticals sector. Mr. Díaz has a degree in economics from Universidad del Pacífico (Peru) and a master's degree in business administration, with a minor in finance, from the ESAN Graduate School of

Business. As noted above, our Board of Directors announced the replacement of Raul Díaz as chief financial officer by Arturo Silva- Santisteban, effective June 1, 2016.

Arturo Silva- Santisteban has been named the new Chief Financial Officer of Kallpa, effective June 1, 2016. Mr. Silva-Santisteban has over 5 years of experience in the power industry plus over 10 years experience in the financial industry. He was previously Finance Vice President in Engie Energía Perú 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 Kallpa since March 2010. He has over 16 years of experience in the Peruvian electricity sector and has held positions in different companies in the sector such as Engie Energía Perú, 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.

Hugo Alvear. Mr. Alvear has been the Operations Officer of Kallpa since May 2013. He has over 16 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 has a degree in mechanical engineering from Universidad del Norte (Colombia) and a master's degree in engineering administration from Universidad del Norte (Colombia).

Daniel Urbina. Mr. Urbina has been the General Counsel of 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 our Board of Directors are elected by the general meeting of shareholders for one year terms, with the possibility of reelection. Our Board of Directors is currently comprised of eight members.

Our Board of Directors conducts monthly ordinary meetings and extraordinary meetings whenever considered convenient or necessary, as called by the president of our 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 our by-laws, our Board of Directors does not receive compensation. During the year ended December 31, 2015, our Board of Directors did not receive any remuneration or stipend for any additional duties or expenses.

Code of Ethics and Ethical Guidelines

Our Board of Directors has adopted a code of ethics that describes our commitment to, and requirements in connection with, ethical issues relevant to business practices and personal conduct.

PRINCIPAL SHAREHOLDERS

We are a Peruvian corporation (*sociedad anónima*) organized under the laws of Peru. Our only issued capital consists of 212,985,033 common shares, which are fully paid up and are held by two shareholders, IC Power Peru, a wholly owned subsidiary of IC Power, and Energía del Pacífico, a Peruvian company focused on the investments of the Quimpac group in the energy sector.

As of December 31, 2015, IC Power, through its wholly owned subsidiary IC Power Peru, indirectly held 74.9% of our shares and Energía del Pacífico directly held the remaining 25.1%. The table below sets forth our principal shareholders as of December 31, 2015:

Shareholder	Shares	%
IC Power ⁽¹⁾	159,525,789	74.9%
Energía del Pacífico	53,459,244	25.1%
Total shareholders	212,985,033	100.0%

(1) Through its wholly owned subsidiary, IC Power Peru.

Our Controlling Shareholder

Our controlling shareholder, IC Power Peru, is a wholly owned subsidiary of IC Power Pte. Ltd., or IC Power. IC Power is a leading owner, developer and operator of power facilities located in key power generation markets in Latin America, the Caribbean and Israel, utilizing a range of fuels, including natural gas, hydroelectric, HFO, diesel and wind. Currently, its principal focus is on Latin American markets, which typically have higher GDP growth rates and lower overall and per capita energy consumption, as compared with more developed markets. For the year ended December 31, 2015, we represented approximately 40% of IC Power’s generating capacity and 47% of IC Power’s EBITDA.

IC Power’s activities in Latin America began in 2007 when Inkia Energy Limited, or Inkia, a subsidiary of Israel Corporation Ltd., an Israeli conglomerate, acquired Globeleq Americas Limited’s, or Globeleq’s, power generation assets in Latin America, which represented 549 MW of installed capacity.

In 2010, Israel Corporation Ltd. formed IC Power and contributed to it both Inkia and O.P.C. Rotem Ltd, a generation company in Israel. In January 2015, Israel Corporation Ltd. transferred IC Power to Kenon, in connection with Israel Corporation’s spin-off of Kenon. Kenon is currently IC Power’s sole shareholder.

As of December 31, 2015, IC Power’s installed capacity was 2,665 MW. IC Power expects to increase its installed capacity by 1,202 MW, or 45.1%, to 3,867 MW by the second half of 2016, upon the completion of assets in advanced stages of construction.

IC Power Peru Shareholders’ Agreement

IC Power Peru, a wholly-owned subsidiary of IC Power, holds a majority stake in us and our operations are subject to the shareholders’ agreement between IC Power Peru and Energía del Pacífico, our minority shareholder. The terms of the shareholders’ agreement provides, in certain circumstances and subject to certain conditions: (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 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 US\$5 million and dispositions of assets over US\$7.5 million, as well as the incurrence of significant debt over US\$20 million; (4) each party with a right of first refusal with respect to any potential sale of our 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 us and will not develop generation projects other than through us, unless both parties agree to incorporate a new investment vehicle.

Moreover, Energía del Pacífico and Banco de Crédito del Perú entered into the Share Pledge Agreement pursuant to which 25.1% of our outstanding shares (owned by Energía del Pacífico) were 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.

RELATED PARTY TRANSACTIONS

We are party to numerous related party transactions with certain of our affiliates.

IC Power, through its wholly owned subsidiary IC Power Peru, has the indirect power to review and approve our 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 us than may reasonably be expected in arm's-length transactions with unrelated parties.

We believe that we 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.

Below is a summary of accounts receivables with our affiliates as of December 31, 2015, 2014 and 2013:

	As of December 31,		
	2015	2014	2013
	<i>(in millions of U.S. Dollars)</i>		
IC Power ⁽¹⁾	-	-	-
Energía del Pacífico	-	-	-
Cerro del Águila ⁽²⁾	-	-	3
Samay I ⁽²⁾	-	-	-
Hidro Chilia ⁽³⁾	4	-	-
Total	4	-	3

- (1) Through its wholly owned subsidiary, IC Power Peru.
- (2) 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.
- (3) 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 180MW and an average annual capacity factor of 68%. Hidro Chilia is a related party because we share the same controlling shareholder.

The table below presents the net effect on income of transactions with our affiliates for the years ended December 31, 2015, 2014 and 2013:

	For the year ended December 31,		
	2015	2014	2013
	<i>(in millions of U.S. Dollars)</i>		
IC Power ⁽¹⁾	-	-	-
Energía del Pacífico	-	-	-
Cerro del Águila	-	2	2
Samay I	1	-	-
Hidro Chilia	-	-	-
Total	1	2	2

- (1) Through its wholly owned subsidiary, IC Power Peru.

DESCRIPTION OF THE NOTES

The notes will be issued under an indenture to be entered into among us, Citibank, N.A., as trustee, registrar, transfer agent and paying agent, and Banque Internationale à Luxembourg SA, as Luxembourg paying agent and transfer 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 and, for so long as the notes are listed on the Official List of the Luxembourg Stock Exchange for trading on the Euro MTF Market, at the office of the paying agent in Luxembourg.

In this section of the offering memorandum, the term “Issuer” refers only to Kallpa Generación S.A., excluding any Subsidiaries (as defined below). 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 our senior unsecured obligations;
- will initially be limited to an aggregate principal amount of US\$350 million;
- will mature on May 24, 2026;
- will not be redeemable by us or by the holders of the notes prior to maturity except as described under “—*Optional Redemption*”;
- will be issued in minimum denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof; and
- will 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 4.875% per year;
- will be payable semi-annually in arrears on May 24 and November 24 of each year, commencing on November 24, 2016; and
- will be calculated on the basis of a 360-day year consisting of twelve 30-day months.

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

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.

As of March 31, 2016, our total outstanding long term debt (including financial leases) was US\$401 million, US\$356 million of which was secured. In addition, our total outstanding short term debt (including current portion of the long term debt) was US\$97 million. As adjusted for this offering and the use of proceeds therefrom, our total outstanding debt would be US\$441.2 million, of which US\$91.2 million would be 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 May 9 or November 9, 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. So long as the notes are listed on the Official List of the Luxembourg Stock Exchange for trading on the Euro MTF Market, the Issuer will also maintain a paying agent and transfer agent in Luxembourg. 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. 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 was required as of the Issue Date 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 US\$1,000; *provided* that the remaining principal amount of such Holder's note will not be less than US\$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 US\$200,000 and will be in integral multiples of US\$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.

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.

Holdes 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 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 February 24, 2026 (three months prior to the maturity date of the notes), 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 45 basis points, in each case plus accrued and unpaid interest to 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, Morgan Stanley & Co. 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 February 24, 2026 (three months prior to the maturity date of the notes), 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 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 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. Any such purchased notes will not be resold, except in compliance with applicable requirements or exemptions under relevant securities laws.

Covenants

Limitation on Liens

The Issuer 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, 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 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, or (iii) any country which is a 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.

The Issuer and its affiliate Cerro del Aguila may evaluate the possibility of a merger with Cerro del Aguila. See "Business –Cerro del Aguila" in this Offering Memorandum. If the merger were approved by the Board of Directors and shareholders of both companies, the provisions in the preceding paragraph were met, the merger were subsequently consummated and Cerro del Aguila were the surviving entity, Cerro del Aguila would execute a supplemental indenture pursuant to the procedures described above to become the successor entity and would 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.

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) the Issuer fails 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 or any of its Subsidiaries fails to pay when due (whether at maturity, upon redemption or acceleration or otherwise) the principal, or interest or premium, if any, of any Indebtedness in excess, individually or in the aggregate, of US\$25 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 or any Subsidiary (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 US\$25 million (or the equivalent thereof in other currencies) in the aggregate are rendered against the Issuer or any Subsidiary 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 60 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 or any Subsidiary (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 consolidated assets or property or the Issuer's Capital Stock or the Capital Stock of any Subsidiary holding all or substantially all of the Issuer's consolidated assets or property, or assumes custody or control of such consolidated assets or property or of the Issuer's or any such Subsidiary's business or operations or Capital Stock, or takes any action that would prevent the Issuer or any such Subsidiary or their respective officers from carrying on a substantial portion of the Issuer's or such Subsidiary's business or operations for a period longer than 60 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 or any of its Significant Subsidiaries as bankrupt or insolvent, or approving as properly filed a petition seeking reorganization of or by the Issuer or any of its Significant Subsidiaries and such decree or order continues undischarged or unstayed for a period of 60 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 or any of its Significant Subsidiaries, has been entered, and such decree or order continues undischarged and unstayed for a period of 60 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 another Significant Subsidiary of the Issuer; or
- (ix) the Issuer or any of its 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.

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-acceleration events described in clause (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. In addition, so long as the notes are listed on the Official List of the Luxembourg Stock Exchange for trading on the Euro MTF Market and the rules of such exchange so require, notices will also be published by the Issuer in a leading newspaper having general circulation in Luxembourg or on the website of the Luxembourg Stock Exchange (www.bourse.lu). If such publication is not practicable, notice will be considered to be validly given if otherwise made in accordance with the rules of the Luxembourg Stock Exchange. Any such notice will be deemed to have been delivered on the date of first publication.

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:

- change the interest rate with respect to any note or reduce the principal amount of any notes, or change the time for such payments;
- modify the obligation to pay Additional Amounts;
- 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;
- 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;
- impair the right to institute suit for the enforcement of any payment obligation on or with respect to any notes; or
- 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;

(2) the Issuer consolidates with or merges into any Person, or sells, assigns, conveys, transfers, leases or otherwise disposes of all or substantially all of its properties and assets to any Person 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 of any plan or proposal for the liquidation or dissolution of the Issuer, 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 sheet of the Issuer and its 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 and its Subsidiaries appearing on such balance sheet (excluding the current portion of long-term debt), as determined in accordance with IFRS.

“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 10 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 six months 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, 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.

“Moody’s” means Moody’s Investors Service, Inc. and its successors.

“Permitted Holders” means IC Power Pte Ltd. or any Affiliate thereof.

“Permitted Liens” means any of the following:

(1) Liens imposed by law, including Liens of carriers, warehousemen, mechanics, suppliers, material-men 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 consistent with past practice in connection therewith) or (ii) to secure the performance of tenders, statutory obligations, surety and appeal bonds, bids, leases, government performance 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;

(6) Liens on any property or assets (including Capital Stock of any Person) securing Indebtedness incurred solely for purposes of financing the acquisition, construction, development or improvement of such property or assets 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, and 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 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 Company 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;

(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) 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;

(15) Liens which secure only Indebtedness owed by a Subsidiary to the Issuer and/or one or more Subsidiaries;

(16) 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 (15) 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

(17) in addition to any Lien permitted pursuant to clauses (1) through (16) 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 30 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 any Rating Agency 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 any Rating Agency 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 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 is the registrant referred to in such definition. The Issuer does not have 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

In the event that the notes are listed as anticipated on the Official List of the Luxembourg Stock Exchange for trading on the Euro MTF Market, the Issuer will use its reasonable best efforts to maintain such listing; *provided* that, if, as a result of the European Union regulated market amended Directive 2001/34/EC (the “Transparency Directive”) or any legislation implementing the Transparency Directive or other directives or legislation, the Issuer could be required to publish financial information either more regularly than it otherwise would be required to or according to accounting principles which are materially different from the accounting

principles which the Issuer would otherwise use to prepare its published financial information, the Issuer may delist the notes from the Luxembourg Stock Exchange in accordance with the rules of the exchange and seek an alternative admission to listing, trading and/or quotation for the notes on a different section of the Luxembourg Stock Exchange or by such other listing authority, stock exchange and/or quotation system inside or outside the European Union as the Issuer's board of directors may decide.

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 has irrevocably consented 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 with respect to any action that may be brought in connection with the indenture or the notes and has irrevocably appointed CT Corporation System 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, 14th Floor, New York, NY 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 US\$200,000 and integral multiples of US\$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*” above 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 the principal 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.

U.S. Federal Income Tax Considerations

The following discussion is a summary of the principal U.S. federal income tax consequences of acquiring, owning and disposing of the notes. Except where otherwise noted, this discussion applies only to U.S. Holders (as defined below) of notes that purchase the notes at the initial issue price indicated on the cover of this offering memorandum and that hold the notes as “capital assets” (generally, property held for investment). This discussion is based on the Internal Revenue Code of 1986, as amended (the “Code”), its legislative history, existing final, temporary and proposed U.S. Treasury regulations, administrative pronouncements by the Internal Revenue Service (the “IRS”) and judicial decisions, all as of the date hereof and all of which are subject to change (possibly on a retroactive basis) and to different interpretations.

This discussion assumes that the notes will not be issued with more than a de minimis amount of original issue discount for U.S. federal income tax purposes. This discussion does not purport to address all U.S. federal income tax consequences that may be relevant to a particular holder and holders are urged to consult their own tax advisors regarding their specific tax situations. The discussion does not address the tax consequences that may be relevant to holders subject to special tax rules, including, for example:

- insurance companies;
- tax-exempt organizations;
- dealers in securities or currencies;

- traders in securities that elect the mark-to-market method of accounting with respect to their securities holdings;
- banks or other financial institutions;
- partnerships or other pass-through entities for U.S. federal income tax purposes;
- U.S. Holders whose functional currency for U.S. federal income tax purposes is not the U.S. Dollar;
- U.S. expatriates; or
- holders that hold the notes as part of a hedge, straddle, conversion or other integrated transaction.

Further, this discussion does not address the U.S. federal estate and gift tax, alternative minimum tax consequences, the Medicare tax on net investment income, or any state, local and non-U.S. tax consequences of acquiring, owning and disposing of the notes.

As used herein, the term “U.S. Holder” means a beneficial owner of the notes that is, for U.S. federal income tax purposes:

- an individual who is a citizen or resident of the United States;
- a corporation, or any other entity taxable as a corporation, 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 tax regardless of its source; or
- a trust if (i) a court within the United States is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all substantial decisions of the trust or (ii) the trust has a valid election in effect under current U.S. Treasury regulations to be treated as a U.S. person.

If a partnership (or any other entity or arrangement treated as a partnership for U.S. federal income tax purposes) holds the notes, the tax treatment of the partnership and a partner in such partnership generally will depend on the status of the partner and the activities of the partnership. Such partner or partnership should consult its own tax advisor as to its consequences of acquiring, owning and disposing of the notes.

