OFFERING MEMORANDUM **STRICTLY CONFIDENTIAL**

U.S.$550,000,000

Orazul Energy Egenor S. en C. por A.

a partnership limited by shares (*sociedad en comandita por acciones*)

5.625% Senior Notes due 2027

We are offering U.S.$550,000,000 aggregate principal amount of our 5.625% senior notes due 2027 (the "Notes"). Interest on the Notes is payable semi-annually on April 28 and October 28 of each year, commencing on October 28, 2017. The Notes will mature on April 28, 2027. Payment of principal, interest, additional amounts and any other amounts in respect of the Notes will be made in U.S. Dollars.

We may redeem the Notes, at our option, in whole or in part, at any time on or after April 28, 2022, at the applicable redemption prices set forth in this offering memorandum, plus accrued and unpaid interest, and additional amounts, if any. Before April 28, 2022, we may also redeem the Notes, in whole or in part, at a redemption price based on a "make-whole" premium. In addition, before April 28, 2022, we may also redeem in the aggregate, up to 35% of the aggregate principal amount of the Notes at a redemption price equal to 105.625% of their principal amount, plus accrued and unpaid interest and additional amounts, if any, using the proceeds of certain equity offerings. See "Description of the Notes—Optional Redemption." Upon certain changes in applicable tax law, as set forth in further detail in this offering memorandum, we may also redeem the Notes, in whole but not in part. See "Description of the Notes—Optional Tax Redemption."

Aguaytía Energy del Perú S.R.L., a limited liability partnership (*sociedad comercial de responsabilidad limitada*) (the "Principal Guarantor" or "Aguaytía") organized under the laws of the Republic of Perú ("Peru"), and certain of our and Aguaytía's existing and future subsidiaries (the "Subsidiary Guarantors" and, together with the Principal Guarantor, the "Guarantors") will irrevocably and unconditionally guarantee the Notes (the "Note Guarantees").

The Notes will be our senior unsecured obligations and will rank *pari passu* with all of our other senior unsecured and unsubordinated obligations, other than with respect to certain labor, tax and any other obligations preferred by operation of law. The Note Guarantees will be the Guarantors' senior unsecured obligations and will rank equally in right of payment with all of the Guarantors' existing and future debt that is not subordinated in right of payment to the Note Guarantees, other than certain labor, tax and any other obligations preferred by operation of law. The Notes and the Note Guarantees will be effectively junior to all our secured debt and any secured debt of the Guarantors, to the extent of the collateral securing such debt.

There is currently no public market for the Notes. Approval in-principle has been received for the listing of and quotation for the Notes on the Singapore Exchange Securities Trading Limited (the "SGX-ST"). The SGX-ST assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained in this offering memorandum. Approval in-principle received from the SGX-ST is not to be taken as an indication of the merits of the Issuer (as defined below), the Guarantors, their respective consolidated subsidiaries and associated companies (if any), the Notes or the Note Guarantees. The Notes will be traded in a minimum board lot size of U.S.$200,000 (or its equivalent in foreign currencies) as long as any of the Notes are listed on the SGX-ST and the rules of the SGX-ST so require.

Investing in the Notes involves risk. See "Risk Factors" beginning on page 28.

Price: 100.000% plus accrued interest, if any, from April 28, 2017.

The Notes and the Note Guarantees have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"). Prospective purchasers that are qualified institutional buyers ("QIBs") are hereby notified that the sellers of the Notes may be relying on an exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A under the Securities Act ("Rule 144A"). Outside the United States, the offering is being made in reliance on Regulation S under the Securities Act ("Regulation S"). For a description of certain restrictions on transfers of the Notes, see "Plan of Distribution" and "Transfer Restrictions." Neither the Securities and Exchange Commission, nor any state securities commission nor any other regulatory authority in the United States has approved or disapproved the Notes nor has any of the foregoing authorities passed upon or endorsed the merits of the offering or the accuracy or adequacy of this offering memorandum. Any representation to the contrary is a criminal offense.

The Notes, the Note Guarantees and the information contained in this offering memorandum have not been and will not be registered with or approved by the Peruvian Superintendency of the Securities Market (*Superintendencia del Mercado de Valores* or "SMV") or the Lima Stock Exchange (*Bolsa de Valores de Lima* or "BVL"). The Notes may not be offered or sold in Peru or any other jurisdiction, except in compliance with the securities laws thereof.

We expect that delivery of the Notes will be made to investors in book-entry form through the facilities of The Depository Trust Company, for the accounts of its direct and indirect participants, including Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear"), and Clearstream Banking, *société anonyme* ("Clearstream"), on or about April 28, 2017.

Global Coordinators and Joint Bookrunners

Deutsche Bank Securities **Credicorp Capital**

Joint Bookrunners

Citigroup **Morgan Stanley** **Scotiabank**

Co-Manager

Interbank

The date of this offering memorandum is April 25, 2017.

Prospective purchasers should rely only on the information contained in this offering memorandum. No person has been authorized to provide prospective purchasers with different information. If anyone provides prospective purchasers with different or inconsistent information, prospective purchasers should not rely on it. None of Orazul Energy Egenor S. en C. por A. or any of Deutsche Bank Securities Inc., Credicorp Capital Sociedad Agente de Bolsa S.A., Citigroup Global Markets Inc., Morgan Stanley & Co. LLC or Scotia Capital (USA) Inc. (collectively, the "Initial Purchasers") or Banco Internacional del Perú S.A.A. (the "Co-Manager," and such Co-Manager shall be included in the term "Initial Purchasers" unless the context otherwise requires), is making an offer to sell the Notes in any jurisdiction where the offer or sale is not permitted. Prospective purchasers should not assume that the information contained herein is accurate as of any date other than the date on the front cover of this offering memorandum. Orazul Energy Egenor S. en C. por A. and the Guarantors' businesses, financial conditions, results of operations and prospects may have changed since that date. None of Orazul Energy Egenor S. en C. por A. or any of the Initial Purchasers makes any representation or warranty, express or implied, as to the accuracy or completeness of the information contained in this offering memorandum after the date hereof.

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Unless otherwise indicated or the context otherwise requires, all references in this offering memorandum to "us," "we" and "our" refer collectively to (i) Orazul Energy Egenor S. en C. por A., a partnership limited by shares (*sociedad en comandita por acciones*) organized under the laws of Peru (the "Issuer" or "Egenor") and its consolidated subsidiary Etenorte S.R.L., a limited liability partnership (*sociedad comercial de responsibilidad limitada*) organized under the laws of Peru ("Etenorte"), and (ii) Aguaytía and its consolidated subsidiaries (a) Eteselva S.R.L., a limited liability partnership (*sociedad comercial de responsibilidad limitada*) organized under the laws of Peru ("Eteselva"), and (b) Termoselva S.R.L., a limited liability partnership (*sociedad comercial de responsibilidad limitada*) organized under the laws of Peru ("Termoselva").

This offering memorandum has been prepared solely for use in connection with the proposed offering of the Notes described in this offering memorandum. This offering memorandum does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire the Notes. You are not authorized to distribute this offering memorandum to any person other than a prospective purchaser and any person retained to advise such prospective purchaser with respect to a purchase, and you are prohibited from disclosing any of its contents without our prior written consent. Each prospective purchaser, by accepting delivery of this offering memorandum, agrees to the foregoing stipulations and to make no electronic or physical copies of this offering memorandum or of any documents referred to in this offering memorandum.

This offering memorandum is based on information provided by us and other sources that we believe to be reliable. After having made all reasonable inquiries, we confirm that the information contained in this offering memorandum is true and correct in all material respects, that the opinions and intentions expressed in this offering memorandum are honestly held, that there are no other facts the omission of which would make this offering memorandum as a whole misleading, and that we accept responsibility for this offering memorandum accordingly. This offering memorandum summarizes certain documents and other sources of information, and we refer prospective purchasers of the Notes to those sources for a more complete understanding of the information contained therein. Copies of certain documents referred to herein will be made available to prospective purchasers, free of charge, upon request to us or the Initial Purchasers.

By purchasing the Notes, prospective purchasers will be deemed to have made the acknowledgments, representations, warranties and agreements described under the heading "Transfer Restrictions" in this offering memorandum. The Notes will bear a legend referring to such restrictions. See "Transfer Restrictions." As a prospective purchaser of the Notes, you should be aware that you may be required to bear the financial risks of your investment in the Notes for an indefinite period of time. Please refer to the sections in this offering memorandum entitled "Plan of Distribution" and "Transfer Restrictions."

THE NOTES WILL BE SOLELY OUR OBLIGATIONS AND THE NOTE GUARANTEES WILL BE SOLELY THE GUARANTORS' OBLIGATIONS, AND THE HOLDERS OF THE NOTES WILL HAVE NO RECOURSE AGAINST OUR INDIRECT OWNERS, AND/OR AGAINST ANY OF SUCH OWNERS' OFFICERS, DIRECTORS, EMPLOYEES, MEMBERS OR MANAGERS WITH RESPECT TO OUR OBLIGATIONS UNDER THE NOTES AND THE INDENTURE GOVERNING THE NOTES AND THE GUARANTORS' OBLIGATIONS UNDER THE NOTE GUARANTEES.

You hereby acknowledge that you have been afforded an opportunity to request from us, and have received, all information considered by you to be necessary to verify the accuracy of, or to supplement, the information contained herein, and that you have had the opportunity to review all the documents described herein.

In making an investment decision with respect to the Notes, you must rely on your own examination of our business and the terms of the offering, including the merits and risks involved. You should not construe anything in this offering memorandum as legal, business, accounting, regulatory or tax advice. Before investing in the Notes, you should consult with your own business, legal, accounting, regulatory and tax advisors to determine the appropriateness and consequences of an investment in the Notes in your specific circumstances and arrive at an independent evaluation of the investment based upon, among other things, your own views as to the risks associated with the Notes and us.

If your investment authority is subject to legal restrictions you should consult your legal advisors to determine whether and to what extent the Notes constitute legal investments for you. None of us or any of the Initial Purchasers is making any representation to any purchaser of the Notes regarding the legality of an investment in the Notes by such purchaser under any legal investment or similar laws or regulations.

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 by you for the purchase, offer or sale of the Notes under the laws and regulations in force in your jurisdiction to which you are subject or in which you make such purchases, offers or sales, and neither we nor the Initial Purchasers will have any responsibility therefor.

THE NOTES AND THE NOTE GUARANTEES WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR ANY STATE SECURITIES LAWS IN THE UNITED STATES. THEREFORE, THE NOTES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY U.S. PERSON UNLESS THE OFFER OR SALE WOULD QUALIFY FOR A REGISTRATION EXEMPTION FROM THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS. ACCORDINGLY, THE NOTES ARE BEING OFFERED AND SOLD IN THE UNITED STATES ONLY TO QIBS IN ACCORDANCE WITH RULE 144A AND OUTSIDE THE UNITED STATES TO NON-U.S. PERSONS IN ACCORDANCE WITH REGULATION S. PROSPECTIVE PURCHASERS OF THE NOTES IN THE UNITED STATES THAT ARE QIBS ARE HEREBY NOTIFIED THAT WE MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A.

YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED IN THIS OFFERING MEMORANDUM. WE HAVE NOT AUTHORIZED ANYONE TO PROVIDE YOU WITH DIFFERENT INFORMATION. NONE OF US OR ANY OF THE INITIAL PURCHASERS IS MAKING AN OFFER OF THE NOTES IN ANY JURISDICTION WHERE SUCH OFFER IS NOT PERMITTED.

NEITHER THE INITIAL PURCHASERS NOR THEIR AGENTS HAVE INDEPENDENTLY VERIFIED THE INFORMATION CONTAINED IN THIS OFFERING MEMORANDUM AND ASSUME NO RESPONSIBILITY FOR THE ACCURACY OR COMPLETENESS OF THE INFORMATION CONTAINED IN THIS OFFERING MEMORANDUM.

Notwithstanding anything in this offering memorandum to the contrary, each potential holder and/or beneficial owner of the Notes (and each employee, representative, or other agent of each potential holder and/or beneficial owner of the Notes) may disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of the transactions described in this offering memorandum and all materials of any kind that are provided to the potential holder or beneficial owner of the Notes relating to such tax treatment and tax structure (as such terms are defined in Treasury Regulations Section 1.6011-4). This authorization of tax disclosure is retroactively effective to the commencement of discussions with potential holders or beneficial owners of Notes regarding the transactions contemplated herein.

NOTICE TO RESIDENTS OF PERU

THE NOTES WILL NOT BE OFFERED PURSUANT TO A PUBLIC OFFERING IN PERU. THEREFORE, THIS OFFERING MEMORANDUM HAS NOT BEEN, AND WILL NOT BE, REGISTERED WITH THE SMV OR THE BVL. PERUVIAN SECURITIES LAWS AND REGULATIONS ON PUBLIC OFFERINGS WILL NOT BE APPLICABLE TO THE OFFERING OF THE NOTES AND THEREFORE, THE DISCLOSURE OBLIGATIONS SET FORTH THEREIN WILL NOT BE APPLICABLE TO THE ISSUER 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 AND THE NOTE GUARANTEES 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.

INSTITUTIONAL INVESTORS, AS DEFINED BY PERUVIAN LEGISLATION, MUST RELY ON THEIR OWN EXAMINATION OF THE ISSUER, THE GUARANTORS AND THE TERMS OF THE OFFERING OF THE NOTES IN ORDER TO DETERMINE THEIR LEGAL ABILITY TO INVEST IN THE NOTES.

ENFORCEMENT OF FOREIGN JUDGMENTS

Egenor and each of the Guarantors are organized under the laws of Peru and substantially all of their respective assets are located outside the United States. In addition, all of our officers and certain other persons named in this offering memorandum reside outside the United States and all or a significant portion of their assets are located outside the United States. As a result, it may be difficult or impossible for investors to effect service of process within the United States upon such persons or to enforce against them or the company judgments of courts of the United States, whether or not predicated upon the civil liability provisions of the federal securities laws of the United States or other laws of the United States or any state thereof.

We have been advised by our Peruvian counsel, Rodrigo, Elías & Medrano Abogados S. Civil de R.L., 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 Notes that 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:

(i) 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);

(ii) such foreign court had jurisdiction under its own private international conflicts of law rules and under general principles of international procedural jurisdiction;

(iii) 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;

(iv) the judgment has the status of *res judicata* as defined in the jurisdiction of the court rendering such judgment;

(v) 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;

(vi) 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;

(vii) the judgment is not contrary to Peruvian public policy (*orden público*) or good morals;

(viii) it is not proven that such foreign court denies enforcement of Peruvian judgments or engages in a review of the merits thereof;

(ix) such judgment has been (a) duly apostilled by the competent authority of the jurisdiction of the issuing court, in case of jurisdictions that are party to The Hague Apostille Convention, or (b) certified by Peruvian consular authorities, in case of jurisdictions that are not party to The Hague Apostille Convention, and is accompanied by a certified and officially translated copy of such judgment into Spanish; and

(x) the applicable court taxes or 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 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 or such persons could 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.

We have appointed CSC Corporation as agent to receive service of process under the indenture governing the Notes (the “Indenture”), including with respect to any action brought against Egenor or the Guarantors in the Supreme Court of the State of New York in the County of New York or the

United States District Court for the Southern District of New York under the federal securities laws of the United States.

AVAILABLE INFORMATION

We will make available to the prospective holders of Notes at our offices, free of charge, copies of the Indenture, the articles of incorporation (*escritura pública de constitución*) pursuant to which we were incorporated, the by-laws (*estatuto social*) and all other agreements and documents referred to in this offering memorandum, as well as the audited financial statements described under "Presentation of Financial and Other Information."

We will furnish, upon prior written request of any registered owner of a Note, or holder of a Note, or beneficial owner of a Note, or Note owner, such information as is specified in paragraph (d)(4) of Rule 144A to: (a) such holder of a Note or Note owner, (b) a prospective purchaser of such Note (or beneficial interest therein) who is a QIB designated by such holder of a Note or Note owner or (c) the trustee for delivery to such holder of a Note or Note owner or such prospective purchaser so designated, in each case in order to permit compliance by such holder of a Note or Note owner with Rule 144A in connection with the resale of such Note (or a beneficial interest therein) in reliance upon Rule 144A unless, at the time of such request, (1) we are subject to the reporting requirements of Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended, (as so amended, the "Exchange Act") or (2) we qualify for the exemption to Rule 12g3-2(b) under the Exchange Act.

Egenor's local bonds are currently registered with the Peruvian Public Registry of Securities (*Registro Público del Mercado de Valores*) of the SMV and listed on the BVL. Accordingly, for so long as Egenor's local bonds remain registered with the Peruvian Public Registry of Securities, Egenor is required to file certain financial information in Spanish with the SMV and BVL such as quarterly and annual reports, as well as notices of material events (*hechos de importancia*). All such reports and notices are available at www.smv.gob.pe and at www.bvl.com.pe. The financial information and reports filed with the SMV and the BVL do not and will not form part of this offering memorandum and are not incorporated by reference herein.

FORWARD-LOOKING STATEMENTS

This offering memorandum contains forward-looking statements within the meaning of the U.S. securities laws. Forward-looking statements include statements preceded by, followed by or that include expressions such as "believes," "expects," "intends," "plans," "projects," "estimates," or "anticipates" and similar expressions and appear in, among others, the sections in this offering memorandum entitled "Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and "Business." Although we believe that these forward-looking statements are based upon reasonable assumptions, these statements are subject to several risks and uncertainties and are made in light of information currently available to us. Forward-looking statements include, among others, statements regarding our intent, belief or current expectations, as well as those of our executive officers with respect to, but not limited to:

- the general economic, business, political, demographic, social and other conditions in Peru, as well as the effect of world events, climate events or variations, catastrophic accidents and natural disasters;
- market or other trends affecting our financial condition or results of operations;
- our ability to complete new projects or make capital investments and realize the benefits from those new projects or capital investments;

- the results of the litigation or administrative proceedings in which we are currently involved or in which we may be involved in the future;
- our ability to generate cash and the cost and availability of the financing required to fund our operations and capital expenditures;
- the ability of our customers to meet their obligations under our natural gasoline supply agreement and PPAs;
- the business skills and judgment of our personnel, including their expectations and estimates concerning our future financial performance;
- the interruption or failure of our information technology, communication and processing systems;
- the enactment of new and stricter regulations, including judicial or administrative decisions setting forth stricter interpretation of existing regulations, in the markets where we operate or offer our services;
- the future impact of competition and regulations in the markets where we operate or offers our services;
- our ability to obtain or renew concessions or licenses that may be required to provide our services;
- business interruptions or impairment of our assets;
- the potential for acts of terrorism, vandalism, weather, unforeseeable natural disasters or other similar events that may affect the integrity of our infrastructure;
- work stoppages or general strikes; and
- other factors discussed under the heading "Risk Factors."

Such forward-looking statements include expectations with respect to our businesses following the completion of the offering and speak only as of the date of this offering memorandum.

None of us or any of the Initial Purchasers can assure prospective purchasers of the Notes that these forward-looking statements, estimates, assumptions or intentions will prove to be correct or that the information, interpretations and understandings on which they are based will prove to be valid. The actual results of our forward-looking statements, estimates, assumptions or intentions may depend on factors beyond our control.

None of us or any of the Initial Purchasers undertakes any obligation to release publicly any revisions to such forward-looking statements after completion of this offering to reflect later events or circumstances or to reflect the occurrence of unanticipated events even if new information, future events or other circumstances have made them incorrect or misleading. In light of the risks and uncertainties underlying the forward-looking statements, there can be no assurance that the events described or implied in the forward-looking statements contained in this offering memorandum will in fact transpire. Accordingly, readers are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date they were made and, as a result, prospective investors should not make an investment decision based on the forward-looking statements contained in this offering memorandum. These cautionary statements should be considered in connection with any written or oral forward-looking statements that we or the Initial Purchasers may issue or make in the future.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Financial Information

Unless otherwise specified, reference to "U.S. Dollars," "Dollars," "$" or "U.S.$" are to United States dollars, the legal currency of the United States, and references to "*Soles*" or "S/"are to Peruvian *Soles*, the legal currency of Peru.

Aguaytía maintains its books and records in U.S. Dollars and Egenor maintains its books and records in *Soles.* Each of Egenor and Aguaytía prepares its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

The Egenor and Aguaytía Financial Statements

This offering memorandum includes the audited consolidated financial statements of each of Egenor and Aguaytía as of and for each of the three years ended December 31, 2016, 2015 and 2014 (the "Egenor Financial Statements" and the "Aguaytía Financial Statements," respectively). The Egenor Financial Statements and the Aguaytía Financial Statements were audited by Gris y Asociados S. Civil de R.L., a member firm of Deloitte Touche Tohmatsu Limited.

The Egenor Financial Statements include the results of operations, assets, liabilities and shareholders' equity of Egenor's only subsidiary, Etenorte, in which Egenor holds a 99.99% equity ownership interest.

The Aguaytía Financial Statements include the results of operations, assets, liabilities and shareholders' equity of Aguaytía's subsidiaries, Termoselva and Eteselva, in each of which Aguaytía holds a 99.99% equity ownership interest.

The Unaudited Combined Financial Information

The accompanying unaudited combined financial information of Egenor and Aguaytía (including their respective consolidated subsidiaries) for the year ended December 31, 2016, (the "Unaudited Combined Financial Information") was derived from the Egenor Financial Statements and the Aguaytía Financial Statements after making certain adjustments and intercompany eliminations to present Egenor, Aguaytía and their respective consolidated subsidiaries as a single reporting entity.

The Unaudited Combined Financial Information has been prepared by our management and is being furnished solely for informational purposes and is not intended to represent or be indicative of the results that we would have reported if Egenor and Aguaytía were a single reporting entity, nor does it purport to represent the combined results of operations of Egenor and Aguaytía for future periods. The Unaudited Combined Financial Information is based on assumptions deemed to be reasonable by us and should be read in conjunction with the Egenor Financial Statements and the Aguaytía Financial Statements included elsewhere in this offering memorandum as well as "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Other Information

Currency Translation

Unless otherwise indicated, all financial information relating to Egenor that is presented in U.S. Dollars in this offering memorandum has been translated from *Soles* using the exchange rate of S/3.36

to U.S.$1.00, the exchange rate as of December 31, 2016. As of April 10, 2017, the exchange rate of *Soles* to U.S.$1.00 was S/3.247 as published by the SBS. The U.S. Dollar equivalent information presented in this offering memorandum is provided solely for the convenience of the readers of this offering memorandum and should not be construed as implying that the *Soles* amounts represent, or could have been or could be converted into, U.S. Dollars at such rates or at any rate. See "Foreign Exchange Controls and Exchange Rates" for more detailed information regarding the translation of *Soles* into U.S. Dollars.

Market Estimates

The market estimates contained in this offering memorandum are derived from industry and governmental sources that we believe are reliable such as COES, OSINERGMIN, MEM and SBS (each as defined herein), among others.

Rounding

Percentages and some amounts in this offering memorandum have been rounded for ease of presentation. Any discrepancies between totals and the sums of the amounts listed are due to rounding.

Notices

For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, all notices to holders of the Notes will be published in the form of an announcement which shall be made by or on behalf of the Issuer through the SGX-ST.

SPECIAL NOTE REGARDING NON-IFRS MEASURES

The audited consolidated financial statements of each of Egenor and Aguaytía included in this offering memorandum have been prepared in accordance with IFRS. We have, however, disclosed each of Egenor and Aguaytía's EBITDA, Adjusted EBITDA, net debt, and interest coverage ratio in this offering memorandum, which are not IFRS measures. See "Summary Financial and Operating Data" and "Selected Financial and Operating Data". EBITDA, Adjusted EBITDA, net debt and the interest coverage ratio are not IFRS measures, do not have standard definitions, and are not comparable to similar measurements prepared by other companies.

We define Egenor's EBITDA ("Egenor's EBITDA") as Egenor's net profit for such period, *plus* (i) income tax expense, (ii) *minus* financial income, *plus* (iii) the sum of (a) financial expenses and (b) amortization and depreciation.

We define Egenor's adjusted EBITDA ("Egenor's Adjusted EBITDA") as Egenor's EBITDA *plus* (i) exchange difference (net), (ii) profit sharing expenses included in cost of sales, administrative expenses and selling expenses (see note 21 to the Egenor Financial Statements) (the "Profit Sharing") *minus* net profit for the year for discontinued operations.

We define Aguaytía's EBITDA ("Aguaytía's EBITDA") as Aguaytía's net profit for such period, *plus* (i) income tax expense, (ii) *minus* financial income, *plus* (iii) the sum of (a) financial expenses and (b) depreciation included in costs of sales.

We define Aguaytía's adjusted EBITDA ("Aguaytía's Adjusted EBITDA") as Aguaytía's EBITDA, *plus* (i) exchange difference (net) and (ii) the provisions recorded in note 19 to the Aguaytía Financial Statements corresponding to 100% of the bad debt allowance due to sales of natural gasoline to Maple Gas Corporation del Peru S.R.L. ("Maple Gas") for the years ended December 31, 2016 and 2015 (the "Maple Gas Provisions").

Our combined adjusted EBITDA ("Combined Adjusted EBITDA") consists of the sum of the Egenor's Adjusted EBITDA (translated into U.S. Dollars) and the Aguaytía's Adjusted EBITDA, which is derived from the Unaudited Combined Financial Information.

We define Egenor's net debt as total financial obligations *minus* cash and cash equivalents.

We define Aguaytía's net debt as total financial obligations *minus* cash and cash equivalents.

We define Egenor's interest coverage ratio as Egenor's Adjusted EBITDA *divided by* financial expenses.

We define Aguaytía's interest coverage ratio as Aguaytía's Adjusted EBITDA *divided by* financial expenses.

We refer to Egenor's EBITDA and Aguaytía's EBITDA collectively as "EBITDA." We refer to Egenor's Adjusted EBITDA, Aguaytía's Adjusted EBITDA and Combined Adjusted EBITDA, collectively as "Adjusted EBITDA." Our management considers EBITDA, Adjusted EBITDA, net debt and the interest coverage ratio to be meaningful measures for understanding operating and financial performance. EBITDA, Adjusted EBITDA, net debt and the interest coverage ratio are not presentations made in accordance with IFRS. EBITDA, Adjusted EBITDA, net debt and the interest coverage ratio have important limitations as analytical tools, and you should not consider them in isolation, as indicative of the cash available to us to make payments under the Notes or as substitutes for analysis of our results as reported under IFRS. For example, neither EBITDA nor Adjusted EBITDA reflects (a) cash expenditures, or future requirements for capital expenditures or contractual commitments; and (b) changes in, or cash requirements for, working capital needs. In addition, because other companies may calculate EBITDA, adjusted EBITDA, net debt and the interest coverage ratio differently than we do, EBITDA, Adjusted EBITDA, net debt and the interest coverage ratio may not be comparable to similarly titled measures reported by other companies.

The inclusion of the sales revenues represented by the Maple Gas Provision in the calculation of Aguaytía's Adjusted EBITDA is not intended as a representation or expectation that such revenues will be collected by Aguaytía in the future. This adjustment is made for informational purposes to provide investors with normalized revenues, because we consider this is an unusual charge for bad debt. Upon completion of the construction of our natural gasoline storage and loading plant by July 2017, we expect to be able to begin selling natural gasoline to third parties, including Petroperú (as defined herein). We also expect that upon the completion of the natural gasoline storage and loading plant, we will be able to generate sales revenue from the natural gasoline that is comparable to the revenue we would generate if Maple Gas would pay us the agreed price of the natural gasoline we currently deliver to them under our gas supply contract. Maple Gas began to fall behind in making payments for the natural gasoline we deliver to them beginning in June 2014 in breach of their obligations under their gas supply contract with us. For an explanation of our relationship with Maple Gas, our current dispute with Maple Gas and our planned storage and loading plant project, see "Business—Hydrocarbon Extraction and Fractionation Activities—Our Gas Supply Contracts."

Our calculation of Aguaytía's Adjusted EBITDA and Egenor's Adjusted EBITDA include adjustments with respect to exchange difference because our management does not consider exchange difference (net) to be a measure that is controlled by management or one that is function of our financial performance or results of operations. Our calculation of Egenor's Adjusted EBITDA includes adjustments with respect to Profit Sharing because our management considers Profit Sharing to be a result of the current legal framework that has the same characteristics as income taxes. Finally, our calculation of Egenor's Adjusted EBITDA includes adjustments with respect to discontinued operations because our management considers discontinued operations to be a necessary adjustment to EBITDA in order to evaluate our real capacity to generate profits from our current assets.

CERTAIN TERMS USED IN THIS OFFERING MEMORANDUM

We have prepared this offering memorandum using a number of technical and regulatory terms, among other defined terms, which you should consider when reading the information contained herein. In this offering memorandum:

- "ANA" means National Water Authority (*Autoridad Nacional del Agua*) of Peru;
- "Bbl" means barrel(s) of crude oil;
- "Bcf" means billion cubic feet;
- "BTU" means British Thermal Unit;
- "Cañón del Pato" means a 265.6 MW hydroelectric power plant located in the province of Ancash, Peru;
- "Carhuaquero" means Carhuaquero I, II and III, which consists of a 94.5 MW hydroelectric power plant located in the province of Cajamarca, Peru;
- "Carhuaquero IV" means a 10.0 MW hydroelectric power plant adjacent to Carhuaquero and Carhuaquero V located in the province of Cajamarca, Peru;
- "Carhuaquero V" means a 5.7 MW hydroelectric power plant located 2.6 km downstream from the water discharged from Carhuaquero in the province of Cajamarca, Peru;
- "Central Térmica Aguaytía" means a 176.3 MW thermoelectric power plant located in the province of Ucayali, Peru;
- "COD" means the commercial operation date of a 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 subject to public law, composed of qualified participants undertaking activities in SEIN (as defined herein), which is responsible for planning and coordinating the operation of the generation, transmission and distribution systems that form the SEIN;
- "combined sales" for any period means the sum of (i) the sales of each of Egenor and its consolidated subsidiary, Etenorte, for such period as recorded in the Egenor Financial Statements; and (ii) the sales of each of Aguaytía and its consolidated subsidiaries, Termoselva and Eteselva, for such period as recorded in the Aguaytía Financial Statements;
- "CSA" means concession supply agreement;
- "CTS" means Complementary Transmission System (*sistema complementario de transmisión*);
- "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;
- "Distribution Companies" means public or private companies that distribute energy to Regulated Customers subject to a regulated price;
- "effective capacity" means maximum continuous power delivered by a unit at generating terminals, at the environmental and operating conditions under which the unit normally operates;

- "firm capacity" means the amount of power that a generating unit can supply at high reliability pursuant to applicable regulation;
- "firm energy" means, for hydroelectric power plants, the maximum expected output of electrical energy, determined to an excess probability of 95%, and for thermal power plants, the maximum expected output of energy, taking into account planned or unexpected unavailability of machines;
- "GTS" means Guaranteed Transmission System (*sistema garantizado de transmisión*);
- "GWh" means gigawatt-hour(s) (one GWh is equal to 1,000 MWh);
- "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;
- "installed capacity" is the full-load continuous gross capacity of a unit under specified conditions, as calculated from the electric generator nameplate based on the rated power factor;
- "km" means kilometer(s);
- "kV" means kilovolt(s);
- "kW" means kilowatt(s), or one thousand watts, equivalent to one thousand joules per second and 1,000 volt-amperes;
- "kWh" means kilowatt-hour(s), (one kWh is equal to 1,000 watt-hours);
- "LPG" means liquefied petroleum gas;
- "MEM" 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;
- "MM" means million(s);
- "MMbbl" means million barrels;
- "mmBtu" means million British Thermal Units;
- "MMcf" means million cubic feet;
- "MMcfd" means million cubic feet per day (MMpcd or *millones de pies cúbicos diarios*);
- "MMscfd" means million standard cubic feet per day;
- "mmstb" means million stock tank barrels;
- "MTS System" means the Main Transmission System (*sistema principal de transmisión*);
- "MVA" means megavolt-ampere(s);
- "MW" means megawatt(s) (one MW is equal to 1,000 kW);
- "MWh" means megawatt-hour(s) (one MWh is equal to 1,000 kWh);
- "NGLs" mean natural gas liquids (including butane, propane and natural gasoline);
- "NGV" means service stations where natural gas is sold to fuel motor vehicles;

- “OEFA” means the Environmental Evaluation and Supervision Agency (*Organismo de Evaluación y Fiscalización Ambiental*), a Peruvian governmental authority which is responsible for, among other things, enforcing, overseeing, controlling and imposing sanctions in respect of environmental matters. It has the authority to directly oversee certain industries, such as mining, energy (electric power, oil and gas), fishing and manufacturing (beer, paper, cement, tannery among others). On March 4, 2011, OEFA took on the responsibility of verifying the compliance with environmental regulations of companies operating in the hydrocarbon and energy industries;
- “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;
- “PPA” means a power purchase agreement;
- “PPI” means produce price index for finished goods less foods and energy, published by the Bureau of Labor Statistics of the United States;
- “ProInversión” means the Peruvian Agency for the Promotion of Private Investments (*Agencia de Promoción de la Inversión Privada*);
- “Regulated Customers” means customers subject to a regulated price applicable to their energy and capacity consumption. According to the regulatory framework currently in force: (i) customers with a capacity demand below 200 kW cannot participate in the unregulated market and must purchase energy and capacity from a Distribution Company; and (ii) customers with a capacity demand between 200 kW and 2,500 kW may choose to participate in the unregulated power market, as Unregulated Customers, or to purchase energy and capacity from Distribution Companies as Regulated Customers;
- “SBS” means Peruvian Superintendency of Banks, Insurance and Private Pension Fund Administration Entities (*Superintendencia de Banca, Seguros y Administradoras Privadas de Fondos de Pensiones*);
- “SEIN” means the National Interconnected Electrical System of Peru (*Sistema Eléctrico Interconectado Nacional*);
- “STS” means Secondary Transmission System (*sistema secundario de transmisión*);
- “SUNAT” means the National Superintendency of Tax Administration (*Superintendencia Nacional de Aduanas y de Administración Tributaria*);
- “transmission” refers to the bulk transfer of electricity from generating facilities to the consumption centers by means of the transmission grid;
- UIT means tax units (Unidades Impositivas Tributarias). The equivalent amount in Soles for UIT fines is calculated at the time when such fine is ultimately paid. The UIT Soles equivalent in 2016 was S/3,950 per UIT and the UIT Soles equivalent in 2017 is S/4,050 per UIT;
- “Unregulated Customers” means customers not subject to price regulation respecting their energy and capacity consumption. According to the regulatory framework currently in force: (i) customers with a capacity exceeding 2,500 kW participate in the unregulated power market, as Unregulated Customers, and can enter into PPAs directly with generation companies or Distribution Companies at freely negotiated prices; and (ii) customers with a capacity demand between 200 kW and 2,500 kW may choose to participate in the unregulated power market, as Unregulated Customers, or contract as Regulated Customers; 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.

Unless otherwise indicated, statistics provided throughout this offering memorandum with respect to electricity facilities are expressed in MW, in the case of the installed capacity of such facilities, and in GWh, in the case of the aggregate electricity production of such facilities. Statistics relating to aggregate annual electricity production and distribution are expressed in GWh and are based on a year of 8,760 hours on a non-leap year and 8,784 on a leap year.

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. This summary is not complete and does not contain all the information you should consider before investing in the Notes. You should carefully read this entire offering memorandum, including "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the financial statements and the notes thereto included elsewhere in this offering memorandum, before investing.

Overview of our Business

Our business is composed of a diversified portfolio of hydro and thermal power generation, electricity transmission and natural gas production and processing assets. We believe we are the only vertically integrated power company that owns and operates natural gas extraction and electricity transmission assets in Peru. We are primarily focused on the Peruvian energy market where we believe there are attractive growth opportunities. For the year ended December 31, 2016, substantially all of our sales were derived from our business operations in Peru and substantially all of our operating assets were located there.

We conduct our operations through two primary business units: Egenor, which is comprised of hydro power generation and electricity transmission assets, and Aguaytía, which is an integrated gas-to-power complex comprised of natural gas production and processing, thermal power generation and electricity transmission. Our hydro and thermal power generation assets are owned, respectively, by two entities, Egenor, and Aguaytía's consolidated subsidiary, Termoselva. As of December 31, 2016, Egenor and Termoselva together represented the fifth largest privately held power generation business in Peru in terms of total effective capacity. For the year ended December 31, 2016, our hydro and thermal power generation business accounted for 89.9% of our combined sales. Under our Egenor business, we generate hydro power through two power plants, Cañón del Pato and Carhuaquero I-III, IV and V, while under our Aguaytía business we generate thermal power through one gas-fired, open-cycle power plant, Central Térmica Aguaytía. Together, we own and operate power generation assets with a combined effective capacity of 552.1 MW. Cañón del Pato is one of the largest hydroelectric plants in Peru by installed capacity and has been in operation since 1958, providing a long history of operational performance and hydrological stability. Completed in 1991, 2008 and 2009, respectively, Carhuaquero I-III, IV and V account for an effective capacity of 110.2 MW. At both hydro facilities, our diverse water supply allows us to mitigate the effects of seasonality on our hydroelectric power generation business. In particular, due to Cañón del Pato's access to water supply from glaciers, lagoons and rainfall, we can rely on a more diverse water supply than our competitors in the same region. As it relates to our thermal generation operations, Central Térmica Aguaytía is the only thermal power plant in Peru with its own natural gas supply, which we believe offers substantial operating and commercial advantages. From a commercial standpoint, both Egenor and Termoselva are supported by long term power purchase agreements with credit-worthy counterparties that are either denominated in U.S. Dollars or linked to U.S. Dollars. For the year ended December 31, 2016, 92.4% of our combined power and electricity sales derived from capacity payments and sales of electricity under our PPAs, with the remaining 7.6% of combined power and electricity sales generated by sales to the spot market and other revenues. We believe our highly-contracted revenue structure, coupled with a long-history of operational performance and stable hydrology, should provide substantial stability to our future cash flows.

We conduct our electricity transmission activities through Egenor's consolidated subsidiary, Etenorte, and Aguaytía's consolidated subsidiary, Eteselva. Our electricity transmission activities support our hydro and thermal power generation business, as well as provide services to third parties, and, for the year ended December 31, 2016, accounted for 2.0% of our combined sales. Our electricity transmission infrastructure consists of 740 km of transmission lines and two substations owned and operated by us, which have the capacity to transmit in 220 kV and 138 kV, and an operating transformation capacity of 193 MVA (with a reserve of 0 MVA). Etenorte and Eteselva transmit electricity to the SEIN, the primary transmission network in Peru. Our electricity transmission activities are compensated based on regulated tariff rates allocated to us based on the electricity transmission capacity made available to the SEIN, independent of the power actually transmitted through our electricity transmission assets. This feature of our electricity transmission activities provides us with stable cash flows, as we receive availability revenues even when our own power generation assets are not dispatched.

Additionally, through Aguaytía, we conduct our natural gas production and processing activities. For the year ended, December 31, 2016, our sales of NGLs accounted for 8.1% of our combined sales. Our activities consist of the extraction and production of natural gas to support our power generation business and the sale of the associated NGLs to the Peruvian market. We extract natural gas and NGLs from Block 31-C in the Cushabatay formation located in the Padre de Abad province of Peru ("Block 31-C") under a license agreement granted by Perúpetro S.A. ("Perúpetro") that expires in 2024 (the "License Agreement"), whereby Aguaytía has the right to request an extension of the license under the License Agreement for up to an additional 10-year period. Located in the Amazon basin of Peru, the Cushabatay formation holds natural gas reserves that are extracted from a depth of approximately 9,000 feet. As of December 31, 2016, estimated remaining proven natural gas reserves owned by Aguaytía in the Cushabatay formation total 151.8 Bcf. These natural gas and NGL reserves, with a conservative remaining reserve life estimate of approximately 17 years, provide us with a low-cost source of gas and assure a steady supply of gas for our thermal generation plant. The remaining reserve life estimate is based on calculations performed by an independent oil and gas consulting firm, based on our projections of production levels in different scenarios.

Aguaytía is a fully integrated gas-to-power complex, with the capability to produce, process and market natural gas and NGLs. Upon extraction, the wet natural gas is delivered to a 55.75 mmscfd processing facility to separate the dry natural gas from the associated NGLs. The dry natural gas is then sent to Central Térmica Aguaytía when the plant is dispatched by the system operator, or reinjected into the reservoir to the extent it is not. The NGLs, on the other hand, are sent to Aguaytía's fractionation facility, where they are separated into a mix of gasses, mainly butane and propane, which are then converted into LPG and natural gasoline. The production volume of these commodities is not dependent on the dispatch of Central Térmica Aguaytía. We sell LPG to LPG bottlers and gas stations in the Peruvian market at international prices, and we currently deliver all of our natural gasoline to a refinery operated by Maple Gas. LPG is primarily used by the end users for heating, cooking and motor-vehicle fuel. Natural gasoline is refined by Maple Gas and converted into gasoline and other derivatives at Maple Gas' refinery located in Pucallpa, which is then sold by Maple Gas to fuel distribution companies. We are currently building our own natural gasoline storage and loading plant that we expect would allow us to store and sell the natural gasoline that we currently deliver to Maple Gas to third parties that would then process, refine and remarket that natural gasoline in the Peruvian market. We believe that the new loading and storage facility will allow us to diversify our revenues from sales of natural gasoline to third parties. As of the date of this offering memorandum, we are engaged in discussions with Petróleos del Perú S.A. ("Petroperú") geared towards commencing sales of natural gasoline to them upon completion of the facility. In the context of such discussions, Petroperú has delivered a Letter of Intent to purchase our natural gasoline, which we are currently reviewing. For additional information about our relationship with Maple Gas, our current dispute with Maple Gas and our planned storage and loading plant project, see "Business—Hydrocarbon Extraction and Fractionation Activities—Our Gas Supply Contracts."

Our PPAs

We hold PPAs with credit-worthy Unregulated Customers and Distribution Companies (who, in turn, sell energy and capacity to Regulated Customers) that provide a significant hedge against spot price fluctuations. For the year ended December 31, 2016, we derived 92.4% of our combined power and electricity sales from capacity payments and electricity sales under long-term PPAs that were either denominated in U.S. Dollars or linked to U.S. Dollars.

As of December 31, 2016, Egenor had entered into PPAs with nine Distribution Companies and four Unregulated Customers and Aguaytía's subsidiary, Termoselva, had entered into PPAs with nine Distribution Companies and five Unregulated Customers. Under each of these PPAs, we have committed to provide capacity and associated energy to these customers and the customers have agreed to purchase a specific amount of capacity and their requirement of energy from us. As of December 31, 2016, Distribution Companies represented 52.3% of Egenor's contracted energy and capacity offtake while Unregulated Customers, including those party to Renewable Energy Resources Generation ("RER") contracts, made up the remainder. Egenor's PPAs with Unregulated Customers have tenors of three to four years, while Egenor's PPAs with Distribution Companies have tenors of up to 10 years. As of December 31, 2016, Distribution Companies represented 84.8% of Termoselva's contracted energy offtake and capacity while Unregulated Customers made up the remainder. Termoselva's PPAs with Unregulated Customers have tenors of five to six years, while Termoselva's PPAs with Distribution Companies have tenors of up to 10 years.

Under our PPAs with Distribution Companies, which were awarded to us through two energy auctions conducted by OSINERGMIN in March 2010 and November 2010, the terms and conditions for the sale of capacity and energy are included in the terms of reference for the relevant auction and approved by OSINERGMIN. The terms of these PPAs cannot be freely amended or changed by the parties without OSINERGMIN's prior approval. Our PPAs with Distribution Companies cannot be terminated other than upon breach by us or our customers. Conversely, under our PPAs with Unregulated Customers, we and our customers are free to determine the price, duration and other terms and conditions through a private negotiation process prior to execution of such PPAs. Further, most of our PPAs with Unregulated Customers include the right to terminate the PPA upon prior notice and subject to the payment of a termination penalty. Based on the current prices and remaining tenors of our PPAs with Unregulated Customers, we do not expect our Unregulated Customers to exercise such right. Distribution Companies must contract three years in advance of their expected demand requirements, as such there is consistent demand in the market for our PPAs. Our PPAs with Distribution Companies have historically allowed us to sell energy at higher prices than those available on the spot market.

Under our PPAs with Distribution Companies, prices for capacity are generally calculated based on a base price in *Soles* specified in the PPA, adjusted for fluctuations in the U.S. Dollar/*Sol* exchange rate, a U.S. inflation index and a Peruvian inflation index, plus transmission and transformer charges. Prices for energy are generally calculated based on a base price in *Soles* specified in the PPA for peak and off-peak periods, adjusted for fluctuations in the regulated price of gas in the Camisea basin and, indirectly, fluctuations in the U.S. Dollar/*Sol* exchange rate.

Under our PPAs with Unregulated Customers prices for capacity are generally calculated based on a base price denominated in, or linked, to U.S. Dollars specified in the PPA, adjusted for fluctuations in a U.S. inflation index, plus transmission and transformer charges. Prices for energy are generally calculated based on a base price in U.S. Dollars specified in the PPA for peak and off-peak periods, adjusted for fluctuations in the regulated price of gas in the Camisea gas fields. We enter into PPAs with Unregulated Customers despite their typically shorter terms than PPAs with Distribution Companies, because such shorter terms provide upside exposure to the economic cycle and market sentiment.