Stated Interest

Stated interest paid to a U.S. Holder on a note, including any amount withheld in respect of any taxes and any additional amounts paid with respect thereto, will be includible in such U.S. Holder’s gross income as ordinary interest income at the time such payments are received or accrued in accordance with such U.S. Holder’s usual method of tax accounting for U.S. federal income tax purposes. In addition, interest on the notes will be treated as foreign source income for U.S. federal income tax purposes and generally will constitute “passive category” income for most U.S. Holders. Subject to generally applicable restrictions and conditions (including a minimum holding period requirement), a U.S. Holder generally will be entitled to a foreign tax credit in respect of any Peruvian or other foreign income taxes withheld on interest payments on the notes. Alternatively, the U.S. Holder may deduct such taxes in computing taxable income for U.S. federal income tax purposes provided that the U.S. Holder does not elect to claim a foreign tax credit for any foreign income taxes paid or accrued for the relevant taxable year. The rules governing the foreign tax credit are complex. U.S. Holders are urged to consult their tax advisors regarding the availability of the foreign tax credit under their particular circumstances.

Sale, Exchange or Other Taxable Disposition

Upon the sale, exchange or other taxable disposition (including a redemption) of a note, a U.S. Holder generally will recognize taxable gain or loss equal to the difference, if any, between the amount realized on the sale, exchange or other taxable disposition (other than accrued but unpaid stated interest which will be taxable as ordinary

income to the extent not previously included in gross income) and the U.S. Holder's adjusted tax basis in the note. A U.S. Holder's adjusted tax basis in a note generally will equal the cost of the note to the U.S. Holder reduced by any payments previously made on the note other than payments of stated interest. Any such gain or loss generally will be capital gain or loss and will be long-term capital gain or loss if the note has been held for more than one year at the time of its sale, exchange or other taxable disposition. Certain non-corporate U.S. Holders (including individuals) may be eligible for preferential rates of U.S. federal income tax in respect of long-term capital gains. The deductibility of capital losses is subject to limitations under the Code.

Any gain or loss realized on the sale, exchange or other taxable disposition of a note generally will be treated as U.S. source gain or loss, as the case may be. If any gain from the sale, exchange or other taxable disposition of notes is subject to Peruvian or other foreign income tax, U.S. Holders may not be able to credit such tax against their U.S. federal income tax liability under the U.S. foreign tax credit limitations of the Code (because such gain generally would be U.S. source income) unless such income tax can be credited (subject to applicable limitations) against U.S. federal income tax due on other income that is treated as derived from foreign sources. Alternatively, the U.S. Holder may deduct such taxes in computing taxable income for U.S. federal income tax purposes provided that the U.S. Holder does not elect to claim a foreign tax credit for any foreign income taxes paid or accrued for the relevant taxable year.

U.S. Backup Withholding and Information Reporting

Backup withholding and information reporting requirements generally apply to payments of principal of, and interest on, a note and to proceeds of the sale or redemption of a note, to U.S. Holders. Information reporting generally will apply to payments of principal of, and interest on, notes (including additional amounts, if any), and to proceeds from the sale or redemption of notes within the United States, or by a U.S. payor or U.S. middleman, to a U.S. Holder (other than an exempt recipient). Backup withholding will be required on payments made within the United States, or by a U.S. payor or U.S. middleman, on a note to a U.S. Holder, other than an exempt recipient, if the U.S. Holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with, or establish an exemption from, the backup withholding requirements.

Backup withholding is not an additional tax. A holder of notes generally will be entitled to credit any amounts withheld under the backup withholding rules against its U.S. federal income tax liability or to obtain a refund of the amounts withheld provided the required information is furnished to the IRS in a timely manner. In addition, certain U.S. Holders who are individuals 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). U.S. Holders should consult their tax advisors regarding the effect, if any, of this reporting obligation on their ownership and disposition 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.

European Union Directive on the Taxation of Savings Income

Under Council Directive 2003/48/EC on the taxation of savings income in the form of interest payments, each Member State of the European Union ("EU") is required to provide to the tax or other relevant authorities of another Member State details of payments of interest or other similar income made by a person within its jurisdiction to an individual or certain other types of person resident in that other Member State; however, for a transitional period, Austria has instead opted to apply a withholding system in relation to such payments, deducting tax at the rate of 35%, unless during that period it elects otherwise. The transitional period would terminate following agreement by certain non-EU countries to the exchange of information relating to such payments. A number of non-EU countries, and certain dependent or associated territories of certain Member States, have adopted similar measures (either provision of information or transitional withholding).

Council Directive (EU) 2015/2060 provides for the repeal of Council Directive 2003/48/EC generally with effect from 1 January 2016 or, in the case of Austria, from 1 January 2017. This is in order to avoid overlap with Council Directive 2011/16/EU on administrative cooperation in the field of taxation (as amended by Council

Directive 2014/107/EU), pursuant to which Member States will be required to apply new measures on mandatory automatic exchange of information.

Investors who are in any doubt as to their position should consult their professional advisors.

PLAN OF DISTRIBUTION

Credit Suisse Securities (USA) LLC, Morgan Stanley & Co. 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	US\$ 140,000,000
Scotia Capital (USA) Inc.	105,000,000
Morgan Stanley & Co. LLC.....	70,000,000
Credicorp Capital Sociedad Agente de Bolsa S.A.....	35,000,000
Total	US\$ 350,000,000

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.

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 Sociedad Agente de Bolsa S.A. (“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

Application has been made to list the notes on the Official List of the Luxembourg Stock Exchange for trading on the Euro MTF Market. However, we cannot assure you that the application will be approved. The initial purchasers may make a market in the notes after completion of the offering, but will not be obligated to do so, and may discontinue any market-making activities at any time without notice. Neither we nor the initial purchasers can provide any assurance as to the liquidity of the trading market for the notes. If an active public trading market for the notes is not maintained, the market price and liquidity of the notes may be adversely affected.

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, Morgan Stanley & Co. 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.

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 Lima Stock Exchange (*Bolsa de Valores de Lima*). 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.

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 our 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.

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, 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) 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, shares, debentures and units of shares and debentures of that corporation or the beneficiaries’ rights and interest in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the notes under Section 275 except (1) to an institutional investor under Section 274 of the SFA or to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA, (2) where no consideration is given for the transfer or (3) by operation of law.

Chile

The offering of the notes will begin on May 11, 2016 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 11 de mayo de 2016 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.

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 Scotia Capital (USA) Inc. are financial lessors and lenders under our Kallpa III lease, our syndicated loan and our short-term loans. Affiliates of Credicorp Capital Sociedad Agente de Bolsa S.A. are financial lessors and lenders under our Kallpa II lease, our Las Flores lease, our syndicated loan and our short-term loans. We intend to repay such indebtedness (other than our Las Flores lease) with the proceeds of 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.

TRANSFER RESTRICTIONS

The notes 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 us, (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 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 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 our discretion and at our direction.

VALIDITY OF THE NOTES

The validity of the notes will be passed upon for us by Shearman & Sterling 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 Simpson Thacher & Bartlett 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 Garrigues as to certain matters of Peruvian law.

INDEPENDENT AUDITORS

The financial statements of Kallpa Generación S.A. as of December 31, 2015, 2014 and 2013 and for the years ended December 31, 2015, 2014 and 2013, included in this offering memorandum, have been audited by KPMG Auditores Independientes, independent auditors, as stated in their report appearing herein.

GENERAL INFORMATION

The creation and issuance of the notes have been authorized by the resolutions of our board of directors dated April 18, 2016.

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, 2015 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 the offices of the Luxembourg paying agent and our principal office, at the addresses listed on the last page of this offering memorandum:

- 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 Rule 144A Global Note has been assigned ISIN No. US48344FAA84, CUSIP No. 48344F AA8 and Common Code No. 142127369. The Regulation S Global Note has been assigned ISIN No. USP6040KAB37, CUSIP No. P6040K AB3 and Common Code No. 142127342.

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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 at December 31, 2015, 2014 and 2013, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for each of the years in the three-year period ended December 31, 2015, and notes, 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 Associations 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 give a true and fair view of the financial position of the Company as at December 31, 2015, 2014 and 2013, and of its financial performance and its cash flows for each of the years in the three-year period ended December 31, 2015 in accordance with International Financial Reporting Standards.

Lima, Perú

May 11, 2016

CAIPO Y ASOCIADOS

Countersigned by:


Carlos Fernández V. (Partner)
Peruvian Certified Public Accountant
Registration 01 - 48497

KALLPA GENERACIÓN S.A.
Financial Statements
December 31, 2015, 2014 and 2013

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KALLPA GENERACIÓN S.A.
Statement of Financial Position
As of December 31, 2015, 2014 and 2013

<i>In thousands of US dollars</i>	<i>Note</i>	2015	2014	2013	<i>In thousands of US dollars</i>	<i>Note</i>	2015	2014	2013
Assets					Liabilities				
Current assets					Current liabilities				
Cash and cash equivalents	6	27,935	25,034	14,184	Trade payables	11	73,971	49,598	43,763
Trade receivables	7	41,922	39,429	32,879	Other payables	12	11,932	16,681	13,604
Other receivables	8	10,191	5,309	8,469	Current income tax		-	2,541	10,490
Prepaid expenses		148	1,099	2,339	Loans from banks, debentures and others	13	101,302	82,348	42,261
Inventories	9	13,810	13,083	12,315	Advances from clients		1,472	1,526	1,758
Other assets		-	-	1,762	Derivative instruments	5.D	-	608	1,656
Total current assets		94,006	83,954	71,948	Total current liabilities		188,677	153,302	113,532
Non-current assets					Non-current liabilities				
Property, plants and equipment	10	612,131	633,428	535,443	Advances from clients		1,464	2,936	4,462
Intangible assets		16,644	12,499	5,636	Derivative instruments	5.D	-	-	594
Other assets	26	9,550	-	-	Deferred income tax liabilities	14	29,340	21,757	18,788
Total non-current assets		638,325	645,927	541,079	Loans from banks, debentures and others	13	314,663	370,965	323,143
					Provisions	15	11,883	9,702	5,528
					Total non-current liabilities		357,350	405,360	352,515
					Total liabilities		546,027	558,662	466,047
					Equity	16			
					Share capital		70,732	70,732	70,732
					Share premium		54,141	54,141	54,141
					Hedging reserves		-	53	(1,097)
					Other reserves		14,146	14,146	11,725
					Retained earnings		47,285	32,147	11,479
					Total equity		186,304	171,219	146,980
Total assets		732,331	729,881	613,027	Total liabilities and equity		732,331	729,881	613,027

The notes on pages 5 to 55 are part of these financial statements.

KALLPA GENERACIÓN S.A.

Statement of Profit or Loss and other Comprehensive Income

For the years ended December 31, 2015, 2014 and 2013

<i>In thousands of US dollars</i>	Note	2015	2014	2013
Revenue	19	447,679	436,673	394,055
Cost of sales (excluding depreciation)	20.B	(278,812)	(269,528)	(239,501)
Depreciation	10.(e)	(49,973)	(45,226)	(39,680)
Gross profit		118,894	121,919	114,874
Administrative expenses	20.B	(16,804)	(16,904)	(15,816)
Other income	20.A	2,098	6,210	3,203
Other expenses		(16)	(31)	(24)
Income from operation		104,172	111,194	102,237
Finance income		246	308	587
Finance costs	21	(30,271)	(34,217)	(30,676)
Net foreign exchange loss	5.C (iii)	(5,333)	(853)	(2,653)
Finance cost		(35,358)	(34,762)	(32,742)
Profit before income tax		68,814	76,432	69,495
Income tax expense	14	(23,676)	(23,343)	(26,274)
Net income		45,138	53,089	43,221
Other comprehensive income				
Items reclassified or that may be reclassified to profit or loss for the year:				
Cash flow hedge - effective portion of changes in fair value		(76)	1,643	2,506
Related income tax		23	(493)	(752)
Other comprehensive income, net of tax		(53)	1,150	1,754
Total comprehensive income		45,085	54,239	44,975

The notes on pages 5 to 55 are part of these financial statements.

KALLPA GENERACIÓN S.A.

Statement of Changes in Equity

As of December 31, 2015, 2014 and 2013

<i>In thousands of US dollars</i>	Number of shares	Share capital (note 16.A)	Share premium (note 16.A.ii)	Hedging reserves (note 16.B.i)	Other reserves (note 16.B.ii)	Retained earnings (note 16.C)	Total
Balance at January 1, 2013	212,985,033	70,732	54,141	(2,851)	7,403	65,273	194,698
Comprehensive income for the year:							
Net income	-	-	-	-	-	43,221	43,221
Cash flow hedge net of income tax	-	-	-	1,754	-	-	1,754
Total comprehensive income	-	-	-	1,754	-	43,221	44,975
Transactions with owners:							
Dividend distribution (note 16(C))	-	-	-	-	-	(92,693)	(92,693)
Allocation to legal reserve	-	-	-	-	4,322	(4,322)	-
Total transactions with owners	-	-	-	-	4,322	(97,015)	(92,693)
Balance at December 31, 2013	212,985,033	70,732	54,141	(1,097)	11,725	11,479	146,980
Balance at January 1, 2014	212,985,033	70,732	54,141	(1,097)	11,725	11,479	146,980
Comprehensive income for the year:							
Net income	-	-	-	-	-	53,089	53,089
Cash flow hedges, net of income tax	-	-	-	1,150	-	-	1,150
Total comprehensive income	-	-	-	1,150	-	53,089	54,239
Transactions with owners:							
Dividend distribution (note 16(C))	-	-	-	-	-	(30,000)	(30,000)
Allocation to legal reserve	-	-	-	-	2,421	(2,421)	-
Total transactions with owners	-	-	-	-	2,421	(32,421)	(30,000)
Balance at December 31, 2014	212,985,033	70,732	54,141	53	14,146	32,147	171,219
Balance at January 1, 2015	212,985,033	70,732	54,141	53	14,146	32,147	171,219
Comprehensive income for the year:							
Net income	-	-	-	-	-	45,138	45,138
Cash flow hedges, net of income tax	-	-	-	(53)	-	-	(53)
Total comprehensive income	-	-	-	(53)	-	45,138	45,085
Transactions with owners:							
Dividend distribution (note 16(C))	-	-	-	-	-	(30,000)	(30,000)
Total transactions with owners	-	-	-	-	-	(30,000)	(30,000)
Balance at December 31, 2015	212,985,033	70,732	54,141	-	14,146	47,285	186,304

The notes on pages 5 to 55 are part of these financial statements.

KALLPA GENERACIÓN S.A.
Statement of Cash Flows
As of December 31, 2015, 2014 and 2013

<i>In thousands of US dollars</i>	2015	2014	2013
Cash flows from operating activities			
Cash receipts from customers	538,809	532,740	485,094
Cash paid to suppliers and third parties	(390,777)	(369,274)	(319,204)
Cash paid for contributions and related payments	(3,927)	(4,721)	(4,163)
Social contributions	(9,542)	(12,662)	(9,872)
Income tax paid	(21,452)	(29,168)	(8,115)
Net cash from operating activities	113,111	116,915	143,740
Cash flows from investing activities			
Acquisition of property, plant and equipment	(8,519)	(19,055)	(10,318)
Acquisition of intangible assets	(4,092)	(7,204)	(6,248)
Net cash used in investing activities	(12,611)	(26,259)	(16,566)
Cash flows from financing activities			
Dividends paid	(29,079)	(29,079)	(89,847)
Payment of long term debt	(14,594)	(14,594)	(13,378)
Proceeds from short term bank loan	209,910	104,790	3,648
Payment of bonds	(10,320)	(6,880)	(5,160)
Payment of finance lease	(29,139)	(28,330)	(20,242)
Payment of short-term loans	(194,818)	(74,883)	(4,872)
Payment of interest	(29,559)	(30,006)	(28,458)
Net cash used in financing activities	(97,599)	(78,982)	(158,309)
Net increase (decrease) in cash and cash equivalents	2,901	11,674	(31,135)
Cash and cash equivalents as at January 1	25,034	14,184	46,564
Effects of variations on exchange rate on cash held	-	(824)	(1,245)
Cash and cash equivalents as at December 31	27,935	25,034	14,184
Non-cash investing transactions			
Finance lease	-	107,688	-

The notes on pages 5 to 55 are part of these financial statements.