The following table sets forth a summary of relevant information about our PPAs with Distribution Companies and Unregulated Customers as of the date of this offering memorandum:

	Number of Signed Contracts	Contracted Capacity (MW)	Execution Date	Performance Begin Date	Performance End Date	Remaining Term (Years)(2)	Energy Price (U.S.$/ MWh)(3)	Type of Contract	Indexation Formula(1)	Corporate Rating	Type of Customer	Parent Company
Luz del Sur S.A.A.	4	192.4	Nov. 18, 2010	Jan. 2014	Dec. 2023	7.0	44.81	Auction Process	100% Nat. Gas	Pe AAA	Distribution Co	SEMPRA
Electrica Sta Rosa 2(5)	1	44.0	Nov. 30, 2015	Dec. 2015	Dec. 2018	2.0	22.00	Bilateral Contract	PPI	NA	Unregulated	GCZ Group
Hidrandina S.A	4	42.2	Apr. 14, 2010	Jan. 2013	Dec. 2022	6.0	45.12	Auction Process	Basket of Fuels(1)	NA	Distribution Co	State-owned Company
Minera Barrick Misquichilca S.A.	2	35.0	Jan. 16, 2014	Aug. 2014	Dec. 2017	1.0	44.51	Bilateral Contract	CPI	NA	Unregulated	Barrick Gold
Electronorte S.A.	4	29.9	Apr. 14, 2010	Jan. 2013	Dec. 2022	6.0	46.47	Auction Process	Basket of Fuels(1)	NA	Distribution Co	State-owned Company
Electrocentro S.A.	4	25.0	Apr. 14, 2010	Jan. 2013	Dec. 2022	6.0	46.85	Auction Process	Basket of Fuels(1)	NA	Distribution Co	State-owned Company
Electronoroeste S.A.	4	21.0	Apr. 14, 2010	Jan. 2013	Dec. 2022	6.0	48.45	Auction Process	Basket of Fuels(1)	NA	Distribution Co	State-owned Company
Contratos RER(6)	2	16.0	Mar. 31, 2010	Apr. 2010	Mar. 2030	13.3	77.60	Auction Process	PPI	NA	Distribution Co	MEM
Enel Distribución S.A.A.	2	15.8	Nov. 18, 2010	Jan. 2014	Dec. 2023	7.0	44.65	Auction Process	100% Nat. Gas	Pe AAA	Distribution Co	ENEL
Alicorp S.A.A.	1	13.8	Jul. 15, 2012	Apr. 2013	Dec. 2017	1.0	49.90	Bilateral Contract	100% Nat. Gas	NA	Unregulated	Romero Group
Electroriente S.A.	2	11.5	Nov. 18, 2010	Jan. 2014	Dec. 2023	7.0	45.58	Auction Process	100% Nat. Gas	NA	Distribution Co	State-owned Company
Industria Textil Piura S.A.	1	10.0	Jul. 15, 2012	Apr. 2013	Dec. 2019	3.0	35.00	Bilateral Contract	CPI	NA	Unregulated	Romero Group
Electrica Sta Rosa 3	1	10.0	Nov. 15, 2016	Jan. 2017	Jun. 2017	0.5	23.00	Bilateral Contract	PPI	NA	Unregulated	GCZ Group
Agricola del Chira S.A.	1	9.8	Nov. 5, 2015	Jan. 2016	Jan. 2019	2.1	24.15	Bilateral Contract	Barra Price with discount	NA	Unregulated	Romero Group
Electrica Sta Rosa 1(4)	1	7.0	May 7, 2014	Dec. 2015	Dec. 2017	1.0	37.28	Bilateral Contract	70% Nat. Gas + 30% PPI	NA	Unregulated	GCZ Group
Hidrandina S.A. Free Client	1	7.0	Oct. 10, 2014	Oct. 2014	Sept. 2019	2.7	34.40	Bilateral Contract	CPI	Pe AAA	Unregulated	State-owned Company
Tecnofil S.A.	1	5.4	Apr. 30, 2014	May 2014	Dec. 2017	1.0	40.21	Bilateral Contract	70% Nat. Gas + 30% PPI	NA	Unregulated	—
Minera Austria Duvaz S.A.	1	4.0	Nov. 1, 2012	Jan. 2013	Dec. 2019	3.0	22.00	Bilateral Contract	50% CPI + 50% Nat. Gas	NA	Unregulated	—
Compañía Universal Textil S.A.	1	3.1	Jul. 15, 2012	Apr. 2013	Dec. 2017	1.0	50.01	Bilateral Contract	100% Nat. Gas	NA	Unregulated	Romero Group
Industrias del Espino S.A.	1	3.0	Jul. 15, 2012	Apr. 2013	Dec. 2017	1.0	50.00	Bilateral Contract	CPI	NA	Unregulated	Romero Group
Empresa de Generación Eléctrica de Junín S.A.C.	1	3.0	Dec. 31, 2016	Jan. 2017	Apr. 2017	0.3	23.00	Bilateral Contract	PPI	NA	Unregulated	GCZ Group
Consorcio Eléctrico de Villacurí S.A.C.	4	0.9	Apr. 14, 2010	Jan. 2013	Dec. 2022	6.0	45.06	Auction Process	Basket of Fuels(1)	NA	Distribution Co	—
Electrodunas S.A.A.	2	0.3	Nov. 18, 2010	Jan. 2014	Dec. 2023	7.0	46.64	Auction Process	100% Nat. Gas	Pe AA	Distribution Co	Blue Water Worldwide

(1): 0.107 (Product Price Index or "PPI") × U.S. Dollar/Sole exchange rate ("TC") + 0.019 (Price of Diesel in *Soles*/gallon or "D2") + 0.109 (Residual Price in *Soles* per gallon or "R6") + 0.673 (Price of Natural Gas in Soles per MMBTU or "Nat. Gas")+ 0.092 (Price of Coal in *Soles* per ton or "Price of Coal").

(2): remaining period since January 2017

(3): average energy price in December 2016 (exchange rate 3.4 Soles/U.S.$)

(4): Currently billing the minimum billed capacity due to the fact that Electrica Sta Rosa lost its client.

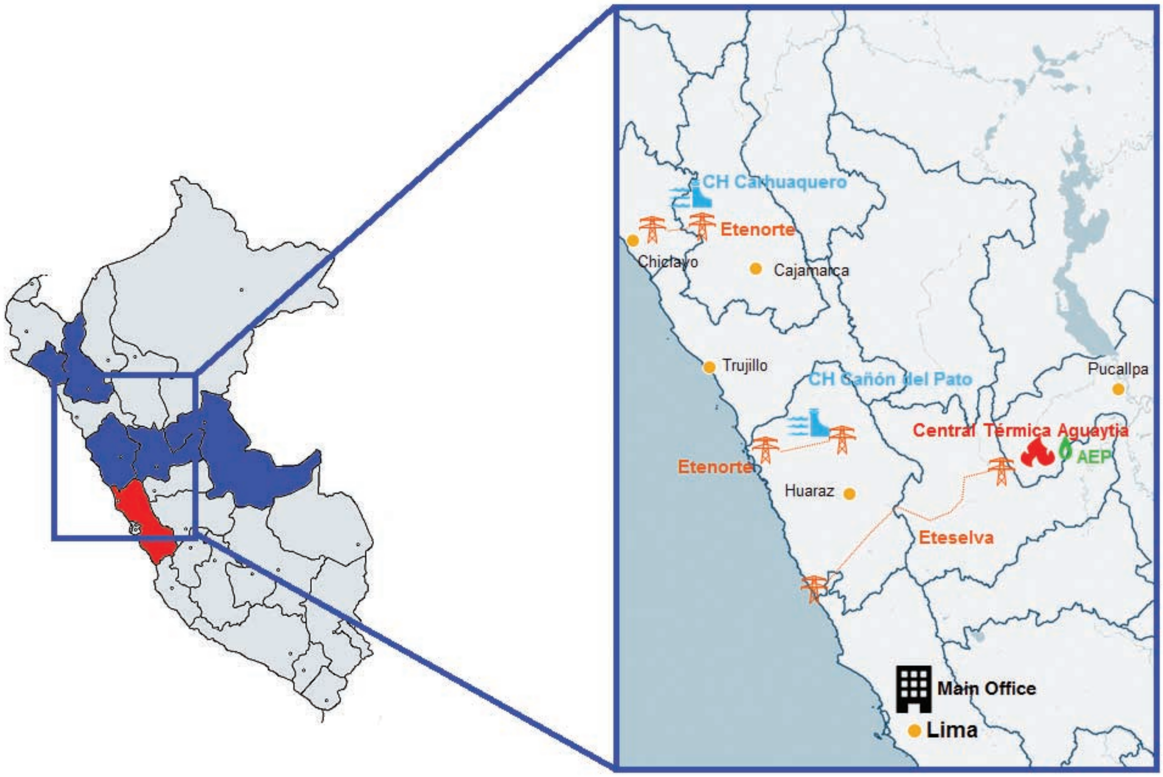
(5): This contract has a growing demand, 44.2 MW correspond to the maximum demand during the contract period.

(6): Pursuant to RER contracts, we have agreed to supply 66.5 GWh/year from Carhuaquero IV (10 MW) and 21.5 GWh a year from Caña Brava (5.7 MW) hydro plants.

The average spot price during 2016 was U.S.$21.41/MWh, which compares to our average realized PPA price during 2016 of U.S.$44.51/ MWh. The remaining weighted average life of our PPAs is

5.3 years (1.4 years for PPAs with Unregulated Customers and 6.6 years for Distribution Companies), and we have a long and successful history of recontracting.

The map below shows the location of our power generation units, gas production facilities and electricity transmission lines in Peru:



The following table sets forth certain summary operating information for our power generation units as of and for the year ended December 31, 2016:

Turbine	COD	Effective Capacity	Gross Energy Generated	Weighted Average Availability Factor
		(MW)	(GWh)	(%)
Cañón del Pato	1999	265.6	1,545	90.2
Carhuaquero	1991	94.5	411	93.8
Carhuaquero IV	2008	10.0	72	93.3
Carhuaquero V	2009	5.7	26	96.6
Hydroelectric Total		**375.8**	**2,054**	**91.3**
Central Térmica Aguaytía (Gas powered)	1998	176.3	368	99.7
Total		**552.1**	**2,422**	**94.3**

The following tables set forth certain other key operating information of our power generation business for the periods indicated:

	Years Ended December 31,		
	2016	2015	2014
Effective capacity at end of period (MW)	552.1	549.7	549.7
Weighted average availability factor during the period (%)	94.3	94.0	91.4
Gross energy generated (GWh)	2,422	2,648	2,451
Own consumption of energy and losses (GWh)	11.5	10.8	10.3
Net energy generated (GWh)	2,411	2,637	2,441
Net capacity factor (%)	49.7	54.8	50.7
Energy purchased on the spot market (GWh)	866.7	856.7	964.0
Energy sold under PPAs (GWh)	2,768.6	2,983.7	2,861.0
Average monomic price (U.S.$/MWh)(1)	68.84	69.56	68.39
Average PPA energy price (U.S.$/ MWh)	44.51	45.68	47.06
Average spot price (U.S.$/ MWh)	21.41	14.70	24.57

(1) Our average monomic price is calculated by dividing the total amount of sales of energy and capacity, including tolls, in U.S. Dollars by physical energy sales in MWh.

Background and History

Egenor S.A. was incorporated as a limited liability company in December 1996 as a result of the merger between Nor Peru S.A. and Power North S.A. In March 1999, Egenor became an open stock corporation. In October 1999, Duke Energy International Perú Holdings No. 2, LLC, a subsidiary of Duke Capital Corporation, became the controlling shareholder of Egenor, and in July 2000, the company changed its name to Duke Energy International Egenor S.A.A. In June 2003, Egenor became a limited by shares partnership (*sociedad en comandita por acciones*), and changed its name to Duke Energy Egenor S. en C. por A.

In October 2006, Egenor approved by a shareholders' vote the reorganization of the company, in which Egenor transferred the assets and liabilities related to its transmission activity to its subsidiary Etenorte. In May 2010, Egenor approved by a shareholders' vote the expansion of the scope of its activities to other activities related to the energy sector.

In January 1996, the Aguaytía Energy Consortium of Peru was formed in order to finance, build and operate the Integrated Energy Project of Aguaytía, and to commercially exploit the gas deposits. Operations began on July 20, 1998. A consortium made up of DEI, Illinova Generating, PPL Global LLC, El Paso Energy, Maple Gas and Scudder (now Conduit Capital Partners LLC) developed, constructed, financed and operated Aguaytía. Through a series of transactions from 2001 to 2009, Duke Energy Corporation ("Duke Energy") purchased all of the ownership interests held by its consortium partners.

On October 10, 2016, Duke Energy announced that it had reached an agreement to sell its operating businesses in Peru and other Latin American countries (the "Acquisition") to I Squared Capital Advisors (US) LLC ("I Squared"). The Acquisition was consummated on December 20, 2016. Our indirect parent and controlling shareholder is Orazul Energía Perú S.A.C. (our "Peruvian Holding Company"), which is owned by ISQ Global Infrastructure Fund, an investment fund managed by I Squared. Concurrently with the consummation of the Acquisition, International Finance Corporation ("IFC"), a member of the World Bank Group and IFC Global Infrastructure Fund, LP, an IFC affiliate, made a material investment in our indirect parent, Orazul Energy Partners LLC, pursuant to which IFC and its affiliate became our indirect minority shareholders. On January 23, 2017, Egenor changed its name to Orazul Energy Egenor S. en C. por A.

Business Strengths

Significant market position in an attractive energy market. We maintain an important market position in Peru. As of December 31, 2016, we had an effective capacity of 552.1 MW, representing 4.6% of Peru's effective capacity. During the year ended December 31, 2016, we generated 5.0% of the gross energy (in GWh) in Peru and our Cañón del Pato facility is one of the largest hydroelectric power plants in Peru, with approximately 7.0% of market share in terms of energy dispatched by hydroelectric power plants.

Peru is one of the fastest growing economies in Latin America, with an average gross domestic product, or "GDP," growth of approximately 5.7% per year from 2006 through 2016, according to the Peruvian Central Reserve Bank (*Banco Central de Reserva del Perú*). Peru also enjoys low inflation levels, a stable regulatory framework and a well-run energy market. Electricity consumption per capita was 1,359 kWh for the year ended December 31, 2015, well below the global average, thereby providing ample growth prospects. 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 the country's manufacturing industry. The government is stable and market-friendly and actively seeking to improve and develop infrastructure to support and stimulate economic growth. 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.

Diversified and long-term competitive energy asset base. We own and operate significant hydro and thermal generation, electricity transmission and gas production and processing assets in Peru. In total, we own one of the largest privately-owned generation portfolios in Peru, which contributes 4.6% of the country's total effective capacity and 5.0% of the total generation of Peru. We own two of the largest hydroelectric plants in Peru, Cañón del Pato & Carhuaquero I-V, both of which have perpetual concessions to operate, and the only thermal power plant in Peru with access to a gas supply, contractually guaranteed through at least 2024, which is supplied by Aguaytía.

With respect to our hydroelectric power generation business, we aim to maintain PPA contracting levels at Egenor that maximize our margins while minimizing the risk of over-committing capacity or energy. The optimal PPA contracting level for our hydroelectric power generation plants varies depending on prevailing spot market prices. When spot market prices are low, as is the case as of the date of this offering memorandum, we aim to increase our PPA contracting level because we can maximize our sales under our PPAs to improve our margins during the rainy season and our costs associated with purchasing energy on the spot market during the dry season are minimized. When spot market prices are high, we aim to maintain PPA contracting levels at lower levels in order to minimize our costs associated with purchasing energy on the spot market during the dry season. We have determined that under current market conditions, Egenor's optimal contracting level is 1,570 GWh per year, as compared to our firm energy legal limit of 1,952.7 GWh per year.

The natural gas required to fuel our thermal power plant Central Térmica Aguaytía, is supplied by our own gas production and processing facilities. This vertical integration provides significant commercial advantages and allows us to maintain more control over the operating margins of our businesses. For example, unlike other thermal generators in Peru, we are not subject to a take-or-pay gas supply contract. As such, when electricity spot prices are lower than the prices agreed upon under our PPAs, we are able to make strategic purchases of energy in the spot market to fulfill our PPAs, at margins higher than what we could otherwise earn by generating the electricity ourselves. We understand that our competitors who purchase their gas mainly from the Camisea consortium have take-or-pay contracts, under which they are required to pay for gas even when they are not dispatched. As such, they are strongly incentivized to generate, even when it would not be economically efficient to do so, as they would otherwise need to make spot market purchases to meet their PPA obligations on top of the sunk cost of gas. The absence of a take-or-pay contract also allows us the flexibility to declare a price to the system operator, COES, that allows us to optimize our priority in the dispatch order and maintain our profitability, without incurring any costs that would not be recovered if our thermal plant was dispatched.

In addition, our balanced portfolio of hydro and thermal assets, along with our diverse water supply, allows us to mitigate the effects of seasonality on our hydroelectric power generation business. During the dry season of May to October, our hydroelectric plants, along with the all other hydro facilities in Peru, are unable to operate at full capacity. When hydroelectric production in the country is low, thermal generators such as Central Térmica Aguaytía are typically dispatched at higher levels than during the rainy season, helping to us to mitigate the effects of seasonality. Additionally, due to Cañón del Pato's access to water supply from glaciers, lagoons and rainfall, we can rely on a more diverse water supply than our competitors in the same region.

Our power generation businesses are also supported by our electricity transmission activities, which we conduct through our subsidiaries Eteselva and Etenorte. Our electricity transmission activities are compensated based on regulated tariff rates, allocated to us based on the electricity transmission capacity made available to the SEIN, independent of the amount of electricity actually transmitted. This feature of our electricity transmission activities provides us with stable cash flows, as we receive availability revenues even when our own power generation assets are not dispatched. Such assets contribute to our balanced portfolio, as revenues are earned independent of changes in the supply and demand of electricity.

Highly contracted energy portfolio leads to stable margins, cash flow generation. We hold a highly-contracted energy portfolio through long-term PPAs that generally limits our exposure to fluctuations in Peruvian energy spot market rates, generates stable and predictable margins and helps create stability and predictability in our cash flows. Distribution Companies must contract three years in advance of demand, which provides us with consistent demand for our PPAs. We contract with highly creditworthy counterparties, which mitigates the risk of customer default. Some of our major customers in Peru include Distriluz S.A., Luz del Sur S.A.A., a subsidiary of Sempra Energy, Enel Distribución Peru S.A.A., Minera Barrick Misquichilca S.A., a subsidiary of Barrick Gold Corporation, and Agricola del Chira S.A., among others. We have entered into contracts representing 73.0% of our optimal contracting level through 2023. For the year ended December 31, 2016, we made 79.6% of our aggregate energy sales (in GWh) pursuant to PPAs. As of December 31, 2016, the weighted average remaining life of our PPAs was approximately 5.3 years. We have historically renewed, and aim to continue renewing our long-term PPAs before they approach their expiration date and/or to enter into new long-term contracts. We maintain a consistent record of re-contracting with current clients. We place a strong focus on optimizing our contracted profile to mitigate cash flow volatility and maintain high profit margins.

Experienced management teams and shareholders. Our management team has an average of approximately 17 years of experience in the Peruvian electricity generation, hydrocarbons and electricity transmission sector. Key members of management have previously held senior positions at Duke Energy Peru, Shell, Statkraft, Aguaytía Energy Group and OSINERGMIN. Our management team brings extensive energy industry experience, specifically in the areas of hydro and thermal power generation, transmission, and gas production and processing in Peru, in-depth market knowledge and a constructive relationship with government regulators. We actively cooperate with the governmental agencies that regulate our business to manage potential regulatory issues and address the challenges associated with the Peruvian energy sector. We believe that this overall level of experience, expertise and engagement within the sector allows our management team to lead us in the effective operation of our business. In addition, each of our division heads has over 20 years of experience and continues to implement the high quality standards that we continue to observe, put in place by our previous owner, Duke Energy.

In addition to our management team, our shareholders also bring valuable experience in the industry and the region to our business. With over 5,500 MW of power generation assets under management, I Squared has extensive experience and expertise in developing and operating energy and utility businesses across the globe, providing us with managerial expertise and technical support to help us further develop our business and enhance our operating and financial performance. Our business is further supported by IFC, the largest global development institution focused exclusively on the private sector in developing countries and one of our shareholders. IFC is a global leader in the definition and implementation of world-class environmental, health and safety standards and also provides unique insights into market, regulatory and political developments across Latin America.

Operational excellence, world-class safety and culture of social responsibility. We strive to achieve operational excellence by delivering high-quality products in a safe and environmentally responsible manner. We have operated at weighted average availability rates of 94.3% in 2016, 94.0% in 2015 and 91.4% in 2014. Our operating performance is driven by our experienced, well-trained staff, adequate capital expenditures and consistent maintenance.

We have maintained the world-class safety culture set in place by our previous owner Duke Energy, a world-leading energy company and we also maintain a strong commitment to social responsibility, having started several successful sustainability projects that focused on health, education and business development. For example during 2015, our health initiatives benefitted 12,620 people, education projects benefitted 23,529 people and business development projects benefitted 32,941 people. Our focus on operational excellence, safety and the culture of social responsibility that we have built help earn us consist high marks as one of the best companies to work for in Peru by the Great Places to Work Institute Survey, earning satisfaction scores of 85% in 2013, 89% in 2014 and 88% in 2015.

Business Strategy

We seek to improve our financial performance and cash flow generation, and create value for our shareholders, by focusing on leveraging our operating and strategic strengths. Key elements of our strategy are to:

Maintain our position as a significant player in the Peruvian energy sector through growth initiatives and a focus on renewable energy. We endeavor to evaluate expansion and acquisition opportunities to optimize our operations. We aim to grow our renewable energy business, which will enable us to contribute further to the sustainable development of the communities that surround our current and future assets. IFC, a member of the World Bank Group, and IFC Global Infrastructure Fund, LP, a private equity investment fund managed by the IFC Asset Management Company, LLC, made a material investment in our business to support a transition to lower carbon and cleaner energy sources in the region. In addition, we have identified opportunities to enhance our hydrology systems at Cañón del Pato, using cash on hand, whereby we would be able to further diversify our water sources by capturing and storing water from nearby lagoons. Finally, in connection with our hydrocarbon activities, we are currently building a new storage and loading plant for natural gasoline at our Aguaytía complex, which will allow us to sell the natural gasoline we produce directly to producers and other refineries. We expect that the addition of this natural gasoline storage and loading plant will allow us diversify our revenue streams, eliminate our dependence on Maple Gas for revenues associated with our natural gasoline sales and reduce our counterparty risk. We expect this expansion project to be completed and fully operational in July 2017.

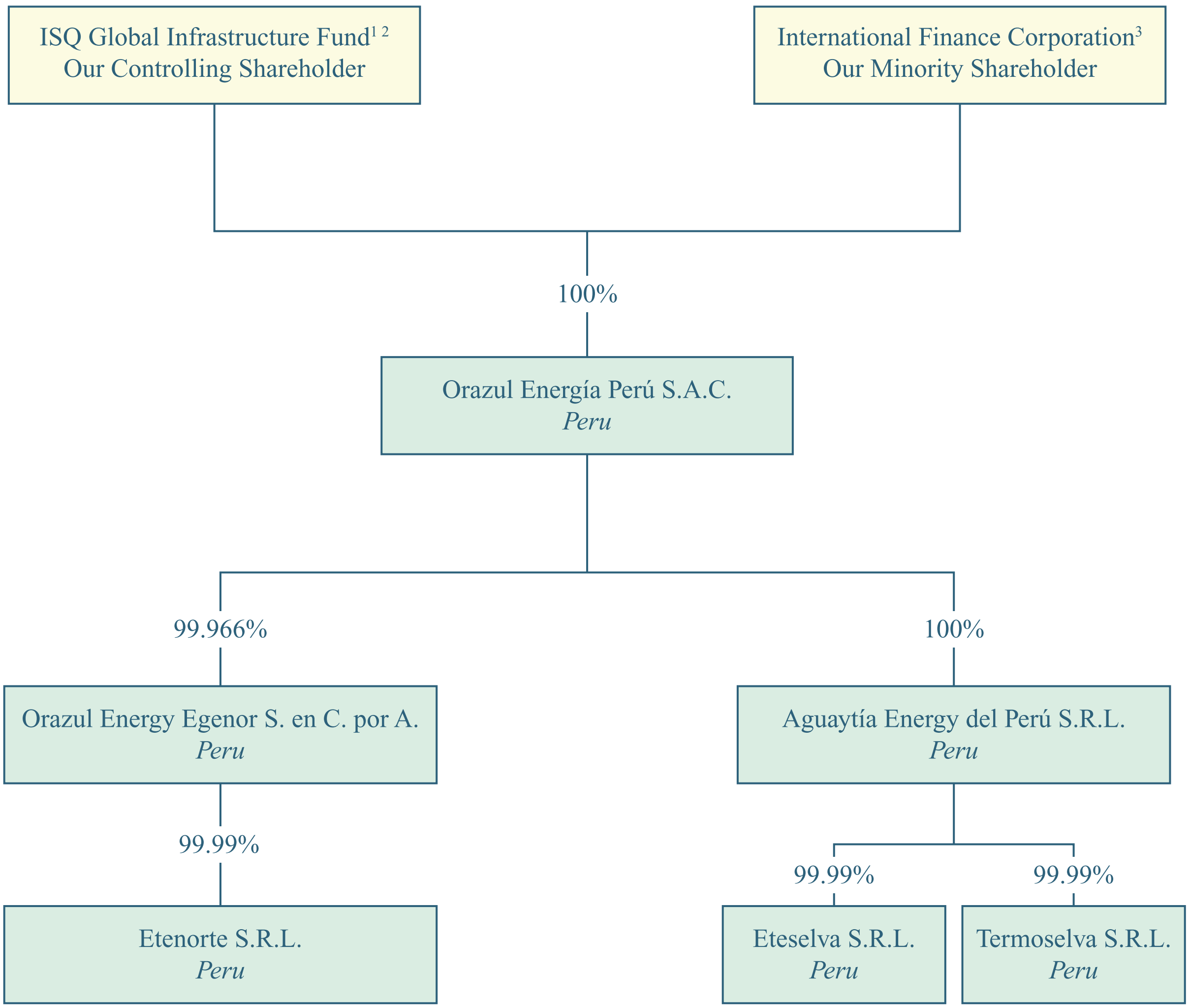
Continue to optimize our commercial policies focusing on stable margins and high level of contracted capacity with creditworthy counterparties. For the year ended December 31, 2016, we made 79.6% of our aggregate energy sales (in GWh) pursuant to PPAs. Additionally, 94.7% of our clients have contract prices indexed to the to the U.S. Dollar/*Sol* exchange rate, providing us with U.S. Dollar-linked revenues commensurate with our future U.S. Dollar-denominated liabilities. While our PPAs as of December 31, 2016 had a weighted average remaining life of 5.3 years, we will seek to enter into new, long-term PPAs with Regulated Customers or Unregulated Customers in advance of their expected expiration in order to maintain a highly-contracted profile and reduce exposure to spot price volatility. As we have in the past, we will seek to contract with high-credit quality counterparties, with a particular focus on subsidiaries of large multinational corporations, such as, Luz del Sur S.A.A., a subsidiary of Sempra Energy, Enel Distribución Peru S.A.A. and Minera Barrick Misquichilca S.A., a subsidiary of Barrick Gold Corporation.

Focus on current and long-term availability, reliability and asset integrity, while operating our facilities safely and efficiently. We strive to provide world-class quality 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. In the more than 2,000,000 hours our employees have worked in the past three years, there has not been a single lost-time incident. We will also continue to focus on ensuring long-term availability, reliability and asset integrity with preventive maintenance activities supported by a number of predictive techniques. We expect that our significant capital expenditures of U.S.$6,266 thousand, U.S.$7,925 thousand and U.S.$6,294 thousand, respectively, on our power generation plants and our transmission assets in 2014, 2015 and 2016, which included infrastructure improvement projects such as tunnel repair, bridge construction, generator overhaul, and protection and control system modernization, will result in decreased overall maintenance and operational costs. We expect to make additional significant capital expenditures in 2017 of an estimated U.S.$21.1 million related to the construction of a new storage and loading plant at Aguaytía, improvements to our fire protection infrastructure and engaging in several additional maintenance initiatives at both Egenor and Aguaytía. We use cost-benefit analysis to determine and fine-tune the best maintenance strategy for all of our equipment in an effort to maintain stable and reliable operations. Several levels of managers, supervisors and technicians continuously train and evaluate our employees to execute our maintenance strategy. 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 important stakeholders in our business and seek to be good corporate citizens. We have taken action on our corporate social responsibilities with 240 external stakeholders at the local level through several health, education and economic development initiatives. We invest over U.S.$500,000 a year in social projects. We leverage this investment to engage the local community and government to create a value that exceeds our initial contribution by approximately 50%, as measured by the additional value contributed by our beneficiaries and strategic partners. 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.

Our Corporate Structure

The following chart depicts our corporate structure and shareholder base as of the date of this offering memorandum:



[1] Managed by I Squared Capital Advisors (US) LLC, a U.S. Securities and Exchange Commission registered investment advisor

[2] Includes co-investments of both I Squared and certain co-investors in I Squared-controlled vehicles

[3] Includes International Finance Corporation and its affiliate, IFC Global Infrastructure Fund, LP

Our Principal Shareholders

ISQ Global Infrastructure Fund—Our indirect controlling shareholder, ISQ Global Infrastructure Fund is an investment fund limited partnership managed by I Squared, an independent global infrastructure investment manager with approximately U.S.$4.0 billion in assets under management. I Squared has extensive experience and expertise in developing and operating energy and utility businesses and provides managerial expertise, and technical support. Including its investment in us, I Squared has invested and in some cases co-invested (with third parties, including investors in certain investment funds managed by I Squared) assets in Latin America, Asia, Europe and the United States with greater than 5,500 MW of installed capacity from hydropower and thermal generation, 740 km of transmission lines and natural gas processing facilities.

International Finance Corporation—Our indirect minority shareholders are IFC, which is rated Aaa and AAA by Moody's and S&P, respectively and is a member of the World Bank Group, and IFC Global Infrastructure Fund, LP. IFC is the largest global development institution focused exclusively on the private sector in developing countries. IFC Global Infrastructure Fund, LP is a private equity investment fund managed by the IFC Asset Management Company, LLC, a wholly owned subsidiary of IFC, investing alongside IFC in equity and equity like investments in green-field and brownfield assets in all infrastructure sectors. IFC Asset Management Company, LLC manages approximately U.S.$9.8 billion in assets across 13 funds that invest alongside IFC throughout Latin America and the Caribbean, Africa, the Middle East, Eastern Europe and Asia. Through the investment in Orazul Energy Partners LLC, IFC and IFC Global Infrastructure Fund, LP have invested in assets in Argentina, Chile, Ecuador and Peru with over 1,600 MW of installed capacity from hydropower and thermal generation, 740 km of transmission lines, and natural gas processing facilities.

Recent Developments

Repayment of Bank Debt and the Liability Management Transaction

As described under "Use of Proceeds," we intend to use a portion of the net proceeds from the sale of the Notes to (i) repay U.S.$35.0 million due November 11, 2026 and U.S.$40.0 million due February 10, 2024, in aggregate outstanding principal amount of non-callable bonds, as of December 31, 2016, issued pursuant to Egenor's second program of local corporate bonds (collectively, the "Egenor Bonds" and such transaction, the "Liability Management Transaction"), and (ii) make a loan to our Peruvian Holding Company so that it can prepay its outstanding senior debt incurred in connection with our acquisition under the U.S.$450.0 million senior secured loan facility entered into by our Peruvian Holding Company with Deutsche Bank AG, London Branch, Banco de Crédito del Perú, The Bank of Nova Scotia and Banco Internacional del Perú S.A.A., as lenders, and Banco del Crédito del Perú, as administrative agent, and Citibank, N.A., as offshore collateral agent, which matures on December 20, 2021 and is unconditionally guaranteed by Egenor and Aguaytía and certain of our subsidiaries and secured by the equity interests of our direct and indirect controlling shareholders in us and the equity interests of our subsidiaries (the "Bank Debt"), and, upon such repayment, release the security interests securing the Bank Debt.

In order to repay the Egenor Bonds we sought and obtained on March 30, 2017 the consent and approval of the holders of a majority in principal amount of each issuance and in general of the Egenor Bonds to (i) amend the first and second supplemental indentures to the Master Indenture (*Contrato Marco*) under which the Egenor Bonds were issued in order to include a call option that would allow to consummate an early optional redemption of the Egenor Bonds upon consummation of the issuance of the Notes, and (ii) a waiver under the Master Indenture (*Contrato Marco*) governing the Egenor Bonds in order to permit the issuance of the Notes without breaching any covenant of the Egenor Bonds. See "Description of Indebtedness" for a more detailed description of the Egenor Bonds and the terms and conditions of our contemplated redemption of the Egenor Bonds.

In addition to repaying the Egenor Bonds, we intend to use a portion of the proceeds from the issuance of the Notes to make a loan to our Peruvian Holding Company so it can prepay in full the outstanding Bank Debt. The borrower in respect of the Bank Debt under the Orazul Loan Agreement (as defined herein) is our Peruvian Holding Company. Upon such repayment, we intend to request the cancellation and release all of the security interests securing the Bank Debt. See "Description of Indebtedness" for a more detailed description of the Bank Debt, the terms and conditions of the Bank

Debt Prepayment and the security interests that we intend to request be cancelled and released pursuant to the Bank Debt Prepayment.

The consummation of the Liability Management Transaction and the repayment of the Bank Debt (together, the "Concurrent Transactions") are conditioned, among other things, upon us being able to raise sufficient funds through debt financing to redeem the Egenor Bonds in full and repay the Bank Debt in full and obtain the release of the liens securing the Bank Debt. We cannot assure you that we will be able to raise sufficient funds to consummate these transactions as planned. See "Use of Proceeds" and "Risk Factors—Risks Related to the Concurrent Transactions—We may not be able to effect the termination and release of the security arrangements and guarantees securing the Bank Debt."

Corporate Reorganization

Following the consummation of the Acquisition, our indirect controlling shareholder adopted a plan to consummate a corporate reorganization (the "Corporate Reorganization") in order to (i) accommodate certain structural changes in I Squared's ownership of the acquired assets, (ii) eliminate and simplify certain legacy intermediate holding company structures of the Duke Energy group that are no longer necessary to own and operate the acquired businesses, (iii) de-couple the Peru-related assets (Egenor and Aguaytía and their respective consolidated subsidiaries) from the Chilean and Central American assets also acquired as part of the Acquisition, (iv) minimize the structural subordination for the holders of our indebtedness, including the Notes, and (v) with respect to the Peru-related operations, achieve a more efficient and centralized corporate and management structure.

The Corporate Reorganization, which is expected to be completed by the end of 2018, also contemplates transferring ownership of Aguaytía to Egenor and subsequently merging Egenor (now owning shares of Aguaytía) into our Peruvian Holding Company, which will be the surviving entity.

The Corporate Reorganization is still subject to certain approvals and third-party consents and there can be no assurance that we will be able to consummate it as contemplated, or at all.

New Working Capital Facility

On April 5, 2017 each of Egenor and Aguaytía entered into a working capital facility credit line with Banco de Crédito del Perú. These working capital lines are up to U.S.$15 million and U.S.$10 million, respectively. For a more detailed description of the working capital lines, see "Description of Indebtedness—Working Capital Lines."

Our Principal Headquarters

Our principal headquarters is located at Dionisio Derteano N. 144, floor 19, San Isidro, Lima 27, Peru. Our telephone number is +51 1615 4600.

THE OFFERING

The following summary contains basic information about the Notes and is not intended to be complete. It does not contain all of the information that is important to you. For a more complete understanding of terms and conditions of the Notes and the guaranty, please refer to the section of this offering memorandum entitled "Description of the Notes."

Issuer	Orazul Energy Egenor S. en C. por A.
Guarantors	Aguaytía Energy del Peru S.R.L., the Issuer's existing Subsidiary Etenorte, Aguaytía's existing subsidiaries Eteselva and Termoselva and each of the Issuer's and the Principal Guarantor's existing and future Restricted Subsidiaries (as defined in "Description of the Notes") that are Significant Subsidiaries (as defined in "Description of the Notes").
Notes Offered	U.S.$550,000,000 aggregate principal amount of 5.625% Senior Notes due 2027.
Note Guarantees	The Guarantors will irrevocably and unconditionally guarantee the full and punctual payment of principal, interest, additional amounts and all other amounts that may become due and payable in respect of the Notes.
Issue Price	100.000%.
Maturity Date	April 28, 2027.
Interest Rate	The Notes will bear interest at the rate of 5.625% per annum, based upon a 360-day year consisting of twelve 30-day months.
Interest Payment Dates	Interest on the Notes will be payable semi-annually on April 28 and October 28 of each year, beginning October 28, 2017.
Ranking of the Notes	The Notes will be the Issuer's senior unsecured obligations ranking *pari passu* with all of the Issuer's other senior unsecured and unsubordinated obligations (except those preferred by operation of law). The Notes will be effectively junior to all secured debt of the Issuer to the extent of any collateral securing such debt.
Ranking of the Note Guarantees	The Note Guarantees will be the Guarantors' senior unsecured obligations and will rank equally in right of payment with all of the Guarantors' existing and future debt that is not subordinated in right of payment to the Note Guarantees (except those obligations preferred by operation of law). The Note Guarantee of each Guarantor will be effectively junior to all secured debt of such Guarantor to the extent of any collateral securing such debt.

	As of December 31, 2016, on a *pro forma* basis, as adjusted to give effect to the offering of the Notes and the application of net proceeds therefrom as described in "Use of Proceeds," the Issuer would have had approximately U.S.$550.0 million of senior unsecured indebtedness and no senior secured indebtedness, in each case on a consolidated basis, and the Principal Guarantor would have had no senior unsecured indebtedness and no senior secured indebtedness, in each case on a consolidated basis.
Covenants	The Indenture governing the Notes contains restrictive covenants that, among other things and subject to certain exceptions, limit the ability of the Issuer, the Principal Guarantor and their respective restricted subsidiaries to: • pay dividends on capital stock or redeem, repurchase or retire capital stock or subordinated indebtedness; • make investments; • incur additional indebtedness; • create liens; • sell assets, including capital stock of its restricted subsidiaries; • engage in transactions with affiliates; • engage in sale and lease-back transactions; • create limitations on the ability to pay dividends, make loans, repay indebtedness or transfer property; and • consolidate, merge or transfer assets.
Further Issuances	We reserve the right, from time to time, without the consent of the holders of the Notes, and subject to the limitations described under "Description of the Notes—Restrictive Covenants—Limitation on Indebtedness" and other applicable provisions of the Indenture, to issue Additional Notes (as defined in the "Description of the Notes") having terms and conditions the same as those of the Notes, except for the payment of interest accruing prior to the issue date of such Additional Notes and, in some cases, except for the first payment of interest following the issue date of such Additional Notes, which Additional Notes may be consolidated and form a single series with the series of Notes offered hereby. See "Description of the Notes—Additional Notes."

Payment of Additional Amounts	We will pay additional amounts in respect of any payments under the Notes so that the amount you receive after withholding or deduction for or on account of any tax of Peru or within any political subdivision thereof or any authority therein or thereof having power to tax, as applicable, will equal the amount that you would have received if no withholding or deduction of tax had been applicable, subject to some exceptions as described under "Description of the Notes—Additional Amounts" in this offering memorandum.
Optional Redemption	We may redeem the Notes, on or after April 28, 2022, at our option, in whole or in part, at the redemption prices described under "Description of the Notes—Optional Redemption," plus, in each case, any accrued and unpaid interest, and additional amounts, if any. In addition, before April 28, 2022 we may also redeem the Notes, in whole or in part, at a redemption price based on a "make-whole" premium.
Optional Redemption upon an Equity Event	On or prior to April 28, 2022, we may, at our option, use the net cash proceeds of one or more Equity Events (as defined in "Description of the Notes") to redeem in the aggregate up to 35% of the aggregate principal amount of the Notes originally issued (calculated after giving effect to the original issuance of any Additional Notes) at a redemption price equal to 105.625% of the principal amount thereof, plus accrued and unpaid interest to the redemption date so long as at least 65% of the original aggregate principal amount of the Notes remains outstanding immediately after such redemption. See "Description of the Notes—Optional Redemption."
Optional Tax Redemption	The Notes are redeemable at our election, in whole but not in part, at a price in U.S. Dollars equal to the outstanding principal amount thereof, together with any additional amounts and accrued and unpaid interest to the redemption date, if certain changes in applicable tax laws occur. See "Description of the Notes—Optional Tax Redemption."
Change of Control	Upon the occurrence of a Change of Control (as defined in "Description of the Notes") that results in a Ratings Event (as defined in "Description of the Notes"), each holder of Notes will have the right to require that we repurchase all or any part of such holder's Notes. We will be required to make an offer to purchase the Notes at a purchase price equal to 101% of the principal amount thereof, plus accrued and unpaid interest and any additional amounts on the notes repurchases, to the date of purchase. See "Description of the Notes—Repurchases at the Option of the Holders of the Notes Upon Change of Control that Results in a Ratings Event."

Use of Proceeds	We intend to use the proceeds from the sale of the Notes (i) to redeem the Egenor Bonds, (ii) to make a loan to our Peruvian Holding Company so that, in turn, our Peruvian Holding Company can repay the Bank Debt in full and (iii) for general corporate purposes. See "Summary—Recent Developments—Repayment of Bank Debt and the Liability Management Transaction" and "Use of Proceeds."
Listing	Approval in-principle has been received for the listing and quotation of the Notes on the SGX-ST. The Notes will be traded in a minimum board lot size of U.S.$200,000 (or its equivalent in foreign currencies) as long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require.
Form and Denomination	The Notes will be issued in the form of beneficial interests in respect of one or more global securities in denominations of U.S.$200,000 and integral multiples of U.S.$1,000 thereof.
Events of Default	For a discussion of certain events of default that will permit acceleration of the principal of the Notes, plus accrued and unpaid interest, if any, and any other amounts due with respect to the Notes, see "Description of the Notes—Events of Default."
Risk Factors	See "Risk Factors" and the other information included in this offering memorandum for a discussion of the factors you should carefully consider before investing in the Notes.
Governing Law	The Notes and the Indenture will be governed by the laws of the State of New York.
Trustee, Registrar, Transfer and Paying Agent	Citibank, N.A.
Transfer Restrictions	The Notes have not been registered under the Securities Act and are subject to restrictions on transfer and resale. See "Transfer Restrictions" and "Plan of Distribution."

SUMMARY FINANCIAL AND OPERATING DATA

The tables below present summary financial and operating data at and for the periods indicated. You should read the information below in conjunction with the audited consolidated financial statements and notes thereto beginning on page F-1 herein, as well as the sections entitled "Selected Financial and Operating Data," "Unaudited Combined Financial Information" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this offering memorandum.

The statements of financial position included below as of December 31, 2016, 2015 and 2014 and the statements of profit or loss and other comprehensive income for the years ended December 31, 2016, 2015 and 2014 are derived from the Egenor Financial Statements and the Aguaytía Financial Statements beginning on page F-1 herein.

The Egenor Financial Statements and the Aguaytía Financial Statements have been prepared in accordance with IFRS, as issued by the IASB.

Solely for the convenience of the reader, *Soles* amounts for Egenor as of and for the year ended December 31, 2016 have been translated into U.S. Dollars at the commercial market rate as reported by SBS on December 31, 2016 of S/3.36 to U.S.$1.00. The U.S. Dollar equivalent information should not be construed to imply that the *Soles* amounts represent, or could have been or could be converted into, U.S. Dollars at such rates or at any other rate.

	For the years ended December 31,			
	2016	2016	2015	2014
	(in thousands of U.S.$)	(in thousands of *Soles*)		
CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME OF EGENOR				
CONTINUOUS OPERATIONS				
Sale of energy and electrical energy transmission services	128,060	430,281	420,652	375,715
Costs of sale of energy and electrical energy transmission services	(67,845)	(227,960)	(205,059)	(190,060)
Gross profit	60,215	202,321	215,593	185,655
Administrative expenses	(17,153)	(57,634)	(50,402)	(52,067)
Selling expenses	(1,404)	(4,718)	(4,881)	(6,227)
Other income	16,527	55,531	58,077	46,329
Other expenses	(887)	(2,979)	(5,102)	(4,269)
Financial income	495	1,663	3,419	1,592
Financial expenses	(4,671)	(15,693)	(16,047)	(16,119)
Exchange difference (net)	358	1,202	(2,535)	860
Profit before income tax	53,480	179,693	198,122	155,754
Income tax expense	(21,131)	(71,000)	(52,497)	(26,491)
Net profit for the year for continuous operations	32,349	108,693	145,625	129,263
DISCONTINUED OPERATIONS				
Net profit for the year for discontinued operations	—	—	—	27,360
Net profit for the year	32,349	108,693	145,625	156,623
Other comprehensive income for the year	—	—	—	—
Total comprehensive income for the year	32,349	108,693	145,625	156,623

	As of December 31,			
	2016	2016	2015	2014
	(in thousands of U.S.$)	(in thousands of *Soles*)		
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF EGENOR				
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	9,220	30,978	348,199	154,707
Trade accounts receivable (net)	12,105	40,674	38,256	51,411
Other accounts receivable	415	1,394	7,046	808
Accounts receivable from related entities	17,144	57,605	3,103	5,922
Inventories (net)	1,307	4,392	5,109	6,739
Income tax asset	1,144	3,843	—	—
Other assets	73	269	244	376
Total current assets	41,408	139,155	401,957	219,963
NON-CURRENT ASSETS:				
Accounts receivable from related entities	46,190	155,200	—	—
Other accounts receivable	409	1,377	1,377	3,218
Property, plant and equipment (net)	233,839	785,700	814,284	842,469
Other assets	470	1,580	1,135	1,315
Total non-current assets	280,908	943,857	816,796	847,002
TOTAL	322,316	1,083,012	1,218,753	1,066,965
LIABILITIES AND EQUITY				
CURRENT LIABILITIES:				
Financial obligations	1,233	4,144	4,210	4,523
Trade accounts payable	6,043	20,304	19,894	16,207
Other accounts payable	1,249	4,198	5,926	6,820
Accounts payable to related entities	86	316	3,934	165
Liabilities for employee benefits	7,443	25,009	20,490	24,645
Income tax liability	—	—	10,063	39,284
Total current liabilities	16,054	53,971	64,517	91,644
NON-CURRENT LIABILITIES:				
Financial obligations	75,000	252,000	255,975	224,175
Deferred income tax liabilities	48,125	161,701	142,466	142,678
Provisions	1,530	5,141	6,689	4,987
Total non-current liabilities	124,655	418,842	405,130	371,840
Total liabilities	140,709	472,813	469,647	463,484
EQUITY:				
Issued capital stock	105,214	353,519	353,519	353,519
Legal reserve	21,043	70,704	70,704	95,678
Retained earnings	55,350	185,976	324,883	154,284
Total equity	181,607	610,199	749,106	603,481
TOTAL	322,316	1,083,012	1,218,753	1,066,965

	For the years ended December 31,			
	2016	2016	2015	2014
	(in thousands of U.S.$)	(in thousands of *Soles*)		
CONSOLIDATED STATEMENTS OF CASH FLOWS OF EGENOR				
Net cash and cash equivalents provided by operating activities	46,059	154,763	162,939	169,100
Net cash and cash equivalents (used in) provided by investment activities	(67,004)	(225,136)	3,004	321,215
Net cash and cash equivalents used in financing activities	(73,690)	(247,600)	(856)	(490,309)

	For the years ended December 31,		
	2016	2015	2014
	(in thousands of U.S.$)		
CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME OF AGUAYTÍA			
Sale of energy and electrical energy transmission services	84,359	104,352	90,094
Sale of hydrocarbons	18,761	30,823	52,143
Total of sales	103,120	135,175	142,237
Cost of sale of energy and electrical energy transmission services	(51,772)	(57,944)	(56,926)
Cost of sales of hydrocarbons	(17,954)	(22,259)	(41,842)
Total of cost of sales	(69,726)	(80,203)	(98,768)
Gross profit	33,394	54,972	43,469
Administrative expenses	(16,462)	(12,341)	(8,508)
Other income	784	726	4,477
Other expenses	(233)	(775)	(274)
Financial income	388	491	516
Financial expenses	(828)	(812)	(797)
Exchange difference (net)	(526)	(690)	(1,473)
Profit before income tax	16,517	41,571	37,410
Income tax expense	(3,987)	(17,848)	(14,104)
Net profit for the year	12,530	23,723	23,306
Other comprehensive income for the year	—	—	—
Total comprehensive income for the year	12,530	23,723	23,306

	As of December 31,		
	2016	2015	2014
	(in thousands of U.S.$)		
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF AGUAYTÍA			
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	27,845	90,425	49,515
Trade accounts receivable (net)	10,614	14,816	20,415
Other accounts receivable	1,780	431	1,077
Accounts receivable from related entities	86	1,154	—
Inventories (net)	4,716	4,693	5,198
Income tax asset	2,436	—	—
Total current assets	47,477	111,519	76,205
NON-CURRENT ASSETS:			
Other accounts receivable	925	925	1,175
Property, plant and equipment (net)—Gas investment	58,609	54,624	50,496
Property, plant and equipment (net)—Energy generation and transmission	82,538	87,273	93,964
Deferred income tax assets	2,067	1,740	6,198
Total non-current assets	144,139	144,562	151,833
TOTAL	191,616	256,081	228,038
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Trade accounts payable	10,611	7,474	5,960
Other accounts payable	1,114	1,802	1,334
Accounts payable to related entities	16,680	294	1,279
Deferred income	485	155	155
Income tax liability	—	5,718	1,371
Total current liabilities	28,890	15,443	10,099
NON-CURRENT LIABILITIES:			
Financial obligations	—	15,822	15,765
Deferred income	309	463	618
Deferred income tax liabilities	2,403	5,870	6,957
Provisions	254	391	230
Total non-current liabilities	2,966	22,546	23,570
Total liabilities	31,856	37,989	33,669
EQUITY:			
Issued capital stock	145,155	145,155	145,155
Other capital reserves	2,056	2,056	2,056
Retained earnings	12,549	70,881	47,158
Total equity	159,760	218,092	194,369
Total	191,616	256,081	228,038

	For the years ended December 31,		
	2016	2015	2014
	(in thousands of U.S.$)		
CONSOLIDATED STATEMENTS OF CASH FLOWS OF AGUAYTÍA			
Net cash and cash equivalents provided by operating activities	17,575	55,175	32,360
Net cash and cash equivalents used in investment activities	(9,434)	(14,265)	(4,389)
Net cash and cash equivalents used in financing activities	(70,721)	—	(13,800)

OTHER FINANCIAL AND OPERATING DATA

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

	For the years ended December 31,		
	2016	2015	2014
Aguaytía's Adjusted EBITDA (U.S.$)(1)	36,270	56,481	49,284
Egenor's Adjusted EBITDA (S/)(2)	245,475	265,214	228,805
Interest coverage ratio of Aguaytía(3)	43.80	69.56	61.84
Interest coverage ratio of Egenor(4)	15.64	16.53	14.19
Total debt of Aguaytía (U.S.$)(5)	—	15,822	15,765
Total debt of Aguaytía/Shareholder's equity of Aguaytía	—	0.07	0.08
Total debt of Egenor (S/)(6)	256,144	260,185	228,698
Total debt of Egenor/Shareholder's equity of Egenor	0.42	0.35	0.38
Net debt of Aguaytía (U.S.$)(7)	—	—	—
Net debt of Aguaytía/Aguaytía's Adjusted EBITDA	—	—	—
Net debt of Egenor (S/)(8)	225,166	—	73,991
Net debt of Egenor/Egenor's Adjusted EBITDA	0.92	—	0.32
Effective capacity at end of period (MW)	552.1	549.7	549.7
Weighted average availability factor during the period (%)	94.3	94.0	91.4
Gross energy generated (GWh)	2,422.0	2,648.0	2,451.0
Own consumption of energy and losses (GWh)	11.5	10.8	10.3
Net energy generated (GWh)	2,411.0	2,637	2,441
Energy purchased on the spot market (GWh)	866.66	856.16	964.03
Energy sold under PPAs (GWh)	2,768.57	2,983.68	2,861.01
Average monomic price (U.S.$/MWh)(9)	68.84	69.56	68.39

(1) We define "Aguaytía's Adjusted EBITDA" for each period as Aguaytía's EBITDA *plus* (i) exchange difference (net) and (ii) the provisions recorded in Note 19 to the Aguaytía Financial Statements corresponding to 100% of the bad debt allowance due to sales of natural gasoline to Maple Gas for the years ended December 31, 2016 and 2015. Adjusted 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 profit, cash flow from operations or other measures of operating performance or liquidity determined in accordance with IFRS. Adjusted 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 profit. Other companies may calculate Adjusted EBITDA differently, and therefore this presentation of Adjusted EBITDA may not be comparable to other similarly titled measures used by other companies. The following table sets forth a reconciliation of

Aguaytía's Adjusted EBITDA to Aguaytía's net profit for the years ended December 31, 2016, 2015 and 2014.