1. Background and Business Activity

A. Background

Kallpa Generación S.A. (hereinafter “the Company” or “Kallpa”) is a stock corporation established in June 2005 in Peru and an indirect subsidiary of Kenon Holdings Ltd., a company domiciled in Singapore which is the indirect parent company of Kallpa and is listed on the New York and Tel Aviv Stock Exchanges. The registered domicile of the Company is Av. Santo Toribio N° 115, Piso 7, San Isidro, Lima, Perú.

On October 19, 2009, IC Power Holdings (Kallpa) Limited (hereinafter “IC Power Holdings”) signed a stockholders’ 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 stock. In this agreement, relationships between the parties as Company’s stockholders were regulated.

The Company submits information to the Peruvian Companies and Securities Regulator (SMV) and the Lima Stock Exchange, due to the private issuance of bonds (note 13(c - ii)), addressed only to accredited investors.

B. Business activity

The Company is involved in the generation and commercialization of electrical energy and power to local private and public companies. The Company has a thermal power station of combined cycle (Kallpa), which has three simple cycle natural gas turbo generators and one steam turbo generator which began commercial operations in July 2007 (Kallpa I), June 2009 (Kallpa II), March 2010 (Kallpa III), and August 2012 (Kallpa IV), reaching a total capacity of 870 MW.

Also, from April 1, 2014, the Company has a thermal power station called “Las Flores”, which has one simple cycle natural gas turbo generator which has a capacity of 193 MW.

Both thermal power stations are located in the city of Chilca, 62 kilometers south of Lima.

C. Corporate reorganization

- On May 23, 2011, the General Stockholders’ Meeting of the Company approved the agreement on simple reorganization to make the transfer of net assets to the related company Cerro del Águila S.A.

By means of this agreement, the Company transferred an equity block as capital contribution to Cerro del Águila S.A., 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 corresponds to shareholding of 28.01% in the capital stock of Cerro del Águila S.A. As a result of the simple reorganization, the Company became a stockholder of Cerro del Águila S.A.

- On May 23, 2012, the General Stockholders’ Meeting of the Company approved the Partial Spin-off Project for which Kallpa spun off an equity block, which was composed solely of the Company’s own shares in Cerro del Águila S.A., that was transferred.
- As a result of the above-mentioned 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, 2012 and was recorded in Public Records on November 9, 2012.

D. Approval of financial statements

Financial statements as of December 31, 2015 have been submitted with Management approval and approved on the Obligatory General Stockholders' Meeting held on March 30, 2016.

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 governed by the Electricity Concessions Law, Decree Law 25844, enacted on November 19, 1992; its regulation, Supreme Decree 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.

In accordance with the Law of Electricity Concessions, the National Interconnected System (Sistema Interconectado Nacional - SEIN) is divided into three main segments: generation, transmission, and distribution.

According to that law and the Law to Guarantee the Efficient Development of Electricity Generation, the operations of the generation power 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), with the purpose of coordinating 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 power and energy transfers between the generators.

B. Law to guarantee the efficient development of electricity generation

In July 2006, Law 28832, the Law to Guarantee the Efficient Development of Electricity Generation, was issued, with a main objective being to ensure the sufficiency of efficient generation that reduces the exposure of the electricity system to price volatility, as well as adopt measures to promote effective competition in the generation market.

One of the main changes introduced by the standard is in the mechanism of tenders that must be followed by the electricity distributing companies in order to enter into electricity supply contracts with generating companies to supply the public electricity service. This provision is intended to establish a mechanism that promotes investments in new 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 State designs and applies the policies and standards necessary for the adequate conservation of the environment and of the nation's cultural heritage, as well as ensuring 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 has approved the Regulation of Environmental Protection in Electricity Activities (Supreme Decree 29-94-EM) and the Regulation of Environmental Protection in Hydrocarbon Activities (Supreme Decree 015-2006-EM).

In compliance with the above-mentioned norms, the Company carried out an Environmental and Social Impact Study during the year 2005, which was approved by the Ministry of Energy and Mines in February 2006 by Official Document Resolución Directoral N° 051-2006-MEM/AE.

D. Technical standards

Technical quality standards of electricity services

Supreme Decree 020-97-EM approved the Technical Quality Standard of the Electricity Services (Norma Técnica de Calidad de los Servicios Eléctricos - NTCSE), which establishes the minimum quality levels of the electricity services and those related to the generation, transmission, and distribution of electricity subject to the regulation of prices, applicable to supplies subject to the free price regime, as well as additional items not stated within the 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. Law 28832 grants COES-SINAC the power to assign responsibilities in case of violations of the NTCSE, as well to calculate the corresponding compensations.

Technical standard for the coordination of the real time operation of the interconnected systems

Director's Resolution 025-2008-EM/DGE, dated August 8, 2008, modified sub-section 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

Directorial resolution 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 was issued in November 1997, Law 26876, 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.

F. Emergency decree assuring continuity in the provision of electricity services

The allocation of mandatory energy supplies without a contract to generators during year 2011 is made as per Emergency Decree 049-2008, issued on December 18, 2008, and through Emergency Decree 079-2010, published on December 16, 2010, and through the Law of the Financial Equilibrium of the Public Sector Budget for fiscal year 2014 published on December 2, 2013 up to December 31, 2016. Such mandatory supplies are allocated to generators based on their annual efficient firm energy less their energy sales per contract. The allocation of mandatory supplies with no agreements will not generate economic losses to generators since the demand shall pay an additional fee for the energy of these mandatory supplies when their supplying costs exceed Busbar prices.

Also, it was established that marginal costs of short-term energy will be determined considering ideal conditions, with no restrictions on the supply or transport of natural gas or power transmission. Moreover, it was established that they could not exceed a limit value defined by the Ministry of Energy and Mines and that the difference between marginal costs incurred by power stations operating with variable costs that exceed ideal marginal costs shall be paid by the demand through an additional fee on the Toll for Connection to the Main Transmission System.

G. "Procedure for additional variable cost compensations and mandatory supplies without agreements" Standard

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 049-2008.

H. "Rates and compensations for Secondary Transmission Systems (STS) and Complementary Transmission Systems (SCT)" Standard

Published on January 14, 2008, by the Regulatory Agency for Investment in Energy and Mining (OSINERGMIN) through Resolution 023-2008-OS/CD, which aims to establish criteria and methodology for the determination of Tolls and Compensations for Secondary and Complementary Transmission systems which was approved by Resolution OSINERGMIN 383-2008-OS/CD. On October 15, 2009, Resolution 184-2009-OS/CD was published and, among its main provisions, established for the period comprising November 1, 2009 and April 30, 2014, compensations and updated formula of the Secondary and Complementary Transmission systems, totally or partially assigned to generation. Likewise, OSINERGMIN through Resolution 220-2009-OS/CD approved the technical procedure of COES for the assignment of payment responsibility on such transmission systems. Resolution OSINERGMIN 184-2009-OS/CD has amendments that update and establish various compensations and updated formula of Secondary and Complementary Transmission Systems totally or partially assigned to generation.

- I. Single distribution rate, Supreme Decree 082-2009-EM**
With reference to the Single Distribution Rate applicable to generators located in the concession area of the natural gas supplier of Lima and El Callao through Supreme Decree 082-2009-EM, modified by Article 4° of Supreme Decree 048-2008-EM, a transition mechanism was introduced to apply the Single Distribution Rate of Natural Gas for the concession in Lima and El Callao, and a compensation mechanism for natural gas concessionaires with the intention that revenues no longer received from electric generators, as a result of the application of current distribution rates instead of a Single Rate, do not represent losses for the Concessionaire.
- J. Resolution that sets busbar prices applicable to the period from May 1, 2013 to April 30, 2014**
Published on April 11, 2013, by means of Resolution OSINERGMIN 053-2013-OS/CD, thereby establishing Busbar prices and their corresponding Nodal Electricity Factors and associated Power Loss Factors, which were effective from May 1, 2013 to April 30, 2014.
- K. Resolution that sets busbar prices applicable to the period from May 1, 2014 to April 30, 2015**
Published on April 11, 2014, by means of Resolution OSINERGMIN 067-2014-OS/CD, thereby establishing Busbar prices and their corresponding Nodal Electricity Factors and associated Power Loss Factors, which were effective from May 1, 2014 to April 30, 2015.
- L. Resolution that sets busbar prices applicable to the period from May 1, 2015 to April 30, 2016**
Published on April 13, 2015, by means of Resolution OSINERGMIN 067-2015-OS/CD, thereby establishing Busbar prices and their corresponding Nodal Electricity Factors and associated Power Loss Factors, which are effective from May 1, 2015 to April 30, 2016.
- M. Value of the applicable discount factor (FDA) - 2013**
Published on April 25, 2013, by means of Resolution OSINERGMIN 071-2013-OS-CD. It established the value of the Applicable Discount Factor (FDA) from May 1, 2013 to April 30, 2014; such a factor is applicable to the natural gas transport rate.
- N. Value of the applicable discount factor (FDA) - 2014**
Published on April 24, 2014, by means of Resolution OSINERGMIN 080-2014-OS-CD. It established the value of the Applicable Discount Factor (FDA) from May 1, 2014 to April 30, 2015; such a factor is applicable to the natural gas transport rate.
- O. Value of the applicable discount factor (FDA) - 2015**
Published on April 27, 2015, by means of Resolution OSINERGMIN 086-2015-OS-CD. It established the value of the Applicable Discount Factor (FDA) from May 1, 2015 to April 30, 2016; such a factor is applicable to the natural gas transport rate.
- P. Regulation of the secondary natural gas market**
Published on August 4, 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 Decrees 022-2011-EM and 029-2013-EM. The last legal provision extends for two additional years the term established in the Second Transitory Provision of Supreme Decree 046-2010-EM.
- Q. 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

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Hydrocarbons and the Energy and Social Inclusion Fund (FISE), was published, as a power compensation system that provides security for the system, as well as a social compensation scheme and global system to the most vulnerable sectors of the population. The regulation of the above-mentioned law was approved through Supreme Decree 021-2013-EM. The additional charge paid for electric generators was 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.

R. Transitory measures on electricity market

On August 30, 2012, Supreme Decree 032-2012 was published which established that natural gas transport should be guaranteed for each thermoelectric unit if the daily contracted capacity of firm energy corresponds or exceeds the volume required to operate the Effective Power during peak hours of the day until fulfilling the extension of the capacity of natural gas transport as set forth in the provisions of the Addendum of the BOOT Contract for the Concession of Natural Gas Transport through Camisea pipelines to the City Gate, entered into between the Peruvian State and Transportadora de Gas del Perú S.A.

S. Emergency mechanisms established for natural gas supply

On December 31, 2012, Supreme Decree 050-2012 was published. It established emergency response mechanisms for natural gas supply in the country and its implications on different business activities. The following priorities have been 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

T. Law that strengthens energy security and promotes the development of the southern petrochemical complex

In December 2012, Law 29970, the Law that Strengthens Energy Security and Promotes the Development of the Southern Petrochemical Complex was enacted. One of its main objectives is the implementation of measures to strengthen energy security of the country through the diversification of energy sources, reduction of external dependency, and reliability of the energy supply chain.

One of the main innovations introduced by this regulation is the promotion of the following projects:

- One gas pipeline and polyduct comprised from the Camisea processing plant up to the Chiquintirca compression station of the existing system, which give redundancy (energy security) to the existing system and increase availability of the transport system of gas and/or liquids. Works corresponding to the section that should be enforced by the existing concessionaire are not considered. Payment criteria of redundancy gas pipelines, except for the obligation of the existing concessionaire and the polyduct are considered as part of the Energy Security System; therefore, they are subject to the payment criteria of such a system.
- A gas pipeline and/or polyduct from the existing system to Anta, Cusco which shall be able to supply natural gas to the future Quillabamba Thermal Power Station and to the south coast of Peru. The gas pipeline to the Anta area is considered part of the Energy Security System; therefore, it is subject to the payment criteria of the system.

- A regasification and installation plant to import Liquefied Natural Gas located in Pampa Melchorita; thus, increasing the availability of natural gas and reliability in the electric system.

U. Regulation that promotes the increase of electricity generation capacity within the framework of law 29970

It was published on October 17, 2013 by means of Supreme Decree 038-2013-EM. A number of necessary provisions were approved which promote the increase of thermoelectric and hydroelectric generation by means of tenders through which a new capacity of production is obtained in respect for the demand (reserve margin), as well as the geographical de-concentration of energy production in the National Interconnected System, in conformity with the objectives of Law 29970.

3. Basis for the Preparation of Financial Statements

A. Statement of compliance

The Company's financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB).

B. Information responsibility

The information contained in these financial statements is the responsibility of the Company's Board of Directors that expressly states that all the principles and criteria included in the IFRS issued by the IASB have been applied.

C. Basis of measurement

The financial statements have been prepared on the historical cost basis except for the interest swaps used for hedging, which have been measured at fair value.

D. Functional and presentation currency

The financial statements are presented in US dollars, the Company's functional currency. Financial information is presented in thousands and has been rounded to the nearest thousand in US dollars, unless otherwise indicated.

E. Use of estimates and judgments

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates; however, in Management's opinion, actual results will not vary significantly from estimates and assumptions applied by the Company.

Estimates and assumptions are reviewed on an ongoing basis. Accounting estimates reviews are prospectively recognized.

i. Judgments

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described in the following notes:

- Note 19 - Revenues from transmission tolls: determining whether the Company acts as a main performer in the transaction instead of an agent.

ii. Assumptions and uncertainties regarding estimates

Information on assumptions and uncertainties regarding estimates that have a significant risk resulting in a material adjustment arising in the years ended December 31, 2015, 2014 and 2013 is included in the following notes:

- Note 19 - Estimate of sale of energy, power and others delivered, whose invoicing is pending.
- Note 10 - Useful life estimate and residual values of properties, plant, and equipment.
- Notes 15 and 26 - Recognition and measurement of provisions and contingencies.
- Note 14 and 18 - Recognition of deferred income tax assets and liabilities, and current tax liabilities.
- Note 4 (a - iii) - Valuation of hedging financial instruments.

Measurement of fair value

Some policies and accounting disclosures of the Company require the fair value measurement of financial assets and liabilities.

When fair value of an asset or liability is measured, the Company uses observable market data when possible. Fair value measurements are classified in different levels within a fair value hierarchy based on variables used in valuation techniques, as follows:

- Level 1: Quoted prices (non-adjusted) for identical assets or liabilities in active markets.
- Level 2: Data other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (prices) or indirectly (related to prices).
- Level 3: Data for assets or liabilities that are not based on observable market data (non-observable variables).

If variables used to measure fair value of assets and liabilities can be classified at different levels of the fair value hierarchy, then fair value measurement is fully classified in the same level of the fair value hierarchy than the significant lowest variable for total measurement.

The Company recognizes the transfer between fair value hierarchy levels at the end of the reporting period when the change occurred.

4. Significant Accounting Policies

Significant accounting policies applied to prepare the financial statements are detailed below. Accounting policies have been consistently applied to all years presented in these financial statements.

A. Financial instruments

As of December 31, 2015, 2014 and 2013, the Company has non-derivative financial assets classified as 'loans and receivables and non-derivative liabilities classified as 'other financial liabilities'. Also, the Company has derivative financial instruments.

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 when they are originated. All other financial assets and financial liabilities are initially recognized on the trade date.

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 the majority of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognized financial assets 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 canceled or expire.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

ii. Non-derivative financial assets and liabilities – measurement

▪ Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, highly liquid demand deposits in banks and time deposits with original maturities of three months or shorter, with no significant risk of changes in their fair value. These are presented in the category of loans and receivables.