	For the years ended December 31,		
	2016	2015	2014
	(in thousands of U.S.$)		
Net profit	12,530	23,723	23,306
(+) Income tax expense	3,987	17,848	14,104
(−) Financial income	(388)	(491)	(516)
(+) Financial expense	828	812	797
(+) Depreciation and amortization	10,178	11,346	10,120
Aguaytía's EBITDA	**27,135**	**53,238**	**47,811**
(+/−) exchange difference (net)	526	690	1,473
(+) Maple Gas Provision	8,609	2,553	—
Aguaytía's Adjusted EBITDA	**36,270**	**56,481**	**49,284**

(2) We define "Egenor's Adjusted EBITDA" for each period as Egenor's EBITDA *plus* (i) exchange difference (net), (ii) profit sharing expenses included in cost of sales, administrative expenses and selling expenses (see Note 21 to the Egenor Financial Statements) *minus* net profit for the year for discontinued operations. Adjusted 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 profit, cash flow from operations or other measures of operating performance or liquidity determined in accordance with IFRS. Adjusted 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 profit. Other companies may calculate Adjusted EBITDA differently, and therefore this presentation of Adjusted EBITDA may not be comparable to other similarly titled measures used by other companies. The following table sets forth a reconciliation of Egenor's Adjusted EBITDA to Egenor's net profit for the years ended December 31, 2016, 2015 and 2014.

	For the years ended December 31,			
	2016	2016	2015	2014
	(in thousands of U.S.$)	(in thousands of Soles)		
Net profit	32,349	108,693	145,625	156,623
(+) Income tax expense	21,131	71,000	52,497	26,491
(−) Financial income	(495)	(1,663)	(3,419)	(1,592)
(+) Financial expense	4,671	15,693	16,047	16,119
(+) Depreciation and amortization	13,035	43,796	42,077	42,302
Egenor's EBITDA	**70,691**	**237,519**	**252,827**	**239,943**
(+/−) exchange difference (net)	(358)	(1,202)	2,535	(860)
(−) Net profit for the year for discontinued operations	—	—	—	(27,360)
(+) Profit Sharing	2,726	9,158	9,852	17,082
Egenor's Adjusted EBITDA	**73,059**	**245,475**	**265,214**	**228,805**

(3) Aguaytía's interest coverage ratio is defined as Aguaytía's Adjusted EBITDA *divided by* financial expenses.

(4) Egenor's interest coverage ratio is defined as Egenor's Adjusted EBITDA *divided by* financial expenses.

(5) We define Aguaytía's total debt as current financial obligations plus non-current financial obligations.

(6) We define Egenor's total debt as current financial obligations plus non-current financial obligations.

(7) Net debt of Aguaytía is calculated as total debt minus cash and cash equivalents. Net debt is not a recognized financial measure under IFRS.

(8) Net debt of Egenor is calculated as total debt minus cash and cash equivalents. Net debt is not a recognized financial measure under IFRS.

(9) 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.

UNAUDITED COMBINED FINANCIAL INFORMATION

The following tables present the Unaudited Combined Financial Information. The Unaudited Combined Financial Information was derived from (i) Egenor's Financial Statements and Aguaytía's Financial Statements together with the notes thereto, included elsewhere in this offering memorandum and (ii) plus or minus combination adjustments. The Unaudited Combined Financial Information is being furnished solely for informational purposes and is not intended to represent or be indicative of the results that we would have reported if Egenor and Aguaytía were a single reporting entity, nor does it purport to represent the results of operations for future periods.

	For the year ended December 31, 2016			
	Aguaytía	**Egenor**	**Adjustments**	**Combined**
	(in thousands of U.S.$)			
Sale of energy and electrical energy transmission services	84,359	128,060	(494)	211,925
Sale of hydrocarbons	18,761	—	—	18,761
Total of sales(3)	103,120	128,060	(494)	230,686
Costs of sale of energy and electrical energy transmission services	(51,772)	(67,845)	2,760	(116,857)
Cost of sales of hydrocarbons	(17,954)	—	4,149	(13,805)
Total of cost of sales	(69,726)	(67,845)	6,909	(130,662)
Gross profit	33,394	60,215	6,415	100,024
Administrative expenses	(16,462)	(17,153)	4,786	(28,829)
Selling expenses	—	(1,404)	—	(1,404)
Other income	784	16,527	(11,201)	6,110
Other expenses	(233)	(887)	—	(1,120)
Financial income	388	495	—	883
Financial expenses	(828)	(4,671)	—	(5,499)
Exchange difference (net)	(526)	358	—	(168)
Profit before income tax	**16,517**	**53,480**	**—**	**69,997**
Income tax expense	(3,987)	(21,131)	—	(25,118)
Net profit for the year	**12,530**	**32,349**	**—**	**44,879**

Note 1—Basis of preparation

The accompanying Unaudited Combined Financial Information is based on the Egenor Financial Statements and the Aguaytía Financial Statements after making certain adjustments and intercompany eliminations to present Egenor, Aguaytía and their respective consolidated subsidiaries as a single reporting entity.

The Unaudited Combined Financial Information has been prepared by our management. The Unaudited Combined Financial Information is based on assumptions deemed to be reasonable by us and should be read in conjunction with the Egenor Financial Statements and the Aguaytía Financial Statements included elsewhere in this offering memorandum as well as "Management's Discussion and Analysis of Financial Condition and Results of Operations."

The basis of preparation for the Unaudited Combined Financial Information include:

- All intercompany balances and transactions between Egenor and its subsidiary and Aguaytía and its subsidiaries have been eliminated. The combined companies have not operated as a single separate entity.

- The combined financial information does not include any third party debt of the parent that could have been assigned or legally assumed by the combined entities, nor the allocation of interest expense, or any goodwill and the related purchase price adjustments derived from the acquisition of the combined companies by the parent.
- The combined financial information does not include the allocation of expenses from the parent or other entities of the group providing services to the combined companies, nor does it consider the recognition of income tax, pension plans, impairment, and share based payments that could be recorded by the parent or other related parties.

This financial information has not followed the accounting policies that would be applied in the financial statements of a new reporting entity to which the respective economic activities of the combined entities would belong nor the accounting policies followed in the consolidated financial statements of the group to which the respective economic activities actually belong.

The combined financial information was prepared for informational purposes only and it should not to be considered as a set of combined financial statements prepared in accordance with IFRS.

Note 2—Combination adjustments

Combined sale of energy and electrical energy transmission services is defined as sale of energy and electrical energy transmission services of Aguaytía *plus* sale of energy and electrical energy transmission services of Egenor *minus* U.S.$494 thousand in intercompany sales, which are added to combined costs of sale of energy and electrical energy transmission services.

Combined costs of sale of energy and electrical energy transmission services is defined as costs of sale of energy and electrical energy transmission services of Aguaytía *plus* (i) costs of sale of energy and electrical transmission services of Egenor, (ii) U.S.$494 thousand in intercompany costs which are subtracted from combined sale of energy and electrical energy transmission services and (iii) U.S.$2,266 thousand in intercompany costs related to operating and maintenance services, which are subtracted from combined other income.

Combined costs of sales of hydrocarbons is defined as costs of hydrocarbons of Aguaytía *plus* U.S.$4,149 thousand in intercompany costs related to operating and maintenance services, which is subtracted from combined other income.

Combined Administrative expenses is defined as administrative expenses of Aguaytía *plus* (i) administrative expenses of Egenor and (ii) U.S.$4,786 thousand in intercompany expenses related to administrative and general services which are subtracted from combined other income.

Combined other income is defined as other income of Aguaytía *plus* other income of Egenor *minus* (i) U.S.$6,415 thousand in intercompany income related to operating and maintenance services, U.S.$2,266 thousand of which is added to combined cost of sales of energy and electrical energy transmission and U.S.$4,149 thousand of which is added to combined cost of sales of hydrocarbons and (ii) U.S.$4,786 thousand in intercompany income related to administrative and general services, *Note 3—Total of sales*

	For the year ended December 31, 2016				
	Aguaytía	Egenor	Adjustments	Combined	%
	(in thousands of U.S.$)				
Sales of energy	48,209	78,439	(355)	126,293	54.7%
Sales of power	25,301	39,913	—	65,214	28.3%
COES Compensation	116	8,803	—	8,919	3.9%
Other revenue	6,854	—	—	6,854	3.0%
Sub total of energy	**80,480**	**127,155**	**(355)**	**207,280**	**89.9%**
Electrical energy transmission	3,879	905	(139)	4,645	2.0%
Sub total of electrical energy transmission	**3,879**	**905**	**(139)**	**4,645**	
LPG	10,162	—	—	10,162	4.4%
Natural gasoline	8,599	—	—	8,599	3.7%
Sub total of hydrocarbons	**18,761**			**18,761**	**8.1%**
Total of sales	**103,120**	**128,060**	**(494)**	**230,686**	**100.0%**

Additional Unaudited Combined Financial Information

Combined EBITDA and Adjusted EBITDA

The following table sets forth a reconciliation of our combined Adjusted EBITDA to our combined net profit for the year ended December 31, 2016

	For the year ended December 31, 2016
	(in thousands of U.S.$)
Net profit	**44,879**
(+) Income tax expense	25,118
(−) Financial income	(883)
(+) Financial expense	5,499
(+) Depreciation and amortization	23,213
Combined EBITDA	**97,826**
(+) Exchange difference (net)	168
(+) Profit Sharing	2,726
(+) Maple gas Provision	8,609
Combined Adjusted EBITDA	**109,329**

RISK FACTORS

Before making any investment decision, you should read this offering memorandum and carefully consider, in light of your own financial circumstances and investment objectives, all of the information set forth in this offering memorandum and, in particular, certain matters relating to us and other matters associated with investments in securities of issuers in countries, such as Peru, that do not have highly developed capital markets, including, without limitation, the risk factors set forth below. Our business, operations and financial condition and an investment in the Notes are subject to various risks. Some of these risks are described below. However, this section does not describe all risks applicable to our industry or business and it is intended only as a summary of certain material factors. Additional risks not presently known to us or that we currently deem immaterial may also impair our business and results of operations.

Risks Related to our Business

The success of our business depends, in part, on factors beyond our control.

The success of our business is partly dependent on the actions of third parties and on factors beyond our control. The following factors, most of which are beyond our control, may unfavorably impact our business and results of operations:

- availability and competitiveness of alternative energy sources in the markets served by us;
- expiration or termination of material contracts such as Egenor's water use licenses granted for use in connection with our hydroelectric plants, the License Agreement, PPAs, the supply agreement between Aguaytía and Termoselva or other material contracts;
- changes in the availability and demand for natural gas and electricity in Peru;
- increases of capital costs;
- our ability to build or expand our energy infrastructure within anticipated costs;
- opposition to energy infrastructure development, particularly in environmentally sensitive areas or in populated areas;
- changes in regulation and actions of regulatory bodies;
- obtainment of the necessary amendments, permits, licenses, rights of way and easements for expansion projects;
- adverse general economic conditions;
- future weather conditions and unforeseeable natural disasters;
- relations with the communities in the areas where we operate; and
- transmission congestion in the SEIN.

These and other factors could materially adversely affect our cash flow, financial condition and results of operations and could impair our ability to make payments under the Notes.

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. Currently, 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 the demand for electricity to increase in Peru over the next five 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 exert downward pressure on energy prices. 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 clients. 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 operations are subject to operational hazards and uninsured risks.

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

In addition, our operations and assets face possible risks associated with acts of aggression and terrorism in Peru. In the late 1980s and throughout the 1990s, Peru experienced significant levels of terrorist activity, with the *Sendero Luminoso* and the *Movimiento Revolucionario Túpac Amaru*, escalating their acts of violence against the Peruvian government and the private sector. Peru has also experienced periods of violence as a result of the activities of guerrilla groups, drug cartels and organized crime. In response, Peru has implemented various security measures and programs and has strengthened its military and security forces by creating specialized units. Despite these efforts, drug-related crime, guerrilla activity and incidents of terrorism continue to exist and may recur in the future.

While we maintain insurance against many of these risks, to the extent available in the relevant markets and in amounts that we believe are reasonable and consistent with industry practice, this insurance does not cover all risks. Many of our insurance coverage has material deductibles, exclusions and self-insurance levels, as well as significant limits on our maximum recovery. For example, in 2015 and 2016, our gas pipelines were damaged as a result of attempts to install clandestine connections to our NGL pipelines and to illegally gain access to our NGLs. The resulting damage, which included leaks in our NGL pipelines and, in one case, a fire, were not covered by our insurance policy due to the fact that the damages were caused by a third party. We cannot assure you that our level of insurance is sufficient to cover all liabilities and, as a result, such events could have a material adverse effect on our cash flows, financial condition and results of operations and could impair our ability to make payments under the Notes.

Our plants are affected by climate conditions and changes in climate 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 or 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. In addition, periods of severe or sustained below average rainfall may require us to purchase electricity on the spot market at higher prices than we have contracted to sell.

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, the occurrence of which may cause significant damage to our power stations and facilities. For example, in March 2017, Peru experienced significant flooding, which caused the rupture of two of our flowlines, which are the pipes that transport natural gas from the wells to the processing plant, which occasioned a loss in production of approximately 4,223 bbl of NGLs.

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.

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 "Regulatory Framework". 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 most of the energy we generate 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 three to six years for PPAs with Unregulated Customers and up to 10 years for PPAs with Distribution Companies. All of our long-term PPAs are at prices above the expected spot market prices for the contract term. Even though we are constantly seeking to enter into, or renew, long-term PPAs, 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. In addition, under certain market conditions, some of our Unregulated Customers paying prices above spot market prices under the existing PPAs may have the incentive to terminate those PPAs by paying the applicable penalty and try to negotiate new PPAs at lower prices that are more in line with prevailing spot market prices.

Furthermore, the introduction of a more efficient energy generation technology could adversely affect the competitiveness of our gas-fired energy plant 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.

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

We buy and sell electricity in the wholesale spot market. During the years ended December 31, 2016, 2015 and 2014, we purchased 35.8%, 32.9% and 39.4%, respectively, of the electricity we sold 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 its 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 our natural gasoline supply agreement and our PPAs. Although we evaluate the creditworthiness of our various counterparties, we may not always be able to 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.

If any of the counterparties to our supply agreements or 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, tax and secured 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.

Furthermore, if in the course of our activities on the spot market, we have a net-seller position on the spot market, we could be exposed to the credit risk of another generator with whom we have been matched by COES, who facilitates sales on the spot market but does not act as a central counterparty. A failure by such a counterparty to pay us for energy sold to them could have a material adverse effect on our business, financial condition, results of operations or liquidity.

Aguaytía's only customer for the natural gasoline it produces is Maple Gas. In June 2014, Maple Gas started to fall behind in its payments to Aguaytía and ceased making payments to us altogether pursuant to our supply contract in 2016, although we continue to make all scheduled deliveries of natural gasoline to Maple Gas. For a more detailed description of our dispute with Maple Gas, please see "Business—Hydrocarbon Extraction and Fractionation Activities—Our Gas Supply Contracts " and for a description of the provisions and impairment charges related to our supply contract with Maple Gas, please see note 19 to the Aguaytía Financial Statements.

Our activities on the electricity spot market are affected by factors that are beyond our control, which could have a material adverse effect on our revenues.

Spot prices for energy can be affected by a number of factors that are beyond our control, such as weather conditions, seasonality, possible reductions in electricity usage, new market entrants, transmission disruption and new regulations. Fuel prices also affect the spot price for electricity because the spot price is set using the highest variable cost thermal unit to be dispatched to meet the system demand on an hourly basis. In addition, spot prices respond to the number of individual generation technologies available in a specific market. While the vertical integration at Central Térmica Aguaytía allows us to maintain more control over the operating margins of our businesses, such control depends to a certain degree on the pricing available on the electricity spot market. In addition, the electricity spot market, and thus our margins, could be negatively impacted by the following, among others:

- Increased spot prices during periods of underproduction for hydroelectric plants (for example, during a drought);
- an increase in actual energy demand;
- disruption or unavailability of gas pipelines;
- an increase in the price of gas;
- displacement in the dispatch order; or
- a disruption in our transmission of electricity.

Changes in the spot price may also have an effect on PPA prices over time. If spot prices remain low, PPA prices are likely to decrease, which could negatively affect our operating margins and results of operations. If spot prices increase, Central Térmica Aguaytía may be dispatched more often, which would increase our operating costs and could also negatively impact our operating margins and results of operations. For a further discussion of the various facts that affect spot pricing and their potential impact on our margins, see "—We are exposed to electricity spot market, fuel and other commodity price volatility" and "Regulatory Framework—Overview of Regulation of the Electricity Sector—Generation Companies."

We face construction risk in connection with the completion of the natural gasoline storage and loading plant.

The construction of the natural gasoline storage and loading plant is subject to various risks that could cause costs to increase or completion to be delayed. These risks include shortages of, the inability to obtain, the cost of, and the consistency of, labor, materials and equipment; the inability of the general contractor or subcontractors to perform under their contracts; the inability to agree to terms of contracts or disputes in contract terms; work stoppages; adverse weather conditions; the inability to obtain necessary permits in a timely manner; changes in applicable laws or regulations; adverse interpretation or enforcement of permit conditions; governmental actions; legal action; and unforeseen engineering or technology issues. If the construction project is over budget, we may not be able to recover those excess costs. Inability to recover excess costs, or inability to complete the project in a timely manner, could adversely impact our financial condition and results of operations.

We may experience difficulties, unexpected costs and delays in integrating our business and the combined business may not realize synergies, efficiencies or cost savings from the proposed Corporate Reorganization or the completion of the natural gasoline storage and loading plant.

After the consummation of the proposed Corporate Reorganization, we may not be able to achieve the anticipated benefits if we fail to integrate our business with our other assets and operations within the expected cost or time schedule. The integration process could take longer than expected and could result in the loss of valuable employees, the disruption of our ongoing business, inconsistencies in processes, standards, controls, procedures, practices, policies and systems, any of which could adversely affect our probability. Even if we are able to integrate our business and operations successfully, there can be no assurance that this integration will result in any synergies, efficiencies or cost savings or that any of the these benefits will be achieved within a specific time frame. In addition, the benefits we expect to achieve as a result of the completion of the natural gasoline loading plant will depend, in part, on our ability to successfully integrate the business and operations of storing and loading natural gasoline, which may result in unforeseen operating difficulties and expenditures. Moreover, if we do not find customers to purchase our natural gasoline directly from us, we may not realize the anticipated benefits of the natural gasoline storage and loading plant. Any of these factors could adversely affect the combined business, financial conditions and results of operations.

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

As of December 31, 2016, approximately 63.7% of Egenor's revenues from its electricity generation business derived from long term PPAs with its top five customers while approximately 70.8% of Aguaytía's revenues from its electricity generation business derived from long term PPAs with its top five customers. In addition, Maple Gas represented 100% of Aguaytía's revenues from natural gasoline and 8.3% of Aguaytía's total revenues for the year ended December 31, 2016. Please see "Business—Hydrocarbon Extraction and Fractionation Activities—Our Gas Supply Contracts" for a description of our current contract dispute with Maple Gas. If we are unable to renew, extend or replace our contracts with these customers, or we renew them on less favorable terms, or if these customers fail to make payments under such contracts, or if customers terminate such contracts, we may suffer a material impact on our cash flows, financial condition and results of operations. Any such event could impair our ability to make payments under the Notes.

We rely on power transmission facilities that 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 by our subsidiaries Etenorte and Eteselva and by third parties. 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, the 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 apply within the grid as a result of a transmission constraint. As a result, we may need to purchase energy on 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, which would negatively impact our operating margin. 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 on the spot market to meet our contractual obligations under our PPAs, while simultaneously resulting in an increase on the spot market price of energy, resulting in a contraction, or loss, of our margins. In addition, the failure or breakdown of one of our generation units may prevent that particular facility from performing under applicable PPAs which, in certain situations, could result in termination of the relevant PPA or liability for liquidated damages, the occurrence of which could have a material adverse effect on our business, financial condition, results of operations or liquidity.

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 operations are subject to operational hazards and uninsured risks."

Our concession agreements and governmental approvals, pursuant to which we are authorized to transmit power in Peru, may be subject to early termination and forfeiture.

We are authorized to transmit power in Peru pursuant to the concessions granted to us under concession agreements with MEM and governmental approvals granted to us by MEM and other governmental agencies. If we breach our obligations under the concession agreements or governmental approvals or we do not comply with applicable rules and regulations in Peru, we may be subject to sanctions by MEM or other relevant governmental agencies, including warnings, penalties, fines, provisional administration, termination or forfeiture of the concession or the relevant governmental approvals.

In addition, our concession and governmental approvals are subject to expropriation if so declared in accordance with applicable law on the grounds of public interest. No assurance can be given that the amounts we are entitled to receive under the concession agreements or applicable law in connection with any termination, forfeiture or expropriation of the concession or any governmental approval will be received, or if received, will be sufficient to compensate us for our loss. As a result, any of the sanctions described above, or the expropriation of our concession by a governmental authority, may have a material adverse effect on our cash flow, financial condition and results of operations, and could impair our ability to make payments under the Notes.

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

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

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

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 attract and retain employees, professionals and technicians 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 and continuously strengthening 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 executive officers. The loss of any or all of our executive officers could affect the creation or implementation of our short-term plans or long-term strategies or divert our 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.

Our ability to conduct our business might be negatively impacted if we experience difficulties with outsourcing and similar third-party relationships.

We have outsourced a number of activities related to our business to third parties in order to maintain a lower cost base and to minimize our profit-sharing liability. If we fail to develop and implement our outsourcing strategies, such strategies prove to be ineffective or fail to provide expected cost savings, or our third-party providers fail to perform as anticipated, we may experience operational difficulties, increased costs, reputational damage and a loss of business that may have a material adverse effect on our business, financial condition and results of operations. By utilizing third parties to perform certain business and administrative functions, we may be exposed to greater risk, which could have a material adverse effect on our business, financial condition and results of operations.

In addition, Egenor provides operational and maintenance services as a contractor to Aguaytía, Etenorte, Eteselva and Termoselva. SUNAFIL, or the National Labor Inspection Superintendency (*Superintendencia Nacional de Fiscalización Laboral*) or labor judges in the case of any claim by an employee, may determine that said outsourcing scheme is invalid based on their interpretation of applicable regulations. If we fail to maintain our current structure of operational and maintenance services, we may experience operational difficulties, increased costs, and reputational damage that may have a material adverse effect on our business, financial condition and results of operations.

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, reduce our generation capacity or interrupt our hydrocarbon extraction, any 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.

Each of Egenor and Aguaytía and several of their respective consolidated subsidiaries 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 either of Egenor and Aguaytía, and each of Egenor and Aguaytía will continue to be subject to future litigation proceedings, which could have material adverse consequences to our business. For further information on our significant litigation, 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. 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.

We are subject to financing and interest rate exposure risks.

Our future success depends on our ability to access capital markets and obtain financing at cost effective rates. This is dependent on a number of factors, many of which we cannot control, including changes in:

- Our credit ratings;
- interest rates;
- the structured and commercial financial markets;
- market perceptions of Egenor, Aguaytía or the power industry;
- tax rates due to new or changes to existing tax laws;
- foreign exchange and investment controls and restrictions; and
- market prices for electricity and natural gas.

Our financial condition and liquidity could be adversely affected if there is a negative movement in any of these factors.

The interests of our shareholders may be contrary to our interests and the interest of the holders of the Notes.

Our shareholders have the power to elect all of our officers and determine the outcome of any action requiring shareholder approval, including transactions with related parties, corporate reorganizations and the timing and payment of dividends. In circumstances involving a conflict of interest between our shareholders, on the one hand, and the holders of the Notes, on the other hand, our shareholders may exercise their ability to control us in a manner that would be adverse to the holders of the Notes. For example, our shareholders may direct us, or direct our executive officers to direct us, not to engage in certain activities, to make certain expenditures and dividend payments and/or enter into transactions with affiliates, which direction may be designed primarily to promote their own goals and not exclusively to enhance our business. The impact of such actions and each of these factors may adversely affect our business, results of operations, financial condition and, as a result, impair our ability to make payments under the Notes.

Each of Egenor and Aguaytía have entered and may enter into certain significant transactions with affiliates or other related parties, which transactions may result in conflicts of interests.

Each of Egenor and Aguaytía have entered and may enter into significant transactions with companies controlled by their respective shareholders or other related companies concerning primarily the following:

- operation and maintenance and technical assistance agreements;
- natural gas and NGL agreements;
- other transactions such as advisory or management agreements;
- capacity use agreements; and
- indebtedness owed by or to their affiliates.

Any such transactions may not be on terms as favorable as those Egenor or Aguaytía could have obtained or may be able to obtain with unaffiliated third parties. See "Our Principal Shareholders and Related Party Transactions." While we believe such transactions have been and will be negotiated on an arm's length basis, there can be no assurance that such transactions could not give rise to conflicts of interest that could adversely affect our financial condition and results of operations, and, as a result, impair our ability to make payments under the Notes.

We depend on the availability of natural gas reserves in Block 31-C.

Our long-term financial condition is dependent on the continuous availability of natural gas for transportation and distribution in Block 31-C. We expect that the majority of natural gas produced by Aguaytía will be from existing proven reserves in Aguaytía, located in the Padre Abad province, although additional reserves may also become proven in the future. Continued supply of natural gas from reserves in the Aguaytía field to Central Térmica Aguaytía and to markets served by Aguaytía, is dependent on a number of factors over which Aguaytía has no control, including:

- levels of exploration, drilling, reserves and production of natural gas in the Cushabatay formation and other areas of Block 31-C, as well as the competitiveness of the price of such natural gas;
- accessibility of the Cushabatay formation and other natural gas production areas of Block 31-C, which may be affected by weather, natural disasters, the terrain, environmental restrictions and regulations, activities of guerrilla groups, drug cartels and organized crime or other impediments to access;
- the frequency with which Central Térmica Aguaytía is dispatched which directly influences the amount of gas we extract from Block 31-C;
- the availability, price and quality of natural gas from alternative sources; and
- the regulatory environment in Peru.

Any of the above factors could affect the continued supply of natural gas to the markets Aguaytía serves, which, in turn, could have a material adverse effect on its cash flows, financial condition and results of operations and, as a result, impair our ability to make payments under the Notes.

Our natural gas reserves are estimates.

Our gas proved reserves are estimated using geological and engineering data to determine with reasonable certainty whether the natural gas in known reservoirs is recoverable under existing economic and operating conditions. The accuracy of proved reserve estimates depends on a number of factors, assumptions and variables, some of which are beyond our control. Factors susceptible to our control include drilling, testing and production after the date of the estimates, which may require substantial revisions to reserves estimates; the quality of available geological, technical and economic data used by us and our interpretation thereof; the production performance of our reservoirs and our recovery rates, both of which depend in significant part on available technologies as well as our ability to implement such technologies and the relevant know-how; the selection of third parties with which we enter into business; and the accuracy of our estimates of initial hydrocarbons in place, which may prove to be incorrect or require substantial revisions. Factors mainly beyond our control include changes in prevailing natural gas prices, which could have an effect on the quantities of our proved reserves (since the estimates of reserves are calculated under existing economic conditions when such estimates are made); changes in the prevailing tax rules, other government regulations and contractual conditions after the date estimates are made (which could make reserves no longer economically viable to exploit); and certain actions of third parties, including the operators of fields in which we have an interest.

Information on net proved natural gas reserves as of December 31, 2016 was calculated in accordance with Petroleum Resources Management System ("PRMS") rules. The main differences between the PRMS rules and the SEC's rules regarding calculation of proved natural gas reserves are that the evaluation criteria and the margins of interpretation established in the PRMS are not as rigid or conservative as those assumed by the SEC methodology. For example, the PRMS rules permit the calculation of the value of reserves using the annual average price rather than the year-end price and to conduct the evaluation using the "reasonable certainty" criterion instead of the criterion of "certainty."

Energy commodity prices in general declined from 2014 through early 2016. While these prices recovered in late 2016, if these prices do not increase significantly or decrease again, our future calculations of estimated proved reserves would be based on lower prices. This could result in our having to remove non-economic reserves from our proved reserves in future periods. As a result of the foregoing, measures of reserves are not precise and are subject to revision. Any downward revision in our estimated quantities of proved reserves could adversely impact our financial results by leading to increased depreciation, depletion and amortization charges or impairment charges, which would reduce earnings and shareholders' equity.

Natural gas supplier concentration may expose us to significant performance risk.

We rely on natural gas supplied by Aguaytía to fuel our thermal power generation facilities at Central Térmica Aguaytía. The delivery of natural gas to our facilities is dependent upon a number of factors and the infrastructure (such as natural gas pipelines) available to serve each generation facility. Any disruption in the natural gas 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.

The License Agreement to exploit Block 31-C expires in March 2024. If Aguaytía does not obtain an extension, this Block will be auctioned and there is no guarantee that Aguaytía will be able to obtain natural gas from alternative suppliers at comparable prices.

This risk of disruption is compounded by supplier concentration that characterizes our generation unit. Our own hydrocarbon drilling operations in Aguaytía are our sole supplier of natural gas. If our subsidiary cannot produce or deliver natural gas to our thermal plant at current levels, our plant would be unable to generate electricity, 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 Cushabatay formation and the royalty price of such natural gas;
- accessibility of the Cushabatay formation and other natural gas production areas in Block 31-C, 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; and
- the regulatory environment in Peru.

An increase in alternative energy sources could adversely affect demand for natural gas.

The cost of natural gas in comparison with alternative energy sources for the same uses affects the demand for natural gas. The cost of gas-fired generation of electricity in Peru is currently lower than the cost of electricity generated with alternative fuels (including coal), with the exception of hydroelectric energy and energy generators that are party to RER agreements.

In addition, alternative fuels, primarily fuel oil and coal for industries and power plants and LPG for residential customers and smaller commercial users, are currently used when and where natural gas service is unavailable or is interrupted, and they continue to be used as substitutes for natural gas. Future increases in natural gas prices, a failure of ongoing efforts to further develop the Peruvian natural gas industry, reductions in the prices of alternative fuels or the generation of electricity from sources other than natural gas may have a material adverse effect on Aguaytía's cash flows, financial condition and results of operations and, therefore, on our ability to make payments under the Notes.

Risks Related to Legal and Regulatory Matters

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

We engage in natural gas production, power generation and transmission activities 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;
- consumption and supply 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;
- penalties;
- tariffs, including under PPAs where tariffs are limited to regulated rates and tariffs paid for use of transmission lines;
- 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 future Peruvian governments 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, Unregulated Customers were provided access to the spot market, for up to 10% of its demand, on July 28, 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 us. 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 under current law is set on an annual basis and which may have a material adverse effect on our margins or results of operations.

In addition, we may differ with the tax and labor authorities on the interpretation of the law, and therefore our calculation of taxes, health and pension contributions, among others, may be different than the calculations that the tax and labor authorities perform.

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.

The agencies that regulate our business and customers may take actions that may affect our profitability.

Our business is regulated by OSINERGMIN, MEM, OEFA and various other national and local public entities. Regulatory actions taken by those agencies could have the potential to adversely affect our profitability. If regulated rates were reduced or redesigned pursuant to regulations issued by OSINERGMIN in the future, or if the many relevant aspects of our business including volume of business under currently permitted tariffs were decreased significantly, or if we were required to substantially discount the rates for its services because of regulatory pressure, the profitability of our business could be materially affected.

In addition, increased regulatory requirements relating to the integrity of our facilities or the quality of the services provided by them may require additional expenditures in order to maintain compliance with any such requirements.

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 authorizations for the construction of new facilities or the installation and operation of new equipment required for our business. Some of these permits, licenses and authorizations 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, suspension or 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 laws and regulations to become more stringent over time, making our ability to comply with the applicable requirements and to 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.

We have been involved in one incident related to our relations with the local communities established in the area were we operate. The incident took place in 2008 and was related to a dispute about a reservoir located in the Parón lake, which provides water to the Cañón del Pato plant. As a consequence of the dispute, communications between our company and the community were initiated which resulted in the implementation of a specialized team headed by the ANA. The ANA was appointed and granted authority to operate the facilities installed in the Parón lake. As of today, the reservoir is operated according to the resolutions agreed to by the parties involved in the dispute. These resolutions take into consideration an inclusive, holistic perspective and responsible use of the natural resources for the benefit of all the stakeholders. Because the personnel of the Cañón del Pato plant do not have direct access to the reservoir in order to avoid any disturbance within the community, a third-party contractor is appointed to execute any activity related to the operation of the reservoir.

We have also been involved in two environmental incidents. The first incident took place on July 23, 2015 and consisted of a leak in an NGL pipeline operated by Aguaytía. We promptly informed OEFA and immediately proceeded to implement a contingency plan to avoid further environmental consequences. As a result of such incident, surrounding soils were polluted. The failure in the pipeline system was apparently caused by third parties who installed a clandestine connection to our NGL pipelines in an effort to illegally obtain access to the NGLs transported thereby.

The second environmental incident took place on August 26, 2016 and consisted of a leak in an NGL pipeline operated by Aguaytía that caused a fire. We promptly informed OEFA and immediately proceeded to implement a contingency plan to avoid further environmental consequences. As a result of such incident, soils were polluted and a 29-year old inhabitant suffered burn injuries. Once again, the failure in the pipeline system was apparently caused by third parties who installed a clandestine connection to our pipelines in an effort to illegally obtain access to the NGLs transported thereby.

While we intend to adopt, and believe that our business has adopted, appropriate risk management and compliance programs, the nature of our operations means that legal and compliance risks will continue to exist and additional legal proceedings and other contingencies, the outcome of which cannot be predicted with certainty, will arise from time to time.

No assurances can be made that we will be found to be operating in compliance with, or be able to detect violations of, any existing or future laws or regulations. A failure to comply with or properly anticipate applicable laws or regulations could have a material adverse effect on our business, financial condition, results of operations or liquidity.

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

We conduct our business pursuant to several permits granted by MEM. MEM may initiate a process to revoke our permits if, among other things:

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

MEM may initiate a permit revocation procedure by giving us notice that, in their view, one or more of these events has occurred and requesting that we establish our position with respect the event(s) and, if applicable, indicate the steps we intend to take to remedy the situation. If we fail to timely respond to the request or fail to remedy the situation, MEM may revoke our permits and execute the letter of credit we have delivered to MEM as security for the performance of our obligations. We currently do not have any letters of credit on file, since we have successfully completed all projects in connection with which we have drawn letters of credit.

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

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

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

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

We conduct our business pursuant to several permits granted by ANA. ANA may initiate a process to revoke our permits if, among other things:

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

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

Labor legislation in Peru is inflexible regarding the termination of employment contracts

Due to several rulings by Peru's Constitutional Court, workers in Peru have the right to job stability, which means their employment contract cannot be terminated except for limited situations listed in Supreme Decree No. 003-97-TR. If we fail to maintain our labor costs at a proper level we may experience operational difficulties and increased cost or other inefficiencies, any of which could have a material adverse effect on our business, financial condition, results of operations or liquidity.

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 President Pedro Pablo Kuczynski, elected in the 2016 presidential elections or 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. In addition, we cannot assure you that there will not be a government gridlock, which could cause political uncertainty, given the fact that the Peruvian Congress is currently controlled by Keiko Fujimori's party, the main opposition party to President Kuczynski. 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 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.

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

Financial and securities markets in Peru are influenced, to varying degrees, by economic and market conditions in Latin American 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 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's economy 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. During the recent global economic and financial crisis, global conditions led to a slowdown in economic growth in Peru, slowing GDP growth in 2009 to 1.0%. In particular, the Peruvian economy suffered the effects of lower commodity prices in the international markets, a decrease in export volumes, a decrease in foreign direct investment inflows and, as a result, a decline in foreign reserves. Adverse developments in regional or global markets in the future could adversely affect the Peruvian economy and, as a result, adversely affect our business, financial condition and results of operations.

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 few years, 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, uncertainty surrounding the implementation and effect of the proposed exit of the United Kingdom from the European Union, which could increase economic volatility, 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.

A devaluation of the Sol relative to the U.S. Dollar could have a material adverse effect on us and consequently affect our ability to make payments on the Notes.

A sudden and significant devaluation of the *Sol* could materially and adversely affect us. A severe devaluation of the *Sol* may have a material and adverse effect on our financial condition, results of operations and cash flows in future periods by, for example, increasing in *Soles* terms the amount of our foreign currency-denominated liabilities. Any significant devaluation of the *Sol* against the U.S. Dollar could have a material adverse effect on us, including our ability to make payments on the Notes.

In addition, although Peruvian law currently imposes no restrictions on the ability to convert *Soles* to foreign currency and transfer foreign currency outside of the country, in the 1980s and early 1990s Peru imposed exchange controls, including controls affecting the remittance of dividends to foreign investors. We cannot assure you that exchange controls in Peru will not be implemented in the future. The imposition of exchange controls could have an adverse effect on the economy and on the ability of noteholders to receive interest and principal payments in U.S. Dollars.

The re-implementation of certain laws by the Peruvian government, most notably restrictive exchange rate policies, could materially and adversely affect us and our ability to make payment on the Notes.

Since 1991, the Peruvian economy has experienced a significant transformation from a highly protected and regulated system to a free market economy. In 1991, President Fujimori's administration eliminated all foreign exchange controls and unified the exchange rate. Currently, foreign exchange rates are determined by market conditions, with regular operations by the Peruvian Central Reserve Bank in the foreign exchange market in order to reduce volatility in the value of Peru's currency against the U.S. Dollar. Since the early 1990s, protectionist and interventionist laws and policies have been gradually dismantled to create a liberal economy dominated by market forces. The Peruvian economy has generally responded positively to this transformation, GDP grew by an average annual rate of 5.7% during the period from 2006 to 2016. Exchange controls and restrictions on remittances of profits, dividends and royalties have ceased. Prior to 1991, Peru exercised control over foreign exchange markets by imposing restrictions to multiple exchange rates and restrictions to the possession and use of foreign currencies.

The Peruvian government may institute restrictive exchange rate policies in the future. Any such restrictive exchange rate policy could affect our ability to engage in foreign exchange activities, and could also materially and adversely affect us.

In addition, if the Peruvian government were to institute restrictive exchange rate policies in the future, we might be obligated to seek an authorization from the Peruvian government to make payments on the Notes. We cannot assure you that such an authorization would be obtained. Any such exchange rate restrictions or the failure to obtain such an authorization could materially and adversely affect our ability to make payments under the Notes.

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

Financial reporting and securities disclosure requirements in Peru differ in certain significant respects from those required in the United States. Accordingly, the information about us available to you will not be the same as the information available to holders of securities issued by a U.S. company. In addition, local bonds of Egenor are registered with the Peruvian Public Registry of Securities of the SMV and are listed on the BVL, and as a result, for so long as Egenor's local bonds remain registered with the SMV and the BVL, 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. 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. In addition, in connection with the Liability Management Transaction, Egenor may choose to delist the Egenor Bonds from the SMV and the BVL, further reducing the regulations applicable to us.

Peruvian inflation could adversely affect us.

In the past, Peru has suffered through periods of high and hyper-inflation, which have 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. Additionally, in response to increased inflation, the Peruvian Central Reserve Bank which sets the Peruvian basic interest rate, may increase or decrease the basic interest rate in an attempt to control inflation or foster economic growth.

As a result of reforms initiated in the 1990s, Peruvian inflation has decreased significantly in recent years from four-digit inflation during the 1980s. The Peruvian economy experienced annual inflation of 2.9% in 2013, 3.2% in 2014, 4.4% in 2015 and 3.2% in 2016, as measured by the Peruvian Consumer Price Index (*Índice de Precios al Consumidor del Perú*).

If Peru experiences substantial inflation in the future, our costs of goods could increase and our operating margins could decrease, which could materially and adversely affect us. Inflationary pressures may also limit our ability to access foreign financial markets and may cause government intervention in the economy, 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.

Changes in tax laws may increase our tax burden and, as a result, have a material and adverse effect on us.

The Peruvian government regularly implements changes to its tax regulations that may increase our tax burdens. These changes may include modifications in the tax rates and, on occasion, the enactment of temporary taxes that in some cases have become permanent taxes. For example, on January 1, 2017, the income tax rate was increased from 28% to 29.5% while the dividend tax rate was reduced from 6.8% to 5%. The effects of any tax reforms that could be proposed in the future and any other changes that result from the enactment of additional reforms have not been, and cannot be, quantified. However, any changes to our tax regime, different to the income tax assessment or rate, may result in increases to our overall costs and/or overall compliance costs, which could negatively affect our business.

Furthermore, no assurance can be provided that the tax stability provisions in our License Agreement with Perúpetro will not be changed.

Market volatility generated by distortions in the international financial markets may affect the Peruvian capital markets.

The international financial conditions in 2008 and 2009 increased the volatility of the BVL. The general index of the BVL decreased by 60% in 2008, increased by 101% in 2009, increased by 65% in 2010, decreased by 17% in 2011, increased by 6% in 2012, decreased by 24% in 2013, decreased by 6% in 2014, decreased by 33% in 2015 and increased by 58% in 2016. In recent years, the BVL has experienced increased participation from retail investors that react rapidly to the effects from international markets. Further volatility in the international markets may also adversely affect the Peruvian capital markets. The Peruvian banking system has not experienced significant liquidity problems as a result of the international financial conditions, primarily because the major source of funds for local banks is represented by their deposit base. Nevertheless, we may, in the future, rely on funding from the local capital markets and limited liquidity in those markets as a result of future market volatility could adversely affect our ability to raise funds at the price or level we consider necessary to fund our operations.

Risks Related to the Notes

There is no existing market for the Notes, and transferability may be limited by the absence of an active trading market.

There is no existing market for trading of the Notes, and we cannot assure you that in the future a market for the Notes will develop, or that you will be able to sell any Notes you have purchased, or that any such Notes may be sold for any particular price. Although we have received approval in-principle to list the Notes on the SGX-ST, we cannot assure you that we will receive final approval. No assurance can be given that we will be able to maintain such listing or that a trading market will develop. We cannot assure that you will be able to sell your Notes, or of the price at which you may be able to sell your Notes. If a market for the Notes were to develop, the Notes could trade at prices that may be higher or lower than their initial offering price, depending on many factors, including some beyond our control. The liquidity of, and trading market for the Notes may be adversely affected by changes in interest rates and declines and volatility in the market for similar securities, as well as by any changes in our financial condition or results of operations and by declines in the market for high-yield and emerging market securities generally. See "Plan of Distribution."

The U.S. and Peruvian securities laws impose certain restrictions on the resale of the Notes.

The Notes and the Note Guarantees are being offered in reliance upon an exemption from registration under the Securities Act and applicable state securities laws. Thus, neither the Notes nor the Note Guarantees have been registered under the Securities Act or any state securities laws and, unless so registered, neither the Notes nor the Note Guarantees may be offered, sold or otherwise transferred except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Additionally, the Indenture will not be qualified under the Trust Indenture Act of 1939, as amended. As a result, holders of the Notes will not receive the protections otherwise provided thereby.

In Peru, the Notes offered and placed through a private offering shall not be transferred or resold, except as permitted under Peruvian securities law. See "Transfer Restrictions."

The respective levels of indebtedness Egenor and the Guarantors may adversely affect their respective businesses, results of operations, financial condition and abilities to comply with their respective obligations under the Notes or the Note Guarantees, as applicable.

Egenor currently has moderate levels of indebtedness, and after the offering and sale of the Notes, will have significant levels of indebtedness. Egenor's outstanding indebtedness as of December 31, 2016, was U.S.$75.0 million, excluding the Notes offered hereby. See "Capitalization" and "Description of Indebtedness."

Egenor and Aguaytía's respective debt levels could have important consequences to you as a holder of the Notes. For example, they could result in one or more of the following:

- make it more difficult for us to satisfy our obligations with respect to the Notes or the Note Guarantees, as applicable;
- require us to dedicate a substantial portion of our respective cash flows from operations to payments on such debt, which would reduce the funds available for working capital, significant capital expenditures, acquisitions and other general corporate purposes;
- limit our flexibility in planning for, or reacting to, changes in production, customer demand and competitive pressures, as well as to other changes in our industry;
- place us at a competitive disadvantage to any of our potential competitors that are less leveraged than us;

- increase our vulnerability to both general and industry-specific adverse economic conditions; and
- limit our ability to borrow additional funds and increase the cost of any such borrowing, particularly due to the financial and other restrictive covenants contained in the agreements governing its debt.

Either of Egenor or Aguaytía may also incur additional debt in the future. The Indenture will permit Egenor and Aguaytía to incur additional debt, subject to certain conditions. See "Description of the Notes." The incurrence of additional debt by either of Egenor or Aguaytía would increase the risk of us not being able to service our debt obligations, which would, in turn, materially adversely affect our ability to make payments under the Notes. There can be no assurance that we will not incur substantial additional debt in the future.

If either of Egenor or Aguaytía enters into a bankruptcy, insolvency, intervention, administrative takeover of its management or for liquidation purposes or similar proceeding, holders of subordinated and unsubordinated debt may be given the same priority.