▪ Loans and accounts receivable

These assets are initially recognized at fair value plus transaction costs directly attributable. After initial recognition, loans and accounts receivable are measured at their amortized cost using the effective interest method.

▪ Other non-derivative financial liabilities - measurement

Non-derivative financial liabilities are initially recognized at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortized cost using the effective interest method.

▪ **Share capital**

Ordinary shares

Incremental costs directly attributable to the issue of ordinary shares, net of issuance costs and tax effects, are recognized as a deduction from equity.

iii. Derivative financial instruments and hedge accounting

The Company holds derivative financial instruments to hedge its interest rate risk exposure. Embedded derivatives are separated from the host contract and accounted for separately if certain criteria are met.

Derivative financial instruments are initially measured at fair value; any directly attributable transaction costs are recognized in profit or loss as incurred.

Subsequent to initial recognition, derivative financial instruments are measured at fair value and changes therein are recorded as described below.

iv. Cash flow hedge

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 'other comprehensive income' and accumulated in the hedging reserve. 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 retained in 'other comprehensive income' and reclassified to profit or loss in the same period during which the hedged item affects profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively.

B. Impairment

i. Non-derivative financial assets

Financial assets measured at amortized cost

The Company considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found to be unimpaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment grouping together assets with similar risk characteristics.

In assessing collective impairment, the Company uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and are reflected in a valuation account. When the Company considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of the impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, then the previously recognized impairment loss is reversed through profit or loss.

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 profit or loss. These losses are distributed to reduce the carrying amount of assets of the cash generating unit based on a prorated 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.

C. Inventories

Inventories are measured at the lower of cost and net realizable value. Cost of inventories will be assigned using the weighted average cost method.

The estimation for inventory obsolescence is determined specifically, according to turnover level and Management's criteria. The amount of this estimate is charged to the results of the fiscal period in which such reductions occur.

D. Property, plant and equipment

i. Recognition and measurement

Property, plant, and equipment include a thermal power station which is composed of four turbines, one steam turbine, and one thermal power station. 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. 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 expenditure

Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Company.

iii. Depreciation

Depreciation is calculated to recognize in the results the cost of items of property, plant, and equipment less their estimated residual values, using the straight-line method over its estimated useful lives. 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:

Buildings, facilities, and other constructions	Between 30 and 40 years
▪ Asset for decommissioning; plant and equipment - low, medium and high tension equipment	30 years
▪ Plant and equipment - generation equipment	25 years
▪ Plant and equipment - replacement units	(*)
▪ Vehicles	5 years
▪ Furniture and fixture; plant and various equipment	10 years
▪ IT equipment	4 years

(*) From 1 year to 13 years.

Depreciation methods, useful lives, and residual values are reviewed at each reporting date and adjusted if appropriate.

E. Intangible assets

i. 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 Group 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.

ii. Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

iii. Amortization

Intangibles are amortized when they are ready to be used. Their useful lives and their residual value are estimated on that date to determine the amortization method. As of this date, the intangibles are not yet ready to be used.

F. Leases

i. Determining whether an arrangement contains a lease

At inception of an arrangement, the Company determines whether the arrangement is or contains a lease. At 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. Leased assets

Assets held by the Company under leases that transfer to the Company the majority of the risks and rewards of ownership are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognized in the Company's statement of financial position.

iii. 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.

Minimum lease payments made under finance leases are distributed 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.

G. Income tax

Income tax expenses comprise current and deferred income tax. It is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

i. Current income tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. It is measured using tax rates that have been enacted or whose approval process is virtually completed at reporting date.

ii. Deferred income 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 deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. 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.

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.

The measurement of deferred tax liabilities reflect the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle

the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if certain criteria are met.

H. Employee benefits

i. Short-term employee benefits

Short-term employee benefits include wages and salaries, vacations, current bonuses, and other benefits to the personnel received for services provided during the year. They 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.

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 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

Termination benefits are expensed at the earlier of when the Company can no longer withdraw the offer of those benefits and when the Company recognizes costs for a restructuring. If benefits are not expected to be settled in full within 12 months of the reporting date, they are discounted to present value.

I. Provisions

i. Recognition and measurement

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are determined by discounting the future expected cash flows using a rate before taxes that reflects the market evaluations corresponding to the time value of money, as well as the specific risk of the corresponding liability. The reversal of the discount is recognized as a finance cost.

ii. Decommissioning

Provisions for decommissioning are recognized when the Company is required to dismantle and remove facilities to restore the site where the plants are located, and when a reliable estimate can be made of the amount of the obligation. Removal costs are recorded at the present value of estimated future expenditures determined in accordance with local requirements and conditions, which are periodically reviewed, including the discount rate used to calculate the present value. Initially, the amount of property, plant, and equipment is recognized by an amount equivalent to the provision.

Subsequently, this amount will be depreciated as well as the items of property, plant, and equipment. Any change in the present value of the estimated expenditure is reflected as an adjustment to the provision and value of the corresponding asset. The changes over time in the provision are recorded as finance cost in profit or loss for the year.

iii. Contingent assets and liabilities

Contingent liabilities are not recognized in the financial statements. They are disclosed in the notes to the financial statements unless the possibility of the disbursement of an economic flow is remote.

Contingent assets are not recognized in the financial statements but are disclosed in notes when their likelihood of contingency is probable.

J. Revenues

Revenues are measured at fair value of the consideration received or receivable, derived from them; revenues come from clients with non-regulated and regulated prices.

In the case of non-regulated prices, these are freely agreed between the Company and its clients (non-regulated users), unlike regulated prices, which 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

- Power and energy transfers 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 Busbar 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

Revenue from the provision of energy and power services is recognized based on estimates of customer consumption in the corresponding month.

The transmission toll income is recognized since the Company acts as a main performer for its clients using the Transmission System.

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 income in the corresponding month based on estimates of energy and power consumption and transmission toll used by the service user during that period.

K. Generation cost and expense

The cost of power generation is recognized in profit or loss when the service is provided, simultaneously, to the recognition of revenue. Expenses are recorded in the years to which they relate and are recognized in profit or loss of the period as accrued, regardless of the moment they are paid.

L. 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.
- Gains or losses from translation of financial assets and financial liabilities.
- The net gain or loss on hedging instruments that are recognized in profit or loss.
- Reclassification of the net earnings previously recognized in other comprehensive income.
- Interest income or expense recognized using the effective interest method.

M. Foreign currency

Foreign currency transaction

Foreign currency transactions are translated into the Company's functional currency at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currency are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are not translated.

N. New standards and interpretations not yet adopted

The following standards and interpretations have been published for application to periods beginning after these financial statements presentation date.

- Amendments to IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortization*. This amendment introduces important restrictions to the use of revenue as a basis of depreciation and amortization. This amendment is not obligatory for the Company until January 1, 2016. Early adoption is permitted.
- IFRS 9 *Financial Instruments* replaces guidelines to IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes guidelines reviewed for the classification and measurement of financial instruments, a new expected model of credit loss for calculating impairment of financial assets, and new general requirements of hedge accounting. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The Company will assess the total impact of IFRS 9 and plans to adopt IFRS 9 by the accounting period beginning on January 1, 2018. Early adoption is permitted.

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- IFRS 15 *Revenue from Contracts with Customers* establishes a complete framework to determine the nature, amount, and timing of revenue. It replaces current guidelines for revenue recognition including IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and IFRIC 13 *Customer Loyalty Programme*. The amendment is not obligatory for the Company until the accounting period beginning on January 1, 2018. Early adoption is permitted.
- Amendment to IAS 27 *Separate Financial Statements: Equity Method in Separate Financial Statements* – New option for subsidiaries, associates, and joint ventures. This amendment allows the use of the equity method in Separate Financial Statements and its application, not only to associates and joint ventures but also to subsidiaries. The introduction of the equity method as a third option (in addition to the existing cost and fair value options) is also likely to increase diversity in the reporting practice. The amendments will be effective for annual periods beginning on or after January 1, 2016. Early adoption is permitted.
- Amendment to IAS 1 *Presentation of Financial Statements: Disclosure Initiative*. This amendment addresses perceived impediments to preparers of financial information exercising their judgment in presenting their financial reports. The changes are summarized as: a) Clarification that the information should not be hidden by aggregating or delivering immaterial information. Materiality considerations apply to all parts of the financial statements; even when a standard requires a specific disclosure, materiality considerations shall apply; b) Clarification that the list of line items to be presented in these financial statements can be aggregated or disaggregated as an additional and relevant guidance in the subtotals in these financial statements and clarification that the participation of the entity in the other comprehensive income arising from associates and joint ventures accounted for using the equity method, should be presented in the aggregate form as individual items based on whether or not they will be reclassified to profit or loss. Amendments are effective for annual periods beginning on or after January 1, 2016. Early adoption is permitted.

The Company's Management is evaluating the impact, if any, of the adoption of these amendments and new IFRS issued but not yet effective as of the date of the financial statements.

5. Financial Instruments - Fair Value and Risk Management

A. Accounting classifications and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities including their fair value hierarchy levels. The table does not include information per category for financial assets and liabilities not measured at fair value.

	Carrying amount			Fair value	
	Fair value-hedging instruments	Loans and receivables	Other financial liabilities	Total	Level 2
<i>In thousands of US dollars</i>					
As at December 31, 2015:					
Financial assets not measured at fair value					
Cash and cash equivalents	-	27,935	-	27,935	-
Trade receivables	-	41,922	-	41,922	-
Other receivables (*)	-	6,658	-	6,658	-
		76,515	-	76,515	-
Financial liabilities measured at fair value					
Interest rate swaps used for hedging	-	-	-	-	-
Financial liabilities not measured at fair value					
Financial obligations - short-term loans	-	-	(45,000)	(45,000)	(45,000)
Financial obligations - bonds	-	-	(149,105)	(149,105)	(169,459)
Obligations on syndicated loan	-	-	(58,663)	(58,663)	(61,413)
Obligations on leases	-	-	(163,197)	(163,197)	(175,377)
Trade payables	-	-	(73,971)	(73,971)	-
Interest payable from loans and debentures	-	-	(3,327)	(3,327)	-
			(493,263)	(493,263)	(451,249)

(*)Excluding advances.

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	Carrying amount			Total	Fair value
	Fair value - hedging instruments	Loans and receivables	Other financial liabilities		Level 2
<i>In thousands of US dollars</i>					
As at December 31, 2014:					
Financial assets not measured at fair value					
Cash and cash equivalents	-	25,034	-	25,034	-
Trade receivables	-	39,429	-	39,429	-
Other receivables (*)	-	4,768	-	4,768	-
	-	69,231	-	69,231	-
Financial liabilities measured at fair value					
Interest rate swaps used for hedging	(608)	-	-	(608)	(608)
	(608)	-	-	(608)	(608)
Financial liabilities not measured at fair value					
Financial obligations - short-term loans	-	-	(29,107)	(29,107)	(29,107)
Financial obligations – bonds	-	-	(159,312)	(159,312)	(185,772)
Obligations on syndicated loan	-	-	(72,559)	(72,559)	(73,698)
Obligations on leases	-	-	(192,335)	(192,335)	(211,403)
Trade payables	-	-	(49,598)	(49,598)	-
Interest payable from loans and debentures	-	-	(3,519)	(3,519)	-
	-	-	(506,430)	(506,430)	(499,980)

(*) *Excluding advances.*

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	Carrying amount			Total	Fair value
	Fair value - hedging instruments	Loans and receivables	Other financial liabilities		Level 2
<i>In thousands of US dollars</i>					
As at December 31, 2013:					
Financial assets not measured at fair value					
Cash and cash equivalents	-	14,184	-	14,184	-
Trade receivables	-	32,879	-	32,879	-
Other receivables (*)	-	6,730	-	6,730	-
	-	53,793	-	53,793	-
Financial liabilities measured at fair value					
Interest rate swaps used for hedging	(2,250)	-	-	(2,250)	(2,250)
	(2,250)	-	-	(2,250)	(2,250)
Financial liabilities not measured at fair value					
Financial obligations – bonds	-	-	(166,080)	(166,080)	(120,918)
Obligations on syndicated loan	-	-	(86,347)	(86,347)	(65,565)
Obligations on leases	-	-	(112,977)	(112,977)	(75,875)
Trade payables	-	-	(43,763)	(43,763)	-
Interest payable from loans and debentures	-	-	(1,773)	(1,773)	-
	-	-	(410,940)	(410,940)	(262,358)

(*) *Excluding advances.*

B. Measurement of fair values

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 variables used.

Financial instruments not measured at fair value

Type	Valuation technique	Significant Unobservable inputs
Financial obligations - bonds	Discounted cash flows with market interest rate.	None
Obligations on syndicated loans	Discounted cash flows with market interest rate	None
Obligations on leases	Discounted cash flows with market interest rate.	None

C. Financial risk management

The Company is exposed to the following risks related to the use of financial instruments:

- credit risk (see C. i.)
- liquidity risk (see C. ii.)
- market risk (see C. iii.)

Risk management framework

The Board of Directors of the Company is responsible for establishing 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.

i. Credit risk

Credit risk is the risk of financial loss to the Company if 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 that are potentially exposed to significant credit risk concentrations are mainly deposits in banks and accounts receivable presented in the statement of financial position.

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The Company holds bank accounts at different local financial entities which have an “A+” and “A” credit rating. Also, the Company has a few clients which are regulated and prestigious in the local and foreign market. For energy clients, the credit risk is evaluated before signing the contract for power supply and throughout its effective term. As stated in note 7, Management considers that the bad debt levels of accounts receivable is low.

As of December 31, 2015, 2014 and 2013, the maximum exposure to credit risk for the Company’s financial assets was as follows:

<i>In thousands of US dollars</i>	Carrying amount		
	2015	2014	2013
Cash and cash equivalents	27,935	25,034	14,184
Trade receivables	41,922	39,429	32,879
Other receivables (*)	6,658	4,768	6,730
Net asset position	76,515	69,231	53,793

(*) Excluding advances.

ii. Liquidity risk

Liquidity risk is the risk that the Company cannot comply with its payment obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

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 financing lines with banking entities. Consequently, in Management’s opinion, there is no significant liquidity risk as of December 31, 2015, 2014 and 2013.

As of December 31, 2015, the Company has a negative working capital. Kallpa’s operating cash flow is stable over short, intermediate and long term and more than ample to cover all operational, financial, tax and capital expenditures. In 2016 and going forward Kallpa is projected to generate positive operating cash flow, sufficient to cover all of its needs.

Negative accounting working capital has been generated due to the recent scheduled major maintenances of Kallpa units, performed under the Long Term Service Agreements (LTSA) contracted by Kallpa. LTSA contracts are 18 year contracts where the manufacturer (Siemens) will provide all spare parts, technical services, and labor. These contracts require that the Company pays leveled monthly/annual payments to the Manufacturer. The accounting negative working capital shown in the Kallpa financial report is directly related to the need for initial spare parts requirements for recent scheduled major maintenances, which has a temporary mismatch with actual payments. This mismatch will revert during the next 3 years.

The scheduled mayor maintenances are performed approximately every 4 years and in the recent years coincidently a number of these scheduled mayor maintenances. Based on the operational requirements of the Kallpa units, the Company forecast calls for the next scheduled mayor maintenances to take place until 2019 - 2020.