In a bankruptcy, insolvency, intervention, administrative takeover for management or for liquidation purposes or restructuring proceedings under Peruvian law, subordination agreements may be disregarded. In such a case, subordinated and unsubordinated creditors (including holders of the Notes) may have the same priority. The Indenture allows Egenor to incur subordinated debt, and to refinance, repay, redeem, repurchase or otherwise acquire or retire for value certain subordinated indebtedness. If Egenor or Aguaytía were to undergo bankruptcy, liquidation, restructuring or administrative takeover proceedings, holders of its debt that were contractually subordinated to Egenor's or Aguaytía's prior payments, including such intercompany debt, could have the same rights as holders of Egenor's or Aguaytía's unsubordinated debt under the Notes. Therefore, we cannot assure you that you will not lose your priority over any subordinated debt of Egenor or Aguaytía.

The Notes will be structurally subordinated to the financial and other obligations of Egenor's and Aguaytía's respective future subsidiaries.

Generally, claims of creditors of any subsidiaries Egenor or Aguaytía create or acquire will have priority with respect to such subsidiaries' assets and earnings over the claims of the respective creditors of Egenor and Aguaytía, including the holders of the Notes or other shareholders, except to the extent the claims of the respective creditors of Egenor and Aguaytía are guaranteed by such subsidiaries.

Subject to certain limitations, the Indenture will permit each of Egenor and Aguaytía to create subsidiaries and make investments in other companies. Upon the liquidation or reorganization of such subsidiaries or companies, Egenor and Aguaytía's rights to participate in any distribution of assets of such subsidiaries or companies (and thus the ability of the holders of the Notes to benefit indirectly from such distribution) may be subject to the prior claims of all creditors of such subsidiaries or companies and to the priority rights of the holders of preferred shares of such subsidiaries or companies, if any. Under these circumstances, in the absence of a direct guarantee by such entities, the claims of the holders of the Notes would be structurally subordinated to the claims of all creditors of such subsidiaries or companies, including trade creditors of, and banks and other lenders to, such companies, with respect to the assets and cash flow of such subsidiaries or companies, and as a result the ability of such companies to pay dividends or make other distributions to either of Egenor or Aguaytía and thus our ability to make payments under the Notes could be adversely affected. Subsidiaries Egenor or Aguaytía may create or acquire could become involved in litigation and other disputes involving monetary claims. If unfavorable decisions are rendered in one or more of these lawsuits, such subsidiaries could be required to pay substantial amounts, which could have a material adverse effect on Egenor or Aguaytía's results of operations and financial condition and, as a result, on our ability to make payments under the Notes.

Payments on the Notes will be effectively subordinated to secured debt obligations of Egenor and the Guarantors.

The Notes will be senior unsecured obligations of Egenor and will rank equal in right of payment with all of Egenor's other existing and future unsecured and unsubordinated obligations (except those obligations preferred by operation of law). Likewise, the Note Guarantee of each Guarantor will be an unsecured obligation of such Guarantor, ranking senior in right of payment to all of such Guarantor's future debt that is subordinated in right of payment to its Note Guarantee and ranking equally in right of payment with all of such Guarantor's existing and future debt that is not subordinated in right of payment to its Note Guarantee (except those obligations preferred by operation of law). The Notes and the Note Guarantees will be effectively junior to all secured debt of Egenor or the Guarantors, respectively, to the extent of any collateral securing such debt. As of December 31, 2016, on a *pro forma* basis, as adjusted to give effect to the offering of the Notes and the application of net proceeds therefrom as described in "Use of Proceeds," Egenor would have had approximately U.S.$550.0 million of senior unsecured indebtedness and no senior secured indebtedness, in each case on a consolidated basis, and the Principal Guarantor would have had no senior unsecured indebtedness and no senior secured indebtedness, in each case on a consolidated basis. The Indenture will allow Egenor and any of the Guarantors to incur secured indebtedness in certain circumstances. If either of Egenor or any Guarantor becomes insolvent or is liquidated, or if payment in respect of its secured indebtedness is accelerated, the secured lenders of Egenor or such Guarantor, as the case may be, will be entitled to exercise the remedies available to a secured lender under applicable law or applicable control agreements, in addition to any remedies that may be available under the financing arrangements relating to that secured indebtedness, and we cannot assure you that there will be sufficient assets remaining to pay amounts due on the Notes. As a result, you may receive less, ratably, than the lenders of secured indebtedness Egenor or any such Guarantor, as applicable.

Egenor may not be able to obtain the funds required to repurchase the Notes upon a Change of Control that results in a Ratings Event.

If a Change of Control that results in a Ratings Event occurs, as set forth in "Description of the Notes," each holder of Notes will have the right to require us to repurchase all or any part (subject to minimum denominations and integral multiples in excess thereof) of that holder's Notes pursuant to a Change of Control Offer (as defined in "Description of the Notes"). In the case of a Change of Control Offer, we will offer to repurchase Notes at 101% of their aggregate principal amount plus accrued and unpaid interest and any additional amounts on the Notes repurchased. The source of funds for any such purchase of the Notes will be our available cash 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 because we may not have sufficient financial resources to purchase all of the Notes that are tendered upon a Change of Control Offer. There can be no assurance that sufficient funds will be available when necessary to make the required purchase of the Notes. Our failure to repurchase the Notes upon a Change of Control would cause a default under the Indenture.

In addition, there can be no assurance that our future indebtedness will not prohibit us from purchasing Notes in the event of a Change of Control, provided that our obligations under the Indenture will not be modified thereby. Moreover, the exercise by the holders of Notes of their right to require us to purchase the Notes under the Indenture could cause a default under other debt, even if the Change of Control itself does not, due to the financial effect of the purchase on Egenor. See "Description of the Notes—Repurchases at the Option of the Holders of the Notes Upon Change of Control that Results in a Ratings Event."

A court may use fraudulent conveyance considerations to avoid or subordinate the Note Guarantees

A court could, under fraudulent conveyance law, subordinate or void the guarantee of any Guarantor if it found that such Note Guarantee was incurred with actual intent to hinder, delay or defraud creditors, and that the Guarantor was any of the following:

- already insolvent;
- rendered insolvent by reason of its entering into such guarantee;
- engaged in business or transactions for which the assets remaining constituted unreasonable small capital; or
- intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature.

If a court were to void the Note Guarantee of a Guarantor as a fraudulent conveyance, or hold it unenforceable for any other reason, holders of the Notes would cease to have a claim against that Guarantor and would be creditors solely of Egenor and any Guarantor whose Note Guarantee was not voided or held unenforceable.

Enforcing your rights as a holder of Notes and the Note Guarantees in Peru may prove difficult.

Your rights under the Notes and the Note Guarantees will be subject to the insolvency and administrative laws of Peru, and we cannot assure you that you will be able to effectively enforce your rights in such bankruptcy, insolvency or similar proceedings. In addition, the bankruptcy, insolvency, administrative and other laws of Peru may be materially different from, or in conflict with, each other, including in the areas of rights of creditors, priority of government entities and related party creditors and ability to obtain post-bankruptcy filing loans or to pay interest. The application of these laws, or any conflict among them, could call into question what and how Peruvian laws should apply. The laws of Peru may not be as favorable to your interests as the laws of jurisdictions with which you are familiar. Such issues may adversely affect your ability to enforce your rights under the Notes and the Note Guarantees in Peru, as the case may be, or limit any amounts that you may receive.

The ability of investors to enforce civil liabilities under U.S. securities laws may be limited.

None of our executive officers are residents of the United States. All or a substantial portion of our assets and those of our executive officers are located outside of the United States. As a result, it may not be possible for investors in our securities to effect service of process within the United States upon such persons or to enforce in U.S. courts or outside of the United States judgments obtained against such persons outside of the United States.

We are a company organized and existing under the laws of Peru, and there is no existing treaty between the United States and Peru for the reciprocal enforcement of foreign judgments. It is not clear whether a foreign court would accept jurisdiction and impose civil liability if proceedings were commenced in a foreign jurisdiction predicated solely upon U.S. federal securities laws. See "Enforcement of Foreign Judgments."

The perception of higher risk in other countries, especially in emerging economies, may adversely affect the Peruvian economy, our business and the market price of Peruvian securities issued by Peruvian issuers, including the Notes.

Emerging markets like Peru are subject to greater risks than more developed markets, and financial turmoil in any emerging market could disrupt business in Peru and adversely affect the price of the Notes. Moreover, financial turmoil in any important emerging market country may adversely affect prices in stock markets and prices for debt securities of issuers in other emerging market countries as investors move their money to more stable, developed markets. An increase in the perceived risks associated with investing in emerging markets could dampen capital flows to Peru and adversely affect the Peruvian economy in general, and the interest of investors in the Notes, in particular in Peru. We cannot assure you that the value of the Notes will not be negatively affected by events in other emerging markets or the global economy in general.

The ratings of the Notes may be downgraded or withdrawn depending on various factors, including the rating agency's assessments of our financial strength and Peruvian sovereign risk.

Fitch Ratings, Ltd. and Standard and Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. have assigned credit ratings to the Notes. Ratings address the timely payment of interest on each interest payment date and principal at maturity. 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. The ratings of the Notes are not a recommendation to purchase, hold or sell the Notes and may be changed, suspended or withdrawn by the rating agency at any time and the ratings do not comment on market price or suitability of the Notes as an investment for a particular investor.

Our current ratings and the rating outlooks currently assigned to us are, and any ratings attributed to the Notes will be, dependent upon economic conditions and other factors affecting credit risk that are outside our control. Each rating should be evaluated independently of the others. Detailed explanations of the 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.

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

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

Risks Related to the Concurrent Transactions

We may not be able to effect the repayment and release of our debt obligations in respect of the Egenor Bonds or the Bank Debt and in such case the Notes would be effectively subordinated to the rights of the lenders under the Orazul Loan Agreement in respect of the Bank Debt.

Although we plan to deliver the portion of the proceeds of the issuance of the Notes to be used for the repayment in full of our debt obligations in respect of the Egenor Bonds and to make a loan to our Peruvian Holding Company to repay the Bank Debt in full on, or as soon as practicable after, the issue date of the Notes, until the Egenor Bonds and the Bank Debt are fully repaid and our obligations and security arrangements in respect of the Bank Debt are fully terminated and discharged, the rights of the holders of the Notes will be effectively subordinated to the rights of the lenders in respect of the Bank Debt to the extent of any security provided therefor. Our obligations in respect of the Egenor Bonds would rank *pari passu* with the obligations under the Notes. If we are not able to consummate the refinancing of the Bank Debt as part of the Concurrent Transactions as contemplated or a creditor or other third party were to attach the proceeds of the offering or obtain an injunction on our ability to consummate the Concurrent Transactions, the rights of the holders of the Notes will remain effectively subordinated to the rights of the lenders under the Bank Debt to the extent of any security provided therefor and the market value of the Notes could be materially adversely affected.

We may not be able to effect the termination and release of the security arrangements and guarantees securing the Bank Debt.

The Bank Debt is secured by a pledge over our shares as well as a pledge over the equity interests we hold in our subsidiary Etenorte and pledges over the equity interests in the Principal Guarantor and its subsidiaries Termoselva and Eteselva. In addition, we, the Principal Guarantor and our respective consolidated subsidiaries are guarantors in respect of the Bank Debt. As part of the Concurrent Transactions, we intend to make a loan to our Peruvian Holding Company so that it can repay all of its obligations under the Orazul Loan Agreement in respect of the Bank Debt thereunder and to instruct the lenders in respect thereof to release such security interests granted pursuant to such pledges and the related guarantees. However, we can give no assurance as to the length of time that the release of such liens and guarantees will require or that such releases will occur at all. To the extent such security arrangements and guarantees are not released as planned, the obligations of the holders of the Notes will be effectively subordinated to such security arrangements.

USE OF PROCEEDS

The gross proceeds from the sale of the Notes will be U.S.$550,000,000, before deduction of the Initial Purchasers' fees and commissions and the payment of estimated transaction expenses. We intend to use the net proceeds from the sale of the Notes to: (i) redeem the Egenor Bonds (see "Summary—Recent Developments—Repayment of Bank Debt and the Liability Management Transaction"), (ii) make a loan to our Peruvian Holding Company so that, in turn, our Peruvian Holding Company can repay the Bank Debt in full (see "Summary—Recent Developments—Repayment of Bank Debt and the Liability Management Transaction") and (iii) the balance, for general corporate purposes. For further information on our outstanding indebtedness, in particular the debt that comprises the Egenor Bonds and the Bank Debt, including the interest rate and currency applicable to the indebtedness, see "Description of Indebtedness." For a description of the Concurrent Transactions, see "Summary—Recent Developments—Repayment of Bank Debt and the Liability Management Transaction." We intend to fully repay the Egenor Bonds, as well as the Bank Debt, with the net proceeds from this offering. Certain of the initial purchasers or their affiliates are lenders to our Peruvian Holding Company under the Bank Debt and will be repaid with a portion of the net proceeds of the offering, as described in more detail under "Plan of Distribution."

FOREIGN EXCHANGE CONTROLS AND EXCHANGE RATES

Foreign Exchange Controls

The Peruvian *Sol* is freely traded in the exchange market. Peruvian law does not impose any restrictions on the ability of companies having operations in Peru to transfer foreign currencies from Peru to other countries, except for restrictions applicable to companies that have been convicted or have admitted to and/or acknowledged committing crimes against the Peruvian public administration or money laundering or equivalent crimes, pursuant to Urgency Decree No. 003-2017 entitled Urgency Decree to Ensure Continuity of Public Utility Investment Projects and Safeguard Compensation to the State in Cases of Corruption, to convert *Soles* into any foreign currency or to convert any foreign currency into *Soles*. Except for the aforementioned restrictions, companies may freely remit interest and principal payments abroad and investors may repatriate capital from liquidated investments. Peruvian law in the past, however, has imposed restrictions on the conversion of Peruvian currency and additional restrictions on the transfer of funds abroad, and we cannot assure you that Peruvian law will continue to permit such payments, transfers, conversions or remittances as without restrictions.

Exchange Rates

Exchange rates for the *Sol* have been relatively stable in recent years. The following table sets forth the low, high, period-average and period-end rates for the periods indicated, expressed in *Soles* per U.S. Dollar, as published by SBS.

	Low	High	Period Average(1)	Period End
Years Ended December 31:				
2011	2.694	2.834	2.755	2.697
2012	2.551	2.710	2.640	2.551
2013	2.541	2.820	2.702	2.796
2014	2.761	2.990	2.840	2.989
2015	2.983	3.413	3.187	3.413
2016	3.250	3.538	3.377	3.360
Months Ended:				
January 2017	3.279	3.392	3.342	3.287
February 2017	3.243	3.293	3.262	3.263
March 2017	3.243	3.296	3.265	3.249
April 2017 (through April 10, 2017)	3.247	3.252	3.249	3.247

(1) Calculated as the average of the month-end or day-end exchange rates during the relevant period, as applicable.

Source: SBS-Series—Peruvian Central Reserve Bank.

On April 10, 2017, the exchange rate was S/3.247 per U.S. Dollar.

We make no representation that the Peruvian *Soles* or the U.S. Dollar amounts referred to herein actually represent, could have been or could be converted into U.S. Dollars or Peruvian *Soles*, as the case may be, at the rates indicated, at any particular rate or at all. The Federal Reserve Bank of New York does not report a noon buying rate for *Soles.*

CAPITALIZATION

The following table sets forth Egenor's cash and cash equivalents, non-current debt and equity (i) as of December 31, 2016 and (ii) as adjusted to give effect to the issuance of the Notes and the application of the gross proceeds from the sale of the Notes as set forth under "Use of Proceeds." For additional information, see the Egenor Financial Statements and notes thereto included in this offering memorandum. There has been no material change in Egenor's cash and cash-equivalents, current loans, non-current loans or equity since December 31, 2016 other than as described herein.

	As of December 31, 2016	
	Actual	As Adjusted
	(in thousands of U.S.$)	
Cash and Cash Equivalents	9,220	9,220
DEBT(1)		
Non-current debt:		
Non-current Egenor Bonds	75,000	—
Notes issued hereby	—	550,000
Total debt	75,000	550,000
EQUITY(1)		
Issued capital stock	105,214	105,214
Legal reserve	21,043	21,043
Retained earnings	55,350	30,350
Total equity	181,607	156,607
Total debt and equity	256,607	706,607

(1) Reflects the issuance of the Notes and the incurrence by Egenor of a loan to be made to Peruvian Holding Company in an amount equal to the principal amount outstanding on the Bank Debt as of December 31, 2016 (but excluding interest due in connection therewith), in order for the Peruvian Holding Company to repay the Bank Debt in full and, as well as the repayment of the Egenor Bonds, i.e., the application of the net proceeds from the sale of the Notes in connection with the consummation of the Concurrent Transactions.

SELECTED FINANCIAL AND OPERATING DATA

The tables below present summary financial and operating data at and for the periods indicated. You should read the information below in conjunction with the audited consolidated financial statements and notes thereto beginning on page F-1 herein, as well as the sections entitled "Unaudited Combined Financial Information" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this offering memorandum.

The statements of financial position included below as of December 31, 2016, 2015 and 2014 and the statements of profit or loss and other comprehensive income for the years ended December 31, 2016, 2015 and 2014 are derived from the Egenor Financial Statements and the Aguaytía Financial Statements beginning on page F-1 herein.

The Egenor Financial Statements and the Aguaytía Financial Statements have been prepared in accordance with IFRS, as issued by the IASB.

Solely for the convenience of the reader, *Soles* amounts for Egenor as of and for the year ended December 31, 2016 have been translated into U.S. Dollars at the commercial market rate as reported by SBS on December 31, 2016 of S/3.36 to U.S.$1.00. The U.S. Dollar equivalent information should not be construed to imply that the *Soles* amounts represent, or could have been or could be converted into, U.S. Dollars at such rates or at any other rate.

	For the years ended December 31,			
	2016	2016	2015	2014
	(in thousands of U.S.$)	(in thousands of *Soles*)		
CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME OF EGENOR				
CONTINUOUS OPERATIONS				
Sale of energy and electrical energy transmission services	128,060	430,281	420,652	375,715
Costs of sale of energy and electrical energy transmission services	(67,845)	(227,960)	(205,059)	(190,060)
Gross profit	60,215	202,321	215,593	185,655
Administrative expenses	(17,153)	(57,634)	(50,402)	(52,067)
Selling expenses	(1,404)	(4,718)	(4,881)	(6,227)
Other income	16,527	55,531	58,077	46,329
Other expenses	(887)	(2,979)	(5,102)	(4,269)
Financial income	495	1,663	3,419	1,592
Financial expenses	(4,671)	(15,693)	(16,047)	(16,119)
Exchange difference (net)	358	1,202	(2,535)	860
Profit before income tax	53,480	179,693	198,122	155,754
Income tax expense	(21,131)	(71,000)	(52,497)	(26,491)
Net profit for the year for continuous operations	32,349	108,693	145,625	129,263
DISCONTINUED OPERATIONS				
Net profit for the year for discontinued operations	—	—	—	27,360
NET PROFIT FOR THE YEAR	32,349	108,693	145,625	156,623
Other comprehensive income for the year	—	—	—	—
Total comprehensive income for the year	32,349	108,693	145,625	156,623

	As of December 31,			
	2016	2016	2015	2014
	(in thousands of U.S.$)	(in thousands of *Soles*)		
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF EGENOR				
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	9,220	30,978	348,199	154,707
Trade accounts receivable (net)	12,105	40,674	38,256	51,411
Other accounts receivable	415	1,394	7,046	808
Accounts receivable from related entities	17,144	57,605	3,103	5,922
Inventories (net)	1,307	4,392	5,109	6,739
Income tax asset	1,144	3,843	—	—
Other assets	73	269	244	376
Total current assets	41,408	139,155	401,957	219,963
Non-current assets				
Accounts receivable from related entities	46,190	155,200	—	—
Other accounts receivable	409	1,377	1,377	3,218
Property, plant and equipment (net)	233,839	785,700	814,284	842,469
Other assets	470	1,580	1,135	1,315
Total non-current assets	280,908	943,857	816,796	847,002
TOTAL	322,316	1,083,012	1,218,753	1,066,965
LIABILITIES AND EQUITY				
CURRENT LIABILITIES:				
Financial obligations	1,233	4,144	4,210	4,523
Trade accounts payable	6,043	20,304	19,894	16,207
Other accounts payable	1,249	4,198	5,926	6,820
Accounts payable to related entities	86	316	3,934	165
Liabilities for employee benefits	7,443	25,009	20,490	24,645
Income tax liability	—	—	10,063	39,284
Total current liabilities	16,054	53,971	64,517	91,644
NON-CURRENT LIABILITIES:				
Financial obligations	75,000	252,000	255,975	224,175
Deferred income tax liabilities	48,125	161,701	142,466	142,678
Provisions	1,530	5,141	6,689	4,987
Total non-current liabilities	124,655	418,842	405,130	371,840
Total liabilities	140,709	472,813	469,647	463,484
EQUITY:				
Issued capital stock	105,214	353,519	353,519	353,519
Legal reserve	21,043	70,704	70,704	95,678
Retained earnings	55,350	185,976	324,883	154,284
Total equity	181,607	610,199	749,106	603,481
TOTAL	322,316	1,083,012	1,218,753	1,066,965

	For the years ended December 31,			
	2016	2016	2015	2014
	(in thousands of U.S.$)	(in thousands of *Soles*)		
CONSOLIDATED STATEMENTS OF CASH FLOWS OF EGENOR				
Net cash and cash equivalents provided by operating activities	46,059	154,763	162,939	169,100
Net cash and cash equivalents (used in) provided by investment activities	(67,004)	(225,136)	3,004	321,215
Net cash and cash equivalents used in financing activities	(73,690)	(247,600)	(856)	(490,309)

	For the years ended December 31,		
	2016	2015	2014
	(in thousands of U.S.$)		
CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME OF AGUAYTÍA			
Sale of energy and electrical energy transmission services	84,359	104,352	90,094
Sale of hydrocarbons	18,761	30,823	52,143
Total of sales	103,120	135,175	142,237
Cost of sale of energy and electrical energy transmission services	(51,772)	(57,944)	(56,926)
Cost of sales of hydrocarbons	(17,954)	(22,259)	(41,842)
Total of cost of sales	(69,726)	(80,203)	(98,768)
Gross profit	33,394	54,972	43,469
Administrative expenses	(16,462)	(12,341)	(8,508)
Other income	784	726	4,477
Other expenses	(233)	(775)	(274)
Financial income	388	491	516
Financial expenses	(828)	(812)	(797)
Exchange difference (net)	(526)	(690)	(1,473)
Profit before income tax	16,517	41,571	37,410
Income tax expense	(3,987)	(17,848)	(14,104)
Net profit for the year	12,530	23,723	23,306
Other comprehensive income for the year	—	—	—
Total comprehensive income for the year	12,530	23,723	23,306

	As of December 31,		
	2016	2015	2014
	(in thousands of U.S.$)		
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF AGUAYTÍA			
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	27,845	90,425	49,515
Trade accounts receivable (net)	10,614	14,816	20,415
Other accounts receivable	1,780	431	1,077
Accounts receivable from related entities	86	1,154	—
Inventories (net)	4,716	4,693	5,198
Income tax asset	2,436	—	—
Total current assets	47,477	111,519	76,205
NON-CURRENT ASSETS:			
Other accounts receivable	925	925	1,175
Property, plant and equipment (net)—Gas investment	58,609	54,624	50,496
Property, plant and equipment (net)—Energy generation and transmission	82,538	87,273	93,964
Deferred income tax assets	2,067	1,740	6,198
Total non-current assets	144,139	144,562	151,833
TOTAL	191,616	256,081	228,038
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Trade accounts payable	10,611	7,474	5,960
Other accounts payable	1,114	1,802	1,334
Accounts payable to related entities	16,680	294	1,279
Deferred income	485	155	155
Income tax liability	—	5,718	1,371
Total current liabilities	28,890	15,443	10,099
NON-CURRENT LIABILITIES:			
Financial obligations	—	15,822	15,765
Deferred income	309	463	618
Deferred income tax liabilities	2,403	5,870	6,957
Provisions	254	391	230
Total non-current liabilities	2,966	22,546	23,570
Total liabilities	31,856	37,989	33,669
EQUITY:			
Issued capital stock	145,155	145,155	145,155
Other capital reserves	2,056	2,056	2,056
Retained earnings	12,549	70,881	47,158
Total equity	159,760	218,092	194,369
TOTAL	191,616	256,081	228,038

	For the years ended December 31,		
	2016	2015	2014
	(in thousands of U.S.$)		
CONSOLIDATED STATEMENTS OF CASH FLOWS OF AGUAYTÍA			
Net cash and cash equivalents provided by operating activities	17,575	55,175	32,360
Net cash and cash equivalents used in investment activities	(9,434)	(14,265)	(4,389)
Net cash and cash equivalents used in financing activities	(70,721)	—	(13,800)

OTHER FINANCIAL AND OPERATING DATA

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

	For the years ended December 31,		
	2016	2015	2014
Aguaytía's Adjusted EBITDA (U.S.$)(1)	36,270	56,481	49,284
Egenor's Adjusted EBITDA (S/)(2)	245,475	265,214	228,805
Interest coverage ratio of Aguaytía(3)	43.80	69.56	61.84
Interest coverage ratio of Egenor(4)	15.64	16.53	14.19
Total debt of Aguaytía (U.S.$)(5)	—	15,822	15,765
Total debt of Aguaytía/Shareholder's equity of Aguaytía	—	0.07	0.08
Total debt of Egenor (S/)(6)	256,144	260,185	228,698
Total debt of Egenor/Shareholder's equity of Egenor	0.42	0.35	0.38
Net debt of Aguaytía (U.S.$)(7)	—	—	—
Net debt of Aguaytía/Aguaytía's Adjusted EBITDA	—	—	—
Net debt of Egenor (S/)(8)	225,166	—	73,991
Net debt of Egenor/Egenor's Adjusted EBITDA	0.92	—	0.32
Effective capacity at end of period (MW)	552.1	549.7	549.7
Weighted average availability factor during the period (%)	94.3	94.0	91.4
Gross energy generated (GWh)	2,422.0	2,648.0	2,451.0
Own consumption of energy and losses (GWh)	11.5	10.8	10.3
Net energy generated (GWh)	2,411.0	2,637	2,441
Energy purchased on the spot market (GWh)	866.66	856.16	964.03
Energy sold under PPAs (GWh)	2,768.57	2,983.68	2,861.01
Average monomic price (U.S.$/MWh)(9)	68.84	69.56	68.39

(1) We define "Aguaytía's Adjusted EBITDA" for each period as Aguaytía's EBITDA *plus* (i) exchange difference (net) and (ii) the provisions recorded in Note 19 to the Aguaytía Financial Statements corresponding to 100% of the bad debt allowance due to sales of natural gasoline to Maple Gas for the years ended December 31, 2016 and 2015. Adjusted 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 profit, cash flow from operations or other measures of operating performance or liquidity determined in accordance with IFRS. Adjusted 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 profit. Other companies may calculate Adjusted EBITDA differently, and therefore this presentation of Adjusted EBITDA may not be comparable to other similarly titled measures used by other companies. The following table sets forth a reconciliation of

Aguaytía's Adjusted EBITDA to Aguaytía's net profit for the years ended December 31, 2016, 2015 and 2014.