The Company's financial liabilities are classified based on their maturity, from the date of the Statement of Financial Position until contractual maturity. The disclosed amounts correspond to the contractual undiscounted cash flows:

2015						
<i>In thousands of US dollars</i>	Less than 1 years and not at sight	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years
Maturity structure (*)						
Non-derivative financial liabilities:						
Interest bearing loans	126,503	75,444	68,923	71,390	68,989	104,123
Trade accounts payable	73,971	-	-	-	-	-
Other accounts payable	8,605	-	-	-	-	-

* Excluding taxes

2014						
<i>In thousands of US dollars</i>	Less than 1 years and not at sight	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years
Maturity structure (*)						
Non-derivative financial liabilities:						
Interest bearing loans	111,009	81,503	75,444	68,923	71,390	173,112
Trade accounts payable	49,598	-	-	-	-	-
Derivative financial liabilities:						
Interest rate swaps	608	-	-	-	-	-

* Excluding taxes

2013						
<i>In thousands of US dollars</i>	Less than 1 years and not at sight	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years
Maturity structure (*)						
Non-derivative financial liabilities:						
Interest bearing loans	140,291	68,312	68,327	62,807	56,752	155,617
Trade accounts payable	43,763	-	-	-	-	-
Derivative financial liabilities:						
Interest rate swaps	1,656	594	-	-	-	-

* Excluding taxes

iii. Market risk

Currency risk

As of December 31, 2015, the weighted average market exchange rates used were US\$ 0.2930 for S/ 1.00 for sale rate and US\$ 0.2934 for purchase rate (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, and US\$ 0.3576 for S/ 1.00 for sale rate and US\$ 0.3579 for S/ 1.00 for purchase rate as of December 31, 2013; respectively.

Balances in thousands of soles (S/) as of December 31 are summarized as follows:

<i>In thousands of soles</i>	2015	2014	2013
Assets			
Cash and cash equivalents	64,444	18,613	32,939
Trade accounts receivable	90,106	68,210	55,520
Accounts receivable from related parties	4,540	61	626
Other accounts receivable	17,327	7,424	4,316
Other assets	32,546	-	-
	208,963	94,308	93,401
Liabilities			
Trade accounts payable	(43,422)	(28,275)	(37,172)
Various accounts payable	(25,889)	(39,066)	(48,417)
	(69,311)	(67,341)	(85,589)
Net asset position	139,652	26,967	7,812

For the year ended December 31, 2015, net exchange loss amounted to US\$ 5,333 thousand (net exchange loss of US\$ 853 thousand in 2014, and US\$ 2,653 thousand in 2013).

As of December 31, 2015, 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
2015		
Revaluation	5%	2,046
Devaluation	5%	(2,046)
2014		
Revaluation	5%	451
Devaluation	5%	(451)
2013		
Revaluation	5%	133
Devaluation	5%	(133)

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 necessary to cover the Company for currency risk with derivative financial instruments.

Interest rate risk

The Company's exposure to this risk is due to the change in the interest rate, basically due to its borrowings. The Company minimizes this risk by maintaining its borrowings mainly at fixed interest rates.

Additionally, during 2014 and 2013, the Company contracted derivative financial instruments with a foreign bank to cover the risk of fluctuations in the LIBOR rate associated with the loans contracted to finance the construction of its thermal power stations (Kallpa I and Kallpa II) for US\$ 51,000 thousand and US\$ 67,500 thousand, and with the same maturities as the long-term liabilities (note 13).

Interest rate exposures for financial assets and liabilities are as follows:

2015		Variable		Weighted average
<i>In thousands of US dollars</i>	Fixed rate	rate	Total	interest rate (%)
Financial liabilities:				
Interest-bearing loans	281,300	89,665	370,965	7.19%
2014				
<i>In thousands of US dollars</i>	Fixed rate	Variable rate	Total	Weighted average interest rate (%)
Financial liabilities:				
Interest-bearing loans (*)	305,271	118,936	424,207	7.33%
2013				
<i>In thousands of US dollars</i>	Fixed rate	Variable rate	Total	Weighted average interest rate (%)
Financial liabilities:				
Interest-bearing loans (*)	218,039	147,365	365,404	7.25%

(*) Considering the effect of interest rate swaps.

A change of 20 basis points in the LIBOR rate would increase/decrease costs by US\$ 319 thousand at December 31, 2015, and, a change of 20 basis points in the LIBOR rate would increase/decrease costs by US\$ 507 thousand at December 31, 2014, respectively. This analysis assumes that all other variables remain constant.

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.

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D. Derivative liabilities designated as cash flow hedges

As of December 31, 2015, the Company does not have current financial derivatives. As of December 31, 2014 and 2013, this item is composed of an interest rate swap with Citibank N.A., New York, designated as a cash flow hedge which is recorded at fair value. Detail is as follows:

	Original		Receives at variable rate	Pays at fixed rate	2015 fair value	Expected cash flows			Expected cash flows				Expected cash flows				
	amount in					2014 fair value	Less than 1 year	Between1 and 2 years	2014 Total	Less than 1 year	Between1 and 2 years	2013 fair value	Less than 1 year	Between1 and 2 years	2013 Total	Less than 1 year	Between1 and 2 years
	thousands of US dollars	Maturity															
Counterpart																	
Citibank N.A. New York	67,500	5/31/2015	LIBOR + 2.05%	4.500%	-	-	-	-	608	608	608	-	2,250	2,250	1,656	594	
Less current portion					-	-	-	-	(608)	-	-	-	(1,656)	-	-	-	
Non-current portion					-	-	-	-	-	-	-	-	594	-	-	-	

This derivative has been signed in compliance with the operating contract signed between Kallpa Generación S.A. and Banco de Crédito del Perú for the Kallpa II project.

In May 2015, the derivative signed by Kallpa II project expired. With respect to the derivative due in 2015, the Company paid (at each date of the payment of loan interests) the difference between the LIBOR market rate applicable to the loan in such year and the fixed rate agreed upon in hedging contracts. The flows effectively paid by the Company are recognized as loss for the period. In fiscal year 2015, the Company recognized the amount of US\$ 610 thousand as expenses for these derivatives (expenses for US\$ 1,700 thousand and US\$ 2,599 in 2014 and 2013 respectively); the amounts of which have become effective during 2015, 2014 and 2013, respectively, and are shown in 'finance costs' in the statement of comprehensive income (note 21).

6. Cash and Cash Equivalents

This item comprises the following:

<i>In thousands of US dollars</i>	2015	2014	2013
Cash	3	3	3
Checking accounts (a)	15,890	5,954	6,552
Trust accounts (b)	12,042	5,675	7,629
Time deposits (c)	-	13,402	-
	27,935	25,034	14,184

- (a) The Company holds checking accounts in different local financial entities and the funds have free withdrawal option. As of December 31, 2015; checking accounts at Citibank bear interest at current market rates of 0.30% in US dollars and 3.00% in soles (0.40% in US dollars and 3% in soles as of 2014; and 0.80% in US dollars and 3% in soles as of 2013.
- (b) The Company presents a trust account with Citibank, in order to guarantee payment of financial obligations; these are released on a current term (note 13(d)).
- (c) They correspond to two time deposits of US\$ 6,701 thousand each and accrue interest of 0.17% and 0.14%; respectively, maturing in January 2015.

7. Trade Receivables

This item comprises the following:

<i>In thousands of US dollars</i>	2015	2014	2013
Invoices receivable:			
COES clients	508	247	291
Distributors with contracts	21,073	18,200	17,102
Non-regulated clients	19,539	20,152	15,582
Other	802	830	470
	41,922	39,429	33,445
Less impairment of accounts receivable	-	-	566
	41,922	39,429	32,879

- (a) Accounts receivable are stated in US dollars (clients with contracts) and soles (COES clients and distributors with contract). They have current maturity and do not generate interest, except in the case of payment delays. Balance of accounts receivable as of December 31, 2015, corresponds to approximately 24 non-regulated and 7 regulated clients (28 non-regulated and 8 regulated clients and 30 non-regulated and regulated clients as of December 31, 2014 and 2013, respectively).
- (b) As of December 31, 2015, 2014 and 2013, trade accounts receivable overdue (over 360 days) represent less than 1% of the total balance of trade accounts receivable and mainly correspond to accounts receivable with non-regulated clients.

8. Other Receivables

This item comprises the following:

<i>In thousands of US dollars</i>	2015	2014	2013
Advances to employees	1,885	1,638	1,323
Advances to suppliers	862	541	1,739
Intercompany balance with related party	4,005	232	3,027
Income tax receivable	2,671	-	-
Other accounts receivable	768	2,898	2,380
	10,191	5,309	8,469

9. Inventories

This item comprises the following:

<i>In thousands of US dollars</i>	2015	2014	2013
Mechanical spare parts	10,863	10,129	9,632
Electrical spare parts	1,967	1,878	1,849
Other supplies	980	1,076	834
	13,810	13,083	12,315

Mechanical spare parts correspond to pieces used in routine maintenance of Kallpa I, Kallpa II, Kallpa III, Kallpa IV and Las Flores enabling appropriate operations until the moment they require major repair. In Management's opinion, it is not necessary to record a write-down of spare parts as of December 31, 2015, 2014 and 2013.

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10. Property, Plant and Equipment

As of December 31, the balance is as follows:

<i>In thousands of US dollars</i>	Land	Buildings and other constructions	Machinery and equipment	Vehicles	Furniture and fixture	Various and IT equipment	Replacement units	Work in progress	Total
Cost:									
Balance as of January 1, 2013	621	128,318	503,850	938	287	2,095	4,258	23	640,390
Additions	-	185	-	142	16	455	20,563	(23)	21,338
Disposals	-	-	(2,276)	(122)	(1)	(40)	-	-	(2,439)
Transfers	-	-	18,314	-	-	-	(18,314)	-	-
Balance as of December 31, 2013	621	128,503	519,888	958	302	2,510	6,507	-	659,289
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
Balance as of January 1, 2015	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
Accumulated depreciation:									
Balance as of January 1, 2013	-	(4,633)	(78,548)	(555)	(105)	(623)	-	-	(84,464)
Depreciation for the year	-	(3,337)	(36,312)	(131)	(30)	(250)	-	-	(40,060)
Disposals	-	-	539	115	-	24	-	-	678
Balance as of December 31, 2013	-	(7,970)	(114,321)	(571)	(135)	(849)	-	-	(123,846)
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)
Balance as of January 1, 2015	-	(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)
Carrying amount									
As of January 1, 2013	621	123,685	425,302	383	182	1,472	4,258	23	555,926
As of December 31, 2013	621	120,533	405,567	387	167	1,661	6,507	-	535,443
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

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- (a) In September 2009, a “Turnkey, Engineering, Procurement and Construction Contract for Combined Cycle Conversion of the Operating Simple Cycle Chilca Power Plant” was entered into between the Company and POSCO Engineering & Construction Co. Ltd. (hereinafter “POSCO”). Under the contract, POSCO shall provide all necessary services for the design, engineering, procurement, construction, testing, and commissioning of the conversion from simple cycle to combined cycle of Kallpa Thermal Power Station. In August 2013, after the beginning of commercial operations and by virtue of the contract, POSCO delivered to the Company a letter of guarantee for US\$ 12,593.
- (b) On June 30, 2014, the letter of guarantee was renewed for an amount of US\$ 14,475 thousand, with maturity on June 30, 2015. At December 31, 2013, the Company held the payment of an invoice to Posco for the total amount of US\$ 3,156 thousand (note 11).
- (c) As of December 31, 2015, 2014 and 2013, in order to guarantee compliance with obligations stipulated in the Guarantee Framework Agreement, in respect of the Kallpa I, II, III and Combined Cycle (Kallpa IV) projects, all of the company’s assets, including minor and major spare parts of the turbines (recorded in ‘inventory’ and ‘property, plant, and equipment’ item, respectively), the land of the Chilca Thermal Power Station, and the portion of the building of the Kallpa I, Kallpa II, Kallpa III and Kallpa IV projects financed by the Company, are under fiduciary property. The carrying amount is the one presented in the corresponding notes as of December 31, 2015, 2014 and 2013.
- (d) “Plant and equipment” includes significant components that correspond to pieces that are replaced during major maintenance of the turbo generator. Management depreciates those components in conformity with their estimated useful lives which range from 1 year to 17 years.
- (e) Distribution of depreciation was as follows:

<i>In thousands of US dollars</i>	2015	2014	2013
Cost of sales (Note 20B)	49,973	45,226	39,680
Administrative expenses (Note 20B)	433	404	380
Project cost	4	2	-
	50,410	45,632	40,060

- (f) ‘Property, plant, and equipment’ includes the following fixed assets acquired through finance lease contracts, net of accumulated depreciation:

<i>In thousands of US dollars</i>	2015	2014	2013
Buildings and other constructions	36,736	37,792	26,371
Machinery and equipment	169,756	185,465	106,106
	206,492	223,257	132,477

- (g) As of December 31, 2015, the Company has insured its main assets for US\$ 1,108 thousand (as of December 31, 2014 and 2013 for US\$ 1,108 thousand and US\$ 942 thousand, respectively). 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.

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- (h) As of December 31, 2015, 2014 and 2013, Management considers that there are no situations indicating or evidencing that property, plant, and equipment net value is impaired.
- (i) As of December 31, 2014; the Company included Las Flores plant in the fixed assets for an amount of US\$ 113,856 thousand, of which US\$ 107,688 thousand were financed through finance lease with Banco de Crédito del Perú (note 13), which comprises US\$ 12,401 thousand as buildings and other constructions, and US\$ 95,287 thousand as plant and equipment and US\$ 6,168 thousand was financed with own capital for the acquisition of land and other assets. On the other hand, the Company has incurred in initial direct costs of US\$ 1,939 thousand in relation to the structuring costs of the lease agreement entered into with Banco de Crédito del Perú, comprising US\$ 223 thousand as part of the buildings and other constructions item, and US\$ 1,716 thousand as plant and equipment.

11. Trade Payables

This item comprises the following:

<i>In thousands of US dollars</i>	2015	2014	2013
Purchase of energy and transmission toll	11,073	8,526	12,802
Supplies and transport	11,479	9,900	7,626
Maintenance contract	48,734	29,548	18,081
Services provided for the combined cycle (note 10(b))	-	-	3,156
Other	2,685	1,624	2,098
	73,971	49,598	43,763

These obligations have current maturities and only generate interest in the case of arrears at payment date. Furthermore, no specific guarantees have been granted for these obligations.

As of December 2015, the increase in maintenance contract was mainly due to the account payable for the spare parts received for major maintenance of TG1 according to LTP contract signed with Siemens for turbines maintenance.

12. Other Payables

This item comprises the following:

<i>In thousands of US dollars</i>	2015	2014	2013
Income tax payable	1,350	1,643	1,723
Self-employment and regular employment income tax payable	550	499	133
Tax on dividends payable	305	306	305
Contributions payable	139	106	97
Vacations and compensations payable	911	801	738
Extraordinary bonus payable	-	-	3,260
Workers profit sharing payable (note 22)	2,186	2,954	2,964
Interest payable from loans and debentures	3,327	3,519	1,773
Liability for Rural Electrification Act and FISE	1,491	1,411	682
Accruals and other accounts payable	1,673	5,442	1,929
Total	11,932	16,681	13,604

13. Loans from Banks, Debentures and Others

This item comprises the following:

<i>In thousands of US dollars</i>	2015	2014	2013
Current			
Unsecure bank loans	45,000	29,107	-
Finance lease liabilities	25,268	29,138	21,706
Syndicated loan	17,384	13,896	13,787
Bonds issuance	13,650	10,207	6,768
	101,302	82,348	42,261
Non-current			
Finance lease liabilities	137,929	163,197	91,271
Syndicated loan	41,279	58,663	72,560
Bonds issuance	135,455	149,105	159,312
	314,663	370,965	323,143
Total	415,965	453,313	365,404

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A. Terms and debt repayment schedule

The terms and conditions of outstanding loans are as follows:

<i>In thousands of US dollars</i>	Currency	Annual interest rate	Maturity	2015		2014		2013	
				Face value	Carrying amount	Face value	Carrying amount	Face value	Carrying amount
Kallpa I project - (i)									
Syndicated finance lease:									
Banco de Crédito del Perú	US\$	LIBOR + 3.00%	Mar.-16	557	557	2,679	2,679	4,645	4,645
Citileasing	US\$	LIBOR + 3.00%	Mar.-16	194	194	935	935	1,621	1,621
Citibank del Perú: Leasing	US\$	LIBOR + 3.00%	Mar.-16	1,195	1,195	5,751	5,751	9,970	9,970
Citibank del Perú: Finance leaseback	US\$	LIBOR + 3.00%	Mar.-16	389	389	1,870	1,870	3,242	3,242
Kallpa II project - (ii)									
Banco de Crédito del Perú	US\$	LIBOR + 2.05%	Dec.-17	28,667	28,667	35,141	35,141	41,540	41,540
Kallpa III project - (iii)									
Scotiabank Perú	US\$	7.57%	Jul.-18	37,755	37,755	44,895	44,895	51,960	51,960
Kallpa V project (Las Flores) (iv)									
Banco de Crédito del Perú	US\$	7.15%	Oct.-23	94,440	94,440	101,064	101,064	-	-
Kallpa IV project									
Syndicated loan - (C.i)	US\$	LIBOR + 5.50%	Oct.-19	59,634	58,663	74,229	72,559	88,822	86,347
Issuance of bonds - (C.ii)	US\$	8.50%	May-22	149,640	149,105	159,960	159,312	166,840	166,079
Bank loan									
Banco de Crédito del Perú	US\$	5.06%	Mar.-16	30,000	30,000	29,107	29,107	-	-
Scotiabank Perú	US\$	5.10%	Jan.-16	15,000	15,000	-	-	-	-
				417,471	415,965	455,631	453,313	368,640	365,404

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B. Finance lease liabilities

- i. Citibank Perú and Banco de Crédito del Perú - In March 2006, the Company entered into a finance lease agreement with Citibank del Perú S.A., Citileasing S.A., and Banco de Crédito del Perú under which lessors provided financing for the construction of a facility for Kallpa I at Chilca. The total amount initially approved by lessors was US\$ 56,000 thousand, of which US\$ 51,457 was provided under finance lease agreement. The Company shall make monthly payments that began in December 2007 until the maturity of the lease in March 2016. These leases are guaranteed by the Company's assets. The net carrying amount of these assets as of December 31, 2015 is US\$ 20,914 thousand.

As of December 31, 2015, the pending amount of the principal under this lease was US\$ 2,335 thousand. The lease accrues a LIBOR interest rate of 30 days, plus 3.00%.

- ii. Banco de Crédito del Perú - In December 2007, the Company entered into a finance lease agreement with Banco de Crédito del Perú under which the lessor granted financing for the construction of Kallpa II turbine for a total amount of US\$ 81,500 thousand, of which US\$ 67,500 was provided under finance lease agreement. The Company shall make monthly payments that began in December 2009 until maturity of the lease in December 2017. These leases are guaranteed by the Company's assets. The net carrying amount of these assets as of December 31, 2015 is US\$ 38,732 thousand.

As of December 31, 2015, the pending amount of the principal under these loans was US\$ 28,667 thousand. The lease accrues a LIBOR interest rate of 30 days, plus 2.05%. Kallpa entered into an interest rate swap to establish the interest rate, see note 5.D).

- iii. Scotiabank - In October 2008, the Company entered into a finance lease agreement with Scotiabank Perú under which the lessor granted financing for the construction of the Kallpa III turbine for a total amount of US\$ 88,000 thousand, of which US\$ 82,500 was delivered under finance lease agreement. The Company shall make monthly payments that began in September 2010 until the maturity of the lease in July 2018. These leases are guaranteed by the Company's assets. The net carrying amount of these assets as of December 31, 2015 is US\$ 48,646 thousand.

As of December 31, 2015, the pending amount of the principal under these leases was US\$ 37,755 thousand. The lease accrues an annual interest rate of 7.57%.

- iv. Banco de Crédito del Perú - In April 2014, the Company entered into a finance lease agreement with Banco de Crédito del Perú under which the lessor granted financing for the acquisition of a turbine (Las Flores) for a total amount of US\$ 107,688 thousand under finance lease agreement. The Company shall make quarterly payments that began in July 2014 until the maturity of the lease in October 2023. These leases are guaranteed by the Company's assets. The net carrying amount of these assets as of December 31, 2015 is US\$ 98,199 thousand.

As of December 31, 2015, the pending amount of the principal under these leases was US\$ 94,440 thousand. The lease accrues an annual interest rate of 7.15%.

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The finance lease liabilities are composed as follows:

<i>In thousands of US dollars</i>	Minimum future lease payments	Interest	Present value of minimum lease payments
Less than one year	35,046	9,778	25,268
From one to five years	166,317	28,388	137,929
Total	201,363	38,166	163,197

Certain leases establish additional payments that depend on the market interest rate; contingent installments recognized in profit or loss within finance leases amount to US\$ 102 thousand as of December 31, 2014 (US\$ 133 thousand as of December 31, 2013).

C. Obligations

In November 2009, the Company signed an international syndicated loan agreement and simultaneously issued bonds in the Peruvian market to finance the combined cycle conversion (Kallpa IV) of its existing thermal power station. Both sources of financing amount to US\$ 276,551 thousand equivalent to 70% of the total estimated cost of the combined cycle conversion project. The remaining 30% was provided by IC Power Holdings and Energía del Pacífico S.A., shareholders of the Company.

i. Syndicated loan

The International syndicated loan was entered into between the Bank of Nova Scotia, Banco de Crédito del Perú, and Deutsche Investitions - und Entwicklungsgesellschaft GmbH in order to grant the Company up to US\$ 104,551 thousand. Total amount of disbursements of the syndicated loan agreement amounted to US\$ 102,200 thousand, and the annual effective interest rate determined by the Company is LIBOR - 30 days plus 5.50%.

ii. Bonds

In November 2009, the Company issued bonds for a total amount of the principal of US\$ 172,000 thousand at a rate of 8.5% which shall become due in year 2022. It has been required that bond holders make subscription payments under a payment schedule established during the 21 months after the date of issuance. Kallpa received revenues from such securities amounting to US\$ 36,120 thousand in 2010 and US\$ 116,960 thousand in 2011. Revenues from these bonds were used to pay capital expenses related to Kallpa combined cycle plant. The interest related to these bonds is accrued based on the principal received by Kallpa and it is payable on a quarterly basis. Amortization payments of the principal under these securities, in amounts ranging between 0.25% and 5.00% of the amount of the pending principal, begun in May 2013 and will continue until its maturity in May 2022. The annual effective interest rate determined by the Company is 8.87%.

D. Conditions of the borrowing agreements

The main obligations assumed by the Company by virtue of the mentioned financing contracts are:

The Company had one interest rate swap of US\$ 67,500 thousand with Citibank from New York, equivalent to 100% of the total debt of Kallpa II project. It expired in May 2015.

- The interest rate swap corresponding to the Kallpa I project expired in June 2014, which represented 99% of the debt
- Maintain a gearing ratio, for each one of the four quarters that may have finished, not exceeding 3.50 times until December 2010; 3.25 times until the beginning of commercial operations of the Kallpa IV Project; and 3.00 times onwards. As of December 31, 2015, gearing ratio is 2.23 times (2.65 times and 2.47 times as of December 31, 2014 and 2013, respectively).
- Maintain a debt service hedging ratio determined in each calculation date for each one of the four quarters that would have finished exceeding 1.20 times. As of December 31, 2015, debt service hedging ratio is 1.37 times (1.48 times and 1.51 times as of December 31, 2014 and 2013, respectively).
- Comply with all legal obligations (laws, regulations, permits, authorizations, etc.) to which going concern companies are subject in Peru, and industry-specific permits. Obtain and maintain all permits, comply with all information requirements and other legal documents in order to preserve the rights of the Company and the lending banks.

If the Company fails to meet any obligations (financial or legal), the payment of dividends will be restricted following the procedure established in 'Events of Default'.

In this regard and in order to guarantee the above-mentioned obligations, the Company established with Citibank a trust equity in favor of the banks and transferred under trust the Company's assets (spare parts and self-financed buildings of the Kallpa I, Kallpa II, Kallpa III and Kallpa IV projects) and future collection of their non-regulated clients; fair value is disclosed in the corresponding notes.

In Management's opinion, these obligations do not limit nor affect the operations of the Company and are being met satisfactorily.

As of December 31, 2015, the payment schedule of the non-current portion of long-term debt is as follows:

<i>In thousands of US dollars</i>	
2017	53,567
2018	50,541
2019	56,716
2020	58,597
2021	48,926
2022	46,316

E. Short term debt

Kallpa management has the approval and is restricted to obtain a short-term credit line of US\$ 45million for the solely purpose of covering its working capital obligations. As of December 2015, this credit line was used in full to cover working capital necessities.

14. Deferred Income Tax Liabilities

The recorded components of deferred income tax assets and liabilities are as follows:

<i>In thousands of US dollars</i>	Opening balance	Additions/Recoveries			Final balance
		Current Rate	Impact of change in tax rate	Equity	
2015					
<i>Deferred income tax assets</i>					
Provisions	1,445	(511)	(16)	-	918
Derivative instruments	(23)	-	-	23	-
Loss in swap	206	-	(206)	-	-
	1,628	(511)	(222)	23	918
<i>Deferred income tax liabilities</i>					
Exchange difference	(2,211)	(8,396)	2,166	-	(8,441)
Higher tax depreciation for leased assets	(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)

<i>In thousands of US dollars</i>	Opening balance	Additions/Recoveries			Final balance
		Current Rate	Impact of change in tax rate	Equity	
2014					
<i>Deferred income tax assets</i>					
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
<i>Deferred income tax liabilities</i>					
Exchange difference	1,147	(3,712)	354	-	(2,211)
Higher tax depreciation for leased assets	(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)

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<i>In thousands of US dollars</i>	Opening balance	Additions/Recoveries		Final balance
		Profit or loss for the period	Equity	
2013				
<i>Deferred income tax assets</i>				
Provisions	1,198	229	-	1,427
Unrealized loss in swap	1,222	-	(752)	470
Loss in swap	206	-	-	206
	2,626	229	(752)	2,103
<i>Deferred income tax</i>				
Exchange difference	5,927	(4,780)	-	1,147
Higher tax depreciation for leased assets	(5,765)	(2,015)	-	(7,780)
Pre-operating interest and expenses	(14,998)	740	-	(14,258)
	(14,836)	(6,055)	-	(20,981)
Net effect	(12,210)	(5,826)	(752)	(18,788)

Income tax expense shown in the statement of comprehensive income for years 2015, 2014 and 2013 is composed as follows:

<i>In thousands of US dollars</i>	2015	2014	2013
Current	(16,070)	(20,867)	(20,448)
Deferred	(7,606)	(2,476)	(5,826)
	(23,676)	(23,343)	(26,274)

The table below presents the reconciliation of the effective income tax rate as of December 31, 2015, 2014 and 2013 to the tax rate:

<i>In thousands of US dollars</i>	2015		2014		2013	
		%		%		%
Profit before tax	68,814	100.00	76,432	100.00	69,495	100.00
Tax using the Company's domestic tax rate	20,644	30.00	22,930	30.00	20,849	30.00
Theoretical expense						
Effect of non-taxable income and non-deductible expenses						
Non-deductible donations	228	0.33	104	0.14	39	0.06
Difference for effects of translating taxable base	(3,194)	(4.64)	(5,674)	(7.4)	1,737	2.50
Permanent items, net	5,998	8.72	5,983	7.8	3,649	5.25
Income tax expenses	23,676	34.41	23,343	30.54	26,274	37.81

15. Provisions

This item comprises the following:

<i>In thousands of US dollars</i>	2015	2014	2013
Decommissioning			
Balance as of January 1,	9,702	5,528	5,297
Provision related to Las Flores plant	-	3,970	-
Present value updated	2,181	204	231
Balance as of December 31	11,883	9,702	5,528

The provision for decommissioning liabilities 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 1.238% to 1.112% as of December 31, 2015

16. Share Capital and Reserves

A. Share capital and share premium

	Number of shares		
	2015	2014	2013
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

Holder 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, 2015, the share capital structure of the Company is as follows:

Stockholders	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 premium

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 21).

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 replenished with the earnings of the subsequent years. Legal reserve may also be capitalized but it shall be subsequently restored. The amount of this reserve meets the established limits.

C. Dividends

As of December 31, 2015, dividends were declared and paid in the amount of US\$ 10,000 thousand each in May, September, and December. During year 2014, dividends were declared and paid in the amount of US\$ 10,000 thousand each in June, September, and December. During year 2013, dividends were declared and paid in the amount of US\$ 92,693 thousand.

17. 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 stockholders.

The Board of Directors attempts to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security provided 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 policy is to keep the ratio below 3.00 (note 13(D)).

The Company's adjusted net debt to equity ratio as of December 31, 2015 was as follows:

<i>In thousands of US dollars</i>	2015	2014	2013
Total liabilities	546,027	558,662	466,047
Less: Liabilities other than from financial entities	130,062	105,349	100,643
Total adjusted net debt (A)	415,965	453,313	365,404
Total equity	186,304	171,219	146,980
Plus: Hedging reserve	-	(53)	1,097
Total adjusted equity (B)	186,304	171,166	148,077
Gearing ratio (A/B) (times)	2.23	2.65	2.47

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.

18. Tax Matters

- A. Tax returns for the years 2013, 2014, and 2015 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, 2015 will arise.

In accordance with current tax legislation, corporate income tax for 2015 is calculated on the basis of the net taxable profit at a rate of 28%. According to the Legal Stability Agreement signed by the Company on November 16, 2010, the 30% rate shall be maintained. As of December 31, 2015, 2014 and 2013, the Company has recorded income tax for US\$ 16,070 thousand, US\$ 20,867 thousand and US\$ 20,448 thousand, respectively.

- B. On December 15, 2014, Law 30296 - Modification of tax rates on employment income and foreign sources income, was enacted, establishing the progressive reduction of income tax over the next five years. This law establishes the following rates: 28% for 2015 and 2016, 27% for 2017 and 2018, and 26% for 2019 onwards. This reduction will be offset with the increase in the rates applicable to the distribution of profits, which is 4.1% as of December 31, 2014; this will be increased to 6.8% for 2015 and 2016, to 8% for 2017 and 2018, and to 9.3% for 2019 onwards unless the distribution is made in favor of other legal entities domiciled in Peru.

Accordingly, the Company has reestimated the deferred income tax considering the period of reversal of the temporary differences, according to the new rates of income tax above described. This resulted in a decrease in deferred income tax liability of S/ 3,587 thousand, amount that was credited to the results of 2014.

- C. 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 Supreme Decree 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.
- 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.

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- 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, 2015 is subject to a 6.8% income tax withholding, except for the distribution of profits made in favor of domiciled legal entities. In the case of the Company, according to the Legal Stability Agreement signed on November 16, 2010, the 4.1% rate is maintained.

19. Revenue

This item comprises the following:

<i>In thousands of US dollars</i>	2015	2014	2013
Energy sales	290,682	290,561	266,564
Capacity sales	68,359	73,079	67,998
Sale of reactive energy	280	222	40
Main and secondary transmission toll	81,100	66,764	56,505
Other income	7,258	6,047	2,948
	447,679	436,673	394,055

During the year 2015, an average of 913 MW and 6,328 GWH was sold (an average of 928.72 MW and 6,324.12 GWH in 2014 an average of 880.20 MW and 6,294.16 GWH in 2013). As of December 31, 2015, there is estimated revenue pending to be invoiced for US\$ 38,426 thousand (US\$ 34,611 thousand and US\$ 32,363 in 2014 and 2013, respectively). According to Management's evaluation, there would not be a significant variation between the amounts invoiced and those estimated.

Revenues obtained from regulated prices as of December 31, 2015 were US\$ 196,864 thousand (US\$ 181,876 thousand in 2014 and US\$ 185,906 thousand in 2013). The increase in revenues 2015 is due to the increase in main and secondary toll and the increase in year 2014 is due to the increase in prices with non-regulated clients.