	For the years ended December 31,		
	2016	**2015**	**2014**
	(in thousands of U.S.$)		
Net profit	12,530	23,723	23,306
(+) Income tax expense	3,987	17,848	14,104
(−) Financial income	(388)	(491)	(516)
(+) Financial expense	828	812	797
(+) Depreciation and amortization	10,178	11,346	10,120
Aguaytía's EBITDA	**27,135**	**53,238**	**47,811**
(+/−) exchange difference (net)	526	690	1,473
(+) Maple Gas Provision	8,609	2,553	—
Aguaytía's Adjusted EBITDA	**36,270**	**56,481**	**49,284**

(2) We define "Egenor's Adjusted EBITDA" for each period as Egenor's EBITDA *plus* (i) exchange difference (net), (ii) profit sharing expenses included in cost of sales, administrative expenses and selling expenses (see note 21 to the Egenor Financial Statements) *minus* net profit for the year for discontinued operations. Adjusted 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 profit, cash flow from operations or other measures of operating performance or liquidity determined in accordance with IFRS. Adjusted 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 profit. Other companies may calculate Adjusted EBITDA differently, and therefore this presentation of Adjusted EBITDA may not be comparable to other similarly titled measures used by other companies. The following table sets forth a reconciliation of Egenor's Adjusted EBITDA to Egenor's net profit for the years ended December 31, 2016, 2015 and 2014.

	For the years ended December 31,			
	2016	**2016**	**2015**	**2014**
	(in thousands of U.S.$)	(in thousands of *Soles*)		
Net profit	32,349	108,693	145,625	156,623
(+) Income tax expense	21,131	71,000	52,497	26,491
(−) Financial income	(495)	(1,663)	(3,419)	(1,592)
(+) Financial expense	4,671	15,693	16,047	16,119
(+) Depreciation and amortization	13,035	43,796	42,077	42,302
Egenor's EBITDA	**70,691**	**237,519**	**252,827**	**239,943**
(+/−) exchange difference (net)	(358)	(1,202)	2,535	(860)
(−) Net profit for the year for discontinued operations	—	—	—	(27,360)
(+) Profit Sharing	2,726	9,158	9,852	17,082
Egenor's Adjusted EBITDA	**73,059**	**245,475**	**265,214**	**228,805**

(3) Aguaytía's interest coverage ratio is defined as Aguaytía's Adjusted EBITDA *divided by* financial expenses.

(4) Egenor's interest coverage ratio is defined as Egenor's Adjusted EBITDA *divided by* financial expenses.

(5) We define Aguaytía's total debt as current financial obligations plus non-current financial obligations.

(6) We define Egenor's total debt as current financial obligations plus non-current financial obligations.

(7) Net debt of Aguaytía is calculated as total debt minus cash and cash equivalents. Net debt is not a recognized financial measure under IFRS.

(8) Net debt of Egenor is calculated as total debt minus cash and cash equivalents. Net debt is not a recognized financial measure under IFRS.

(9) 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.

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

You should read this discussion in conjunction with (i) the information set forth in "Summary Financial and Operating Data" and "Selected Financial and Operating Data," (ii) the Egenor Financial Statements, including the notes thereto, (iii) the Aguaytía Financial Statements and (iv) the sections entitled "Industry" and "Regulatory Framework."

This section contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including, without limitation, those set forth in "Risk Factors" and the matters set forth elsewhere in this offering memorandum. For additional information regarding forward-looking statements, see "Forward-Looking Statements."

Overview

Our business is composed of a diversified portfolio of hydro and thermal power generation, electricity transmission and natural gas production and processing assets. We believe we are the only vertically integrated power company that owns and operates natural gas extraction and electricity transmission assets in Peru. We are primarily focused on the Peruvian energy market where we believe there are attractive growth opportunities. For the year ended December 31, 2016, substantially all of our sales were derived from our business operations in Peru and substantially all of our operating assets were located there.

We conduct our operations through two primary business units: Egenor, which is comprised of hydro power generation and electricity transmission assets, and Aguaytía, which is an integrated gas-to-power complex comprised of natural gas production and processing, thermal power generation and electricity transmission. Our hydro and thermal power generation assets are owned, respectively, by two entities, Egenor, and Aguaytía's consolidated subsidiary, Termoselva. As of December 31, 2016, Egenor and Termoselva together represented the fifth largest privately held power generation business in Peru in terms of total effective capacity. For the year ended December 31, 2016, our hydro and thermal power generation business accounted for 89.9% of our combined sales. Under our Egenor business, we generate hydro power through two power plants, Cañón del Pato and Carhuaquero I-III, IV and V, while under our Aguaytía business we generate thermal power through one gas-fired, open-cycle power plant, Central Térmica Aguaytía. Together, we own and operate power generation assets with a combined effective capacity of 552.1 MW. Cañón del Pato is one of the largest hydroelectric plants in Peru by installed capacity and has been in operation since 1958, providing a long history of operational performance and hydrological stability. Completed in 1991, 2008 and 2009, respectively, Carhuaquero I-III, IV and V account for an effective capacity of 110.2 MW. At both hydro facilities, our diverse water supply allows us to mitigate the effects of seasonality on our hydroelectric power generation business. In particular, due to Cañón del Pato's access to water supply from glaciers, lagoons and rainfall, we can rely on a more diverse water supply than our competitors in the same region. As it relates to our thermal generation operations, Central Térmica Aguaytía is the only thermal power plant in Peru with its own natural gas supply, which we believe offers substantial operating and commercial advantages. From a commercial standpoint, both Egenor and Termoselva are supported by long term power purchase agreements with credit-worthy counterparties that are either denominated in U.S. Dollars or linked to U.S. Dollars. For the year ended December 31, 2016, 92.4% of our combined power and electricity sales derived from capacity payments and sales of electricity under our PPAs, with the remaining 7.6% of combined power and electricity sales generated by sales to the spot market and other revenues. We believe our highly-contracted revenue structure, coupled with a long-history of operational performance and stable hydrology, should provide substantial stability to our future cash flows.

We conduct our electricity transmission activities through Egenor's consolidated subsidiary, Etenorte, and Aguaytía's consolidated subsidiary, Eteselva. Our electricity transmission activities support our hydro and thermal power generation business, as well as provide services to third parties, and, for the year ended December 31, 2016, accounted for 2.0% of our combined sales. Our electricity transmission infrastructure consists of 740 km of transmission lines and two substations owned and operated by us, which have the capacity to transmit in 220 kV and 138 kV, and an operating transformation capacity of 193 MVA (with a reserve of 0 MVA). Etenorte and Eteselva transmit electricity to the SEIN, the primary transmission network in Peru. Our electricity transmission activities are compensated based on regulated tariff rates allocated to us based on the electricity transmission capacity made available to the SEIN, independent of the power actually transmitted through our electricity transmission assets. This feature of our electricity transmission activities provides us with stable cash flows, as we receive availability revenues even when our own power generation assets are not dispatched.

Additionally, through Aguaytía, we conduct our natural gas production and processing activities. For the year ended, December 31, 2016, our sales of NGLs accounted for 8.1% of our combined sales. Our activities consist of the extraction and production of natural gas to support our power generation business and the sale of the associated NGLs to the Peruvian market. We extract natural gas and NGLs from Block 31-C under the License Agreement, whereby Aguaytía has the right to request an extension of the license under the License Agreement for up to an additional 10-year period. Located in the Amazon basin of Peru, the Cushabatay formation holds natural gas reserves that are extracted from a depth of approximately 9,000 feet. As of December 31, 2016, estimated remaining proven natural gas reserves owned by Aguaytía in the Cushabatay formation total 151.8 Bcf. These natural gas and NGL reserves, with a conservative remaining reserve life estimate of approximately 17 years, provide us with a low-cost source of gas and assure a steady supply of gas for our thermal generation plant. The remaining reserve life estimate is based on calculations performed by an independent oil and gas consulting firm, based on our projections of production levels in different scenarios.

Aguaytía is a fully integrated gas-to-power complex, with the capability to produce, process and market natural gas and NGLs. Upon extraction, the wet natural gas is delivered to a 55.75 mmscfd processing facility to separate the dry natural gas from the associated NGLs. The dry natural gas is then sent to Central Térmica Aguaytía when the plant is dispatched by the system operator, or reinjected into the reservoir to the extent it is not. The NGLs, on the other hand, are sent to Aguaytía's fractionation facility, where they are separated into a mix of gasses, mainly butane and propane, which are then converted into LPG and natural gasoline. The production volume of these commodities is not dependent on the dispatch of Central Térmica Aguaytía. We sell LPG to LPG bottlers and gas stations in the Peruvian market at international prices, and we currently deliver all of our natural gasoline to a refinery operated by Maple Gas. LPG is primarily used by the end users for heating, cooking and motor-vehicle fuel. Natural gasoline is refined by Maple Gas and converted into gasoline and other derivatives at Maple Gas' refinery located in Pucallpa, which is then sold by Maple Gas to fuel distribution companies. We are currently building our own natural gasoline storage and loading plant that we expect would allow us to store and sell the natural gasoline that we currently deliver to Maple Gas to third parties that would then process, refine and remarket that natural gasoline in the Peruvian market. We believe that the new loading and storage facility will allow us to diversify our revenues from sales of natural gasoline to third parties. As of the date of this offering memorandum, we are engaged in discussions with Petroperú geared towards commencing sales of natural gasoline to them upon completion of the facility. In the context of such discussions, Petroperú has delivered a Letter of Intent to purchase our natural gasoline, which we are currently reviewing. For additional information about our relationship with Maple Gas, our current dispute with Maple Gas and our planned storage and loading plant project, see "Business—Hydrocarbon Extraction and Fractionation Activities—Our Gas Supply Contracts."

Significant Factors Affecting Our Results of Operations

Our results of operations are primarily affected by the following factors:

Capacity Growth

Our installed capacity and our effective capacity are 543.8 MW and 552.1 MW, respectively, representing growth since 2015 of 0.4% with respect to our effective capacity and 1.5% with respect to our installed capacity, achieved through operational and best practices improvements, including overhaul of a tunnel that is part of our Cañón del Pato facility, improvement in the hydraulic profile of the runners in our turbines and overhaul of our gas turbines. Our hydroelectric power plant, Cañón del Pato, was built in 1958 and its last repowering was in 1999, which resulted in an installed capacity of 246.6 MW. In 2016, Cañón del Pato's effective capacity was 265.6 MW, representing a growth of 0.8% in our effective capacity and a 7.7% growth of our installed capacity since 2015. Our first power plant at the hydroelectric Carhuaquero complex was built in 1991 with an installed capacity of 90.0 MW. In 2008 and 2009, we built the Carhuaquero IV and Carhuaquero V power plants, with an installed capacity of 9.7 MW and 5.6 MW, respectively. As of 2016, the effective capacity of the Carhuaquero complex was 110.2 MW, representing a 0.5% decrease in our effective capacity and a 4.6% increase in our installed capacity. Our thermal power plant, Central Térmica Aguaytía, was built in 1998 with an installed capacity of 191.9 MW. The power plant has an authorization to have an installed capacity of 202.6 MW and has an effective capacity of 176.3 MW as of 2016, representing 0.5% growth since 2015.

For the year ended December 31, 2016, 20.0% of our revenues for energy activities derived from capacity payments net of transmission costs. As a result, changes in our existing effective capacity can materially impact our financial condition and results of operations.

Governmental Regulation and Actions Affecting the Energy and Natural Gas Distribution Market

Our industry is highly regulated. Our results of operations are affected by legislative and regulatory reforms that the Peruvian government implements from time to time in order to ensure quality and safety standards, including regulatory actions to address changes in hydrological conditions and meteorological phenomena. Historically, regulatory changes implemented by the Peruvian government have had a significant effect on our operations and results of operations.

Peruvian Economic Growth

The Peruvian economy has experienced sustained economic growth with an average GDP growth of 4.3% for the five-year period from 2012 to 2016. Higher economic growth rates in Peru affect our results of operations because increased economic activity generally results in increased demand and consumption of electricity by industrial and individual consumers. Additionally, macroeconomic conditions are also likely to affect foreign exchange rates, domestic interest rates and inflation, each of which has an effect on our financial and operating costs. Fluctuations in the exchange rates between the *Sol* and the U.S. Dollar, which is Aguaytía's functional currency, will generate either gains or losses on monetary assets and liabilities denominated in the *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).

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:

	Years ended December 31,		
	2016	**2015**	**2014**
Inflation Rate	3.2%	4.4%	3.2%
GDP Growth (%)	3.9%	3.3%	2.4%
Currency Appreciation (Depreciation) (%)	1.6%	(14.2)%	(6.9)%

Source: Peruvian Central Reserve Bank / The World Bank

For further information on the macroeconomic conditions of Peru, see "Industry."

Price, Availability and Dispatch

The regulatory framework in Peru establishes a marginal cost system, and COES determines which generation units are to dispatch depending on the marginal costs of each power generator, 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 during a drought or the dry season or for maintenance, or when there are unscheduled outages. Therefore, a key factor in our financial performance is the availability of our hydroelectric plants, which is subject to annual and seasonal variations depending on climate conditions, such as the El Niño phenomenon. Consequently, ensuring that our hydroelectric units are available to be dispatched is key to positioning us to capture the benefits of marginal cost dispatch and therefore to maximize our margins.

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 or when they lack fuel. 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.

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

	Years ended December 31,		
	2016	**2015**	**2014**
Cañón del Pato	90.2%	91.0%	91.5%
Carhuaquero	93.8%	93.0%	95.6%
Carhuaquero IV	93.3%	97.4%	93.1%
Carhuaquero V	96.6%	96.8%	95.8%
Central Térmica Aguaytía	99.7%	98.7%	89.1%
Total	94.3%	94.0%	91.4%

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. As a result, another key factor for our financial performance is that our thermal plant must be available for dispatch on very short notice. 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 7 days' notice.

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 on the spot market to satisfy these obligations. If the price of such energy is lower than our own PPA prices, then our operating margin would increase. If such energy prices are higher than our own PPA prices, then our operating margin would decrease.

Similarly, if our generation units are not allocated sufficient firm capacity to satisfy our obligations under our PPAs, we are required to purchase capacity on the spot market to satisfy these obligations. If the price of such capacity is different from the assumed generation cost taken into account when determining the price to be charged under our PPAs, our operating margins could be negatively affected.

The reserve margin, which indicates excess capacity over expected maximum demand, will decrease from 72.0% (2016) to 65.0% (2017) according to COES information. It is expected that this trend will continue, with a forecasted reduction in reserve margin to 57.3% in 2018, 49.6% in 2019, 42.7% in 2020 and 39.3% in 2021. This may provide for a more stable supply-demand balance and may result in higher average spot prices.

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

Period	Sales under PPAs	Sales in Spot	Net Energy Market Generated(1)	Energy Purchased
			(GWh)	
Year Ended December 31, 2016	2,768.6	499.6	2,401.5	866.7
Year Ended December 31, 2015	3,031.2	460.1	2,620.0	871.4
Year Ended December 31, 2014	2,861.0	579.4	2,476.1	964.4

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

Customer Concentration under our PPAs

The following table sets forth a summary of our top five customers under PPAs as of the date of this offering memorandum:

Customer	Counterparty	Type of Customer	Commencement	Expiration	Contracted Capacity	Energy Price
					(MW)	(U.S.$/MWh)
Luz del Sur S.A.A.	Egenor and Termoselva	Distribution Company	January, 2014	December, 2023	192.4	44.81
Hidrandina	Egenor and Termoselva	Distribution Company	January, 2013	December, 2022	42.2	45.12
Minera Barrick Misquichilca S.A.	Egenor	Unregulated Company	August, 2014	December, 2017	35.0	44.51
Alicorp S.A.A. (Group)	Termoselva	Unregulated Company	April, 2013	December, 2017	13.8	49.90
Electronorte	Egenor and Termoselva	Distribution Company	January, 2013	December, 2022	29.9	46.47

To the extent that any of our main customers terminates our PPAs with them or is unable to meet its payment obligations under our PPAs with them, our results of operations could be materially adversely affected.

Cost of Sales

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

Termoselva's long-term gas supply contract with Aguaytía, pursuant to which Termoselva purchases the natural gas used to power Central Térmica Aguaytía, enables us to hedge against fluctuations in the price of natural gas. This is not the case of any of our competitors. This agreement is dependent, however, on the renewal of the License Agreement, which will expire in 2024 unless renewed by the parties.

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 on 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 number of running hours of our generation units.

Electricity Transmission Revenues

Our power transmission tariffs are regulated by OSINERGMIN, which are indexed in U.S. Dollars and adjusted annually according to the PPI.

For the years ended December 31, 2016, 2015 and 2014, approximately 66.1%, 54.1% and 46.3% of our electricity transmission revenues derived from our related companies Egenor and Termoselva, respectively.

Effects of Outstanding Indebtedness

Egenor's total outstanding indebtedness was U.S.$75.0 million as of December 31, 2016. Following the issuance of the Notes, we expect all of our outstanding indebtedness to either be denominated in, or indexed to, the U.S. Dollar. In a scenario in which a majority of our sales revenues derived from payments under our PPAs are not denominated or linked to the U.S. Dollar, our results of operations could be materially affected. For the years ended December 31, 2016, 2015 and 2014, the majority of our combined sales revenue derived from capacity or energy payments either denominated in or linked to the U.S. Dollar. For further information on our outstanding indebtedness, including the interest rate and currency applicable to the indebtedness, see "Description of Indebtedness." We intend to fully repay the Egenor Bonds, as well as the Bank Debt, 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, which decreased to 28% in 2015. The applicable tax rate was 28% in 2016, which increased to 29.5% in 2017. Egenor is currently subject to the 29.5% general corporate income tax rate. Pursuant to the License Agreement with Perúpetro for the exploitation of hydrocarbons on Block 31-C, Aguaytía is subject to the income tax regime in place at the time such agreement was entered into, which stipulates a 30% income tax rate. The License Agreement expires in 2024. The tax stability provisions in the License Agreement only apply to Aguaytía's hydrocarbon exploitation activities. Aguaytía's electricity generation and transmission lines are activities are subject to the 29.5% general corporate income tax rate.

For further information on our tax status, please see note 24 of the Egenor Financial Statements and note 20 of the Aguaytía Financial Statements included in this offering memorandum.

Availability of Natural Gas Reserves and Alternative Energy Sources

Our long-term financial condition is dependent on the continuous availability of natural gas from the Cushabatay basin. The current expected reserve life of the Cushabatay basin is approximately 17 years, considering the maximum capacity of the gas processing plant of Cushabatay. See "Risk Factors—Risks Related to our Business—We depend on the availability of natural gas reserves in Block 31-C."

Description of Principal Line Items

Egenor

The Egenor Financial Statements have been prepared in accordance with IFRS, as issued by the IASB.

Sale of energy and electrical energy transmission services

This line item consists of revenues from sales of energy and capacity to clients and sales on the spot market and to revenues from transmission to third parties, net of intercompany transactions.

Cost of Sale of energy and electrical energy transmission services

This item consists of costs directly related to sales of energy and capacity, transmission charges, labor and benefits, depreciation and outsourcing services, all directly related to electricity generation and transmission activities. This item also includes property taxes, and other expenses such as supplies, spare parts and fuel.

Administrative Expenses

This item consists of general expenses not directly related to sales of energy and capacity or transmission activities, including charges for administrative personnel and outsourcing of services (such as legal advisory, maintenance, utilities and IT consulting services). This item also includes rental of office space and miscellaneous expenses (such as insurance and donations), depreciation and amortization related to property and equipment and software comprising our administrative headquarters, allowances for accounts receivable, among others.

Selling Expenses

This line item refers to selling expenses not directly related to electricity generation or transmission. It includes personnel charges related to commercial management, outsourced market studies, as well as miscellaneous expenses such as office supplies, among others.

Other Income

This item includes income mainly derived from intercompany administrative, operating and maintenance services and the net gain on sale of assets. Other income also includes income from penalties charged to clients for breach of contracts.

Other Expenses

This item includes expenses such as allowances for legal contingencies, penalties or fines, and other minor miscellaneous expenses.

Financial Income

This item includes income derived from interest on time deposits and interest received from clients due to overdue or non-payment of invoices.

Financial Expenses

This item includes expenses derived from financial interest, such as interest due under outstanding bonds and other financial expenses.

Exchange difference (net)

This item refers to the impact in our statements of profit and loss and other comprehensive income of fluctuations in foreign exchange rates, which can result in either a loss or a profit.

Income Tax Expense

Our income tax allowance consists of estimated current income tax and deferred income tax for the relevant period.

Aguaytía

The Aguaytía Financial Statements have been prepared in accordance with IFRS, as issued by the IASB.

Sales

Sales