Other income is composed of FISE Toll Compensation of US\$ 1,983 thousand (US\$ 1,975 thousand in 2014 and US\$ 1,685 thousand in 2013), Compensation for Volume of Transferred Gas for US\$ 2,613 thousand (US\$ 2,313 thousand in 2014 and US\$ 1,263 thousand in 2013), Distribution Contract with Cálidda - Non-transferable amounts for US\$ 1,644 thousand (US\$ 1,759 thousand in 2014) and Charge for strengthening of energy security for US\$ 1,018 thousand. .

20. Income and Expenses**A. Other income**

This item comprises the following:

<i>In thousands of US dollars</i>	2015	2014	2013
Disposal of plant and equipment (i)	8	53	93
Various (ii)	2,090	6,157	3,110
	2,098	6,210	3,203

- i. Disposal of plant and equipment mainly includes sale of vehicles and various equipment.
- ii. They mainly include income from management services invoiced to Cerro del Águila S.A. and Samay I for US\$ 924 thousand (note 25(c)), Penalty for Contract Rescission with Compañía Minera Raura for US\$ 550, and Construction Works for Taxes for US\$ 380 thousand.

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B. Expenses by nature

This item comprises the following:

<i>In thousands of US dollars</i>	<i>Nota</i>	Cost of sales and depreciation			Administrative expenses			Total		
		2015	2014	2013	2015	2014	2013	2015	2014	2013
Consumption of natural gas (i)	24 (Ö)	63,328	71,830	67,675	-	-	-	63,328	71,830	67,675
Main and secondary transmission toll		86,427	76,762	63,684	-	-	-	86,427	76,762	63,684
Purchase of energy		23,775	22,189	25,106	-	-	-	23,775	22,189	25,106
Purchase of power		8,198	9,972	16,363	-	-	-	8,198	9,972	16,363
Transport of natural gas (ii)	24 (C)	70,230	66,235	43,980	-	-	-	70,230	66,235	43,980
Maintenance		6,260	5,611	6,350	68	80	112	6,328	5,691	6,462
Transport of personnel		211	190	190	815	836	545	1,026	1,026	735
Consultancy		57	125	117	2,317	1,700	1,307	2,374	1,825	1,424
Leases	23	15	31	81	593	456	495	608	487	576
Contractors		414	472	415	213	248	147	627	720	562
Telephone		-	-	-	141	134	104	141	134	104
Advertising		2	3	-	222	91	53	224	94	53
Insurance		2,740	4,142	4,110	57	47	39	2,797	4,189	4,149
Donations		-	-	-	387	573	501	387	573	501
Licenses		-	-	-	231	88	135	231	88	135
Employee benefits	22	3,766	3,625	4,144	9,871	10,631	11,424	13,637	14,256	15,568
Consumption of various supplies		2,597	2,694	2,490	57	57	42	2,654	2,751	2,532
Contributions (COES, OSINERG, MEM, OEFA)		4,319	4,282	4,070	-	-	-	4,319	4,282	4,070
Taxes		9	10	7	288	237	202	297	247	209
Depreciation		49,973	45,226	39,680	433	404	380	50,406	45,630	40,060
Other		6,464	1,355	719	1,111	1,322	330	7,575	2,677	1,049
		328,785	314,754	279,181	16,804	16,904	15,816	345,589	331,658	294,997

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- (i) Decrease in the volume of gas consumption due to lower gross energy generation in 2015. Increase in natural gas consumption is due to increased consumption by customers, resulting in the Company acquiring the excess from COES during 2014; this situation basically occurs in peak hours. The consumption of natural gas in MMBTU was 37,4645,037, 42,292,811 and 39,685,034 for the year 2015, 2014 and 2013 respectively; while the price for the interruptible load was 1.67, 1.67 and 1.71 US\$/MMBTU.
- (ii) The increase is because OSINERGMIN declared in 2009 that the Company shall pay for the gas distribution to Camisea since January 2014. The amount of distribution paid was US\$ 18,589 and US\$ 17,693 thousand (2015 and 2014 respectively).

21. Finance Costs

This item comprises the following:

<i>In thousands of US dollars</i>	2015	2014	2013
Financial liabilities at amortized cost - interest expense	29,032	31,964	27,352
Contingent installments of finance lease	-	102	133
Reversal of discount of provision for decommissioning	270	204	231
Expenses for hedging derivatives (note 5.D)	610	1,700	2,599
Other	359	247	361
	30,271	34,217	30,676

22. Employee Benefits

This item comprises the following:

<i>In thousands of US dollars</i>	2015	2014	2013
Wages and salaries (a)	10,910	12,745	13,420
Contributions to defined contribution plans	991	787	625
Vacations	632	450	517
Other	1,104	274	1,006
	13,637	14,256	15,568

Workers' profit sharing

In conformity 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 2015, the Company determined workers' profit sharing of US\$ 2,779 thousand (US\$ 3,429 thousand and US\$ 3,485 thousand in 2014 and 2013, respectively).

Average number of workers in years 2015, 2014 and 2013 was 201, 157 and 129, respectively.

23. Operating Leases

The Company leases two properties 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 US dollars</i>	2015	2014	2013
Less than one year	491	319	358
Between one and five years	1,962	106	477

B. Amounts recognized in profit or loss

The amounts recognized in profit or loss for all operating leases amounted to US\$ 608 thousand (US\$ 487 thousand and US\$ 576 thousand as of December 31, 2014 and 2013, respectively).

24. Commitments

As of December 31, 2015, the Company has the following commitments:

A. Electricity supply contracts

As of December 31, 2015, 2014 and 2013, the Company has 27, 23 and 27 contracts with non-regulated clients, respectively, whose maturities vary between year 2014 and 2028. The off-peak capacity agreed in these contracts amounts to 522 MW as of December 31, 2015 (510 MW and 509 MW as of December 31, 2014 and 2013, respectively). In relation to distribution companies, the Company has signed 28 contracts with 8 distribution companies for 660 MW, effective as of December 31, 2015 (26 contracts with 7 distribution companies for 580 MW effective and 13 contracts with 4 distribution companies for 570 MW effective as of December 31, 2014 and 2013, 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 addendas:

The quantity of natural gas that producers are obliged to make available to the Company at the delivery point is the following:

<i>First gas turbine</i>	m3/day
Maximum daily quantity MDQ	1,200,000
Daily contract quantity CDC	648,000
Second gas turbine	m3/day
Maximum daily quantity MDQ	1,300,000
Daily contract quantity CDC	702,000
Third gas turbine	m3/day
Maximum daily quantity MDQ	1,300,000
Daily contract quantity CDC	650,000
Combined cycle	m3/day
Maximum daily quantity MDQ	450,000
Daily contract quantity CDC	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.

C. Interruptible natural gas supply contract from camisea deposits

In 2014, the Company entered into an Interruptible Natural Gas Supply Contract with the Camisea Consortium of Block 88, operated by Pluspetrol Perú Corporation S.A. (Pluspetrol), which expires in December 2015.

Pluspetrol has no obligation to provide gas supply nor has the Company to take or pay a minimum consumption; however, contracted amount serves to complete the 100% consumption requirement of Las Flores station.

In period 2015, the cost of natural gas supply purchased from Pluspetrol amounted to US\$ 70,230 thousand (US\$ 66,235 thousand and US\$ 43,980 thousand in period 2014 and 2013, respectively), which is recorded as part of 'generation costs' in the statement of comprehensive income.

D. 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; the Contract has six addenda. As of December 31, 2015, the Company has the following quantities of Interruptible Transportation:

<i>Maximum Daily Interruptible Quantity</i>	m3/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 SSD	1,329,593
From the SSD 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

SSD: Service Start Date, according to the Addenda to the BOOT Contract entered into between TGP and the Government, approved through Official Document Resolution Suprema 053-2014-EM, published on August 30, 2014. According to the last communication sent by TGP, the SSD was fixed for April 15, 2016.

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.

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December 31, 2015, 2014 and 2013

As of December 31, 2015, 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. The Contract has one addendum.

As of December 31, 2015, the Company has the following quantities of Firm Transport:

<i>Daily Reservation Quantity (Firm Contract I)</i>	m³/day
From SSD 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, 2015, the Company has the following quantities of Firm Transport:

<i>Daily Reservation Quantity (Firm Contract III)</i>	m³/day
From 04.01.2014 until the SSD	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, 2015, the Company has the following quantities of Firm Transport:

<i>Daily Reservation Quantity (Firm Contract III)</i>	m³/day
From the SSD until 04.01.2033	935,000

SSD has been defined in previous paragraphs.

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Notes to the Financial Statements

December 31, 2015, 2014 and 2013

In 2015, the cost for these services of gas transport amounted to US\$ 51,632 thousand (US\$ 48,542 thousand and US\$ 43,980 thousand as of December 31, 2014 and 2013, respectively) which is recorded under 'cost of sales in the statement of comprehensive income.

E. 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, 2015, the Company has the following contracted quantities:

Interruptible Modality	m³/day
From 10.30.2010 until 12.31.2013	555,130
Firm Modality	m³/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, 2015, the Company has the following contracted quantities:

Interruptible Modality	m³/day
Del 01.04.2014 al 31.12.2033	950,000
Firm Modality	m³/day
Del 01.04.2014 al 31.12.2033	320,000

In fiscal period 2015, the cost for the gas distribution service was US\$ 18,598 thousand (US\$ 17,692 thousand as of December 31, 2014). In 2013, there was no cost for these services because, according to Supreme Decree 082-2009-EM, the application of the single distribution rate in the generators located in the concession area of the distributor of natural gas in Lima and Callao (Cálidda) was suspended until December 31, 2014). The costs are recorded under 'costs of sales in the statement of comprehensive income.

F. 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.

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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.

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.

G. 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 Judiciary 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.

As of December 31, 2015, the Company granted in favor of third parties letters of guarantee issued by local banks totaling US\$ 48,785 thousand in order to guarantee its operations.

25. Related Party Transactions**A. Controlling Company and main controlling Company**

As of December 31, 2015, there are no changes at the Controller company.

B. Transactions with key management personnel**i. Loans to directors**

As of December 31, 2015, 2014 and 2013 there are no loans to directors.

ii. Key management personnel compensation

<i>In thousands of US dollars</i>	Transaction value			Outstanding balances		
	2015	2014	2013	2015	2014	2013
Short-term employee benefits	-	3,827	5,790	-	-	3,260
Defined contribution plans	313	163	181	23	20	17

iii. Key management personnel transactions

During year 2015, 2014 and 2013, there were no transactions between the Company and Key Management, other than those in point (ii).

C. Other related party transactions

<i>In thousands of US dollars</i>	Transaction type	Transaction value for the year ended at December 31			Balance outstanding as at December 31		
		2015	2014	2013	2015	2014	2013
Cerro del Águila	Management service	203	1,520	1,940	(32)	-	1,940
Samay I	Management service	721	560	-	166	-	-
Cerro del Águila	Reimbursement of expenses	75	155	-	15	-	993
Samay I	Reimbursement of expenses	55	88	-	22	-	-
Hydrochillia		-	-	-	3,671	-	-
Other related entities	Reimbursement of expenses	-	-	-	146	232	94
	Total	1,054	2,323	1,940	3,988	232	3,027

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 is guaranteed.

26. 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.

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/ 37,921,424.00. After application of the sales tax credit, the amount was reduced to S/ 32,546,049 (US\$ 9,550,000) including interest and penalties. The corresponding contentious-administrative actions were filed on April 25, 2015.

In late March 2015, the total amount of import tax claimed by SUNAT in connection with the importation of equipment for the Kallpa I, II, III and IV projects, was approximately US\$ 34.8 million, including interest, arrears and fines amounting to US\$ 27.6 million.

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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.

27. Subsequent Events

On February 15, 2016, Kallpa was notified with Requirement 0122150000309 issued under Article 75° of the Consolidated Text of the Tax Code, approved by Supreme Decree 133-2013-EF. This SUNAT requirement communicated the final conclusions of the assessment procedure related to the year 2012 Income Tax. SUNAT made observations on tax issues totaling S/ 22 million, mainly composed of S/ 16.5 million related to finance costs and S/ 3.2 million related to maintenance expenses.

The Company's Management in accordance with the opinion of its legal advisors, considers that this observation will not result in liabilities because, in the first case, there is already a pronouncement in a similar case at the Tax Court in Resolution 4090-8-2015 which states that "all payments related to the obtaining and payment of financing qualify as 'interest expense' even if they are accrued at a different time, since it is understood that they have a common origin, which is the obtaining of such credits." In relation to the maintenance expenses, after discussions with SUNAT officers, it is assumed that they will not be included in the final results due to the support presented."

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Unaudited Condensed Interim Financial Statements
March 31, 2016

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KALLPA GENERACIÓN S.A.

Condensed Statements of Financial Position
As at March 31, 2016 and December 31, 2015

	Note	March 2016 (Unaudited)	December 2015		Note	March 2016 (Unaudited)	December 2015
<i>In thousands of US dollars</i>				<i>In thousands of US dollars</i>			
Assets				Liabilities and equity			
Current assets				Current liabilities			
Cash and cash equivalents	5	21,857	27,935	Trade payables	8	99,457	73,971
Trade receivables		46,181	41,922	Other payables		11,869	11,932
Other receivables		15,438	10,191	Loans from banks, debentures and others	7	97,226	101,302
Prepaid expenses		33	148	Advances from clients		1,337	1,472
Inventories		14,671	13,810	Total current liabilities		209,889	188,677
Total current assets		98,180	94,006	Non-Current liabilities			
Non-Current assets				Advances from clients		1,231	1,464
Property, plant and equipment	6	624,217	612,131	Deferred income tax liabilities		30,600	29,340
Intangible assets		17,281	16,644	Loans from banks, debentures and others	7	303,686	314,663
Other assets		9,794	9,550	Provision		12,306	11,883
Total non-current assets		651,292	638,325	Total non-current liabilities		347,823	357,350
				Total liabilities		557,712	546,027
				Equity			
				Share capital		70,732	70,732
				Share premium		54,141	54,141
				Other reserves		14,146	14,146
				Retained earnings		52,741	47,285
				Total equity		191,760	186,304
Total assets		749,472	732,331	Total liabilities and equity		749,472	732,331

The notes on pages 5 to 12 are an integral part of these condensed interim financial statements.

KALLPA GENERACIÓN S.A.

Condensed Statements of Profit or Loss and of Other Comprehensive Income
For the three months ended March 31, 2016 and 2015

<i>In thousands of U.S. dollars</i>	<i>Note</i>	2016 (Unaudited)	2015 (Unaudited)
Revenues		121,194	108,363
Cost of sales (excluding depreciation)		(78,547)	(71,809)
Depreciation	6	(11,656)	(12,648)
Gross profit		30,991	23,906
Administrative expenses		(5,340)	(3,050)
Other income		256	549
Income from operations		25,907	21,405
Finance income		70	43
Finance costs		(6,879)	(8,373)
Net foreign exchange		531	(1,234)
Finance costs, net		(6,278)	(9,564)
Profit before income tax		19,629	11,841
Income tax expense	10	(6,673)	(3,552)
Net income		12,956	8,289
Other comprehensive income			
Items that are or may be reclassified to profit or loss			
Cash flow hedges – effective portion of changes in fair value net of the related income tax		-	258
Total comprehensive income for the period		12,956	8,547

The notes on pages 5 to 12 are an integral part of these condensed interim financial statements.

KALLPA GENERACIÓN S.A.

Condensed Statements of Changes in Equity
For the three months ended March 31, 2016 and 2015

<i>In thousands of U.S dollars</i>	Share capital	Share premium	Hedging reserves	Other reserves	Retained earnings	Total
Balances at January 1, 2015	70,732	54,141	53	14,146	32,147	171,219
Comprehensive income for the period						
Net income	-	-	-	-	8,289	8,289
Cash flow hedges, net of income tax	-	-	258	-	-	258
Total other comprehensive income	-	-	258	-	8,289	8,547
Balances at March 31, 2015	70,732	54,141	311	14,146	40,436	179,766
Balances at January 1, 2016	70,732	54,141	-	14,146	47,285	186,304
Comprehensive income for the period						
Net income	-	-	-	-	12,956	12,956
Total other comprehensive income	-	-	-	-	12,956	12,956
Dividends paid	-	-	-	-	(7,500)	(7,500)
Balances at March 31, 2016	70,732	54,141	-	14,146	52,741	191,760

The notes on pages 5 to 12 are an integral part of these condensed interim financial statements.

KALLPA GENERACIÓN S.A.

Condensed Statements of Cash Flows

For the three months ended March 31, 2016 and 2015

	2016	2015
<i>In thousands of U.S dollars</i>	(Unaudited)	(Unaudited)
Cash flows from operating activities:		
Collections from clients	141,471	124,713
Payment to suppliers and third parties	(107,440)	(103,825)
Payment of contributions and others	(686)	(597)
Payment to employees	(1,953)	(1,569)
Payment of income tax	(5,130)	(5,984)
Net cash from operating activities	26,262	12,738
Cash flows from investing activities:		
Acquisition of property, plant and equipment	(2,449)	(1,970)
Acquisition of intangibles	(634)	(511)
Net cash used in investing activities	(3,083)	(2,481)
Cash flows from financing activities:		
Proceeds from short-term borrowings	75,000	35,000
Payment of short-term borrowings	(75,000)	(29,907)
Payment of long term debt	(15,197)	(13,359)
Payment of interest	(6,790)	(8,247)
Dividends paid	(7,270)	-
Net cash used in financing activities	(29,257)	(16,513)
Net decrease in cash and cash equivalents	(6,078)	(6,256)
Cash and cash equivalents at January 1	27,935	25,034
Cash and cash equivalents at March 31	21,857	18,778
Non-cash investing transactions:		
Acquisition of property, plant and equipment	21,399	25,538

The notes on pages 5 to 12 are an integral part of these condensed interim financial statements.

KALLPA GENERACIÓN S.A.

Notes to the Condensed Interim Financial Statements
March 31, 2016 and 2015

1. Background and Business Activity

Kallpa Generación S.A. (hereinafter “the Company” or “Kallpa”) is a corporation incorporated in June 2005 in Peru and an indirectly is a wholly-owned subsidiary of Kenon Holdings Ltd., a publicly listed company in both the New York Stock Exchange and Tel Aviv Stock Exchange, incorporated in Singapore. The registered address of the Company is located at Av. Santo Toribio N° 115, Piso 7, San Isidro, Lima, Perú.

On October 19, 2009, IC Power Holdings (Kallpa) Limited (hereinafter “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 capital stock. This agreement governs the relationship between company’s shareholders.

2. Statement of Compliance

These condensed interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the company since the last annual financial statements as at and for the year ended December 31, 2015. These condensed interim financial statements do not include all of the information required for full annual financial statements prepared in accordance with international Financial Reporting Standards. The condensed statement of financial position as of December 31, 2015 included herein was derived from the audited financial statements as of that date.

These condensed interim financial statements were approved by the Company’s Management on April 25, 2016.

As of March 31, 2016, the Company has a negative working capital. Kallpa's operating cash flow is stable over short, intermediate and long term and more than ample to cover all operational, financial, tax and capital expenditures. In 2016 and going forward Kallpa is projected to generate positive operating cash flow, sufficient to cover all of its needs.

Negative accounting working capital has been generated due to the recent scheduled major maintenances of Kallpa units, performed under the Long Term Service Agreements (LTSA) contracted by Kallpa. LTSA contracts are 18 year contracts where the manufacturer (Siemens) will provide all spare parts, technical services, and labor. These contracts require that the Company pays leveled monthly/annual payments to the Manufacturer. The accounting negative working capital shown in the Kallpa financial report is directly related to the need for initial spare parts requirements for recent scheduled major maintenances, which has caused a temporary mismatch with actual payments. This mismatch will revert during the next 3 to 4 years.

The scheduled mayor maintenances are performed approximately every 4 years and in the recent years coincidently a number of these scheduled mayor maintenances. Based on the operational requirements of the Kallpa units, the Company’s forecast calls for the next scheduled mayor maintenances to take place until 2019 - 2020.

3. Significant Accounting Policies

The accounting policies applied by the Company in these condensed interim financial statements are the same as those applied by the Company in its financial statements as at and for the year ended December 31, 2015.

4. Estimates

The preparation of interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

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Notes to the Condensed Interim Financial Statements

March 31, 2016 and 2015

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, 2015.

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 the 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 entire measurement.

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 9.

5. Cash and Cash Equivalents

<i>In thousands of U.S. dollars</i>	2016	2015
Cash	3	3
Checking accounts (a)	11,184	15,890
Trust accounts	2,170	12,042
Time deposits (b)	8,500	-
	21,857	27,935

- (a) The Company holds checking accounts in different local financial entities. These are freely available and earn interest at market rates at 0.30% p.a in U.S. dollars and 3.00% in Soles.
- (b) Time deposits corresponds to short-term investments made for periods ranging from one day to three months, depending on immediate cash requirements of the Company, and earn interest at short-term deposit rates in US Dollars ranging from 0.2% to 0.4% p.a.

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Notes to the Condensed Interim Financial Statements
 March 31, 2016 and 2015

6. Property, Plant and Equipment

<i>In thousands of U.S. dollars</i>	2016
Cost:	
Beginning balance	831,739
Additions:	
Spare parts	23,395
Buildings and other constructions	140
Machinery and equipment	247
Office equipment	54
Furniture and fixtures	12
Additions of the period	23,848
Ending balance	855,587
Accumulated depreciation:	
Beginning balance	(219,608)
Additions:	
Buildings and other constructions	(949)
Machinery and equipment	(10,633)
Vehicles	(39)
Office equipment	(131)
Furniture and fixtures	(10)
Depreciation of the period	(11,762)
Ending balance	(231,370)
Net cost at December 31, 2015	612,131
Net cost at March 31, 2016	624,217

As of March 31, 2016, in Company's management opinion there were no impairment indicators on the value of property, plant and equipment, therefore no updated impairment test was needed.

(a) Distribution of depreciation was as follow:

<i>In thousands of U.S. dollars</i>	2016
Cost of sales	11,656
Administrative expenses	106
	11,762

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Notes to the Condensed Interim Financial Statements

March 31, 2016 and 2015

7. Loans from Banks, Debentures and Others

<i>In thousands of US\$</i>	Nominal annual interest rate	Currency	Maturity	As at March 31, 2016		As at December 31, 2015	
				Current	Non-Current	Current	Non-Current
Short-term borrowings:							
Banco de Crédito del Perú	1.06%	USD	April 2016	30,000	-	-	-
Scotiabank Perú	1.08%	USD	April 2016	15,000	-	-	-
Banco de Crédito del Perú	5.06%	USD	March 2016	-	-	30,000	-
Scotiabank Perú	5.10%	USD	January 2016	-	-	15,000	-
Sub total				45,000	-	45,000	-
Loans from Banks and others:							
Syndicated loan – various entities	LIBOR+6.00%	USD	2019	15,600	38,734	17,384	41,279
Sub total				15,600	38,734	17,384	41,279
Liabilities in respect of finance leases:							
Las Flores							
Banco de Crédito del Perú	7.15%	USD	2023	6,680	86,203	6,624	87,816
Kallpa III Project							
Scotiabank Perú	7.57%	USD	2018	8,295	27,660	7,508	30,248
Kallpa II Project							
Banco de Crédito del Perú	LIBOR+2.05%	USD	2017	11,009	16,038	8,802	19,865
Kallpa I Project							
Banco de Crédito del Perú/ Citibank	LIBOR+3.00%	USD	2016	-	-	2,334	-
Sub total				25,984	129,901	25,268	137,929
Debentures:							
Kallpa Bonds	8.50%	USD	2022	10,642	135,051	13,650	135,455
Sub total				10,642	135,051	13,650	135,455
				97,226	303,686	101,302	314,663

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Notes to the Condensed Interim Financial Statements

March 31, 2016 and 2015

As at March 31, 2016, the main covenants that the Company must comply during the term of its debt are as follows:

- Maintain a leverage ratio for the last twelve months no higher than 3.00 times. As of March 31, 2016, the leverage ratio is 2.09 times (2.23 times as of December 31, 2015);
- Maintain a debt service ratio for the last twelve months no less than 1.20 times. As of March 31, 2016, the debt service ratio is 1.49 times (1.37 times as of December 31, 2015); and
- Comply with all legal obligations (laws, regulations, permits, authorizations, etc.) to which going concern companies are subject in Peru, and industry-specific permits. Obtain and maintain all permits, comply with all information requirements and other legal documents in order to preserve the rights of the Company and the banks.

In the Company's Management opinion, these obligations have been complied as of March 31, 2016.

The table below presents the contractual amortization schedule of the non-current portion of the long-term debt as of March 31, 2016:

	<i>In thousands of U.S. dollars</i>
2017	42,590
2018	50,541
2019 and thereafter	210,555
	303,686

8. Trade Payables

<i>In thousands of U.S. dollars</i>	2016	2015
Energy purchases and transmission tolls	18,065	11,073
Gas supply and transport	10,502	11,479
Long-term maintenance service agreement	68,578	48,734
Other	2,312	2,685
	99,457	73,971

These obligations have current maturities and bear interest only in delay in the payment date. In addition, no specific guarantees have been granted to these obligations.

9. 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 for financial instruments measured at fair value. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

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Notes to the Condensed Interim Financial Statements

March 31, 2016 and 2015

	Carrying amount			Total	Fair value
	Fair value hedging instruments	Loans and receivables	Other financial liabilities		Level 2
<i>In thousands of U.S. dollars</i>					
As at March 31, 2016:					
Financial assets not measured at fair value					
Cash and cash equivalents	-	21,857	-	21,857	-
Trade receivables	-	46,181	-	46,181	-
Other receivables	-	6,120	-	6,120	-
	-	74,158	-	74,158	-
Financial liabilities not measured at fair value					
Short-term borrowings	-	-	(45,000)	(45,000)	(45,000)
Debentures	-	-	(145,693)	(145,693)	(169,105)
Loans from banks	-	-	(54,334)	(54,334)	(57,426)
Finance leases	-	-	(155,885)	(155,885)	(156,330)
Trade payables	-	-	(99,457)	(99,457)	-
Other payables	-	-	(3,135)	(3,135)	-
	-	-	(503,504)	(503,504)	(427,861)

	Carrying amount			Total	Fair value
	Fair value hedging instruments	Loans and receivables	Other financial liabilities		Level 2
<i>In thousands of U.S. dollars</i>					
As at December 31, 2015:					
Financial assets not measured at fair value					
Cash and cash equivalents	-	27,935	-	27,935	-
Trade receivables	-	41,922	-	41,922	-
Other receivables	-	6,658	-	6,658	-
	-	76,515	-	76,515	-
Financial liabilities not measured at fair value					
Short-term borrowings	-	-	(45,000)	(45,000)	(45,000)
Debentures	-	-	(149,105)	(149,105)	(169,459)
Loans from banks	-	-	(58,663)	(58,663)	(61,413)
Finance leases	-	-	(163,197)	(163,197)	(175,377)
Trade payables	-	-	(73,971)	(73,971)	-
Other payables	-	-	(3,327)	(3,327)	-
	-	-	(493,263)	(493,263)	(451,249)

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B. Measurement of fair values**i. Valuation techniques and significant unobservable inputs**

The following table shows the valuation techniques used in measuring Level 2 fair values as of March 31, 2016 and December 31, 2015 for financial instruments measured at fair value in the statement of financial position, as well as the significant unobservable inputs used.

Financial instruments measured at fair value

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Interest rate swaps	The Company applies standard valuation techniques such as: <i>discounted cash flows</i> for fixed and variables coupons (estimated with forward curves) using as discounted rates the <i>projected LIBOR zero coupon curve</i> . The observable inputs are obtained through market information suppliers.	Not applicable	Not applicable
Loans from banks, debentures and others	Discounted cash flows with market interest rate	Not applicable	Not applicable

10. Income Tax

Income tax expense is recognized based on management's estimate of the weighted average effective annual income tax rate expected for the full financial year multiplied by the pre-tax income of the interim reporting period and taking into consideration the income tax rate in force resulting from the tax stability agreement signed in 2010 by the Company. The estimated average effective annual tax rate used for the year to March 31, 2016 is 34%, compared to 30% for the three months ended on March 31 2015.

11. Contingencies

As of March 31, 2016 the main contingencies for the Company are described as follows:

Import Tax Assessment

Since 2010, the Peru Customs Authority (known as "SUNAT" for its abbreviation in Spanish) issued tax assessments to Kallpa and its lenders for payment of import taxes allegedly owed by Kallpa in connection with imported equipment for installation and construction of Kallpa I, II, III and IV. The assessments were made on the basis that Kallpa did not include the value of the engineering services rendered by the contractor of the project in the tax base of import taxes. Kallpa disagrees with this tax assessment on the grounds that the engineering services rendered include the design of the plant and not the design of the imported equipment. Kallpa appealed the tax assessments before SUNAT in first instance and before the Peruvian Tax Court (known as "Tribunal Fiscal") in second instance. SUNAT and the Peruvian Tax Court are administrative institutions under the Ministry of Economy and Finance.

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In January 2015, Kallpa was notified that the Tax Court rejected Kallpa's appeal regarding the Kallpa I assessment. Kallpa disagrees with the court's decision and filed an appeal before the Superior Court of Lima in April 2015. In order to appeal, Kallpa had to pay under protest the tax assessment of Kallpa I in the amount of approximately S/ 37.9 million (US\$ 12.3 million), include interests and fines.

As of March 31, 2016, the total tax exposure (capital plus interests) related to these assessments is as follows:

	Stage	Amount (In million S/)	Amount (In million US\$)
Kallpa I (1)	Superior Court of Lima	32.5	9.8
Kallpa II	Peruvian Tax Court	22.0	6.6
Kallpa III	Peruvian Tax Court	21.3	6.4
Kallpa IV (2)	SUNAT	0.8	0.3
		76.6	23.1

(1) Amount recorded as a long-term account receivable. This amount was originally S/ 37.9 million but S/ 5.4 million (that corresponded to VAT) was recovered.

(2) Amount reduced to S/ 0.8 million (S/ 0.5 million without interest) on January 27, 2016

On January 27, 2016, the amount of the claim in connection with Kallpa IV was reduced in S/ 17.2 million (US\$ 5.0 million) without interests, from S/ 17.7 million to S/ 0.5 million (from US\$ 5.1million to US\$ 0.1million) referred to the engineering services assessment. On February 12, 2016, Kallpa filed an appeal against the part of the resolution that refers to the insurance. As of the date herein, such appeal is pending to be submitted by SUNAT to the Tax Court.

Management and the Company's legal advisors are of the opinion that Kallpa's appeals be will more likely than not be successful; accordingly, no provision was recorded in the financial statements.

2012 Income tax assessment

On February 15, 2016, as a result of 2012 income tax audit performed by the Peruvian tax authority ("SUNAT"), SUNAT issued a preliminary income tax assessment for approximately S/ 22 million (US\$ 6.5 million) on the basis that certain interest accrued on Kallpa's debt and some maintenance expenses should not have been deducted from the 2012 Kallpa's taxable income but rather treated as an asset. On March 11, 2016, SUNAT issue a final tax assessment for approximately S/ 16.5 million (US\$ 4.8 million) related to the interest expenses accrued during construction. Kallpa will appeal this assessment before SUNAT,

Kallpa's management and its tax counsel consider that its appeal will more likely than not be successful on the basis that the Peruvian Tax Court has issued precedent that admits the deduction of interest expenses in similar circumstances based on the clear language of article 37a) of the Peruvian Income Tax Law; accordingly, no provision was recorded in the financial statements.

12. Subsequent Events

Subsequent to March 31, 2016, there have been no events that may have an effect on the financial statements of the Company.

ISSUER

Kallpa Generación S.A.



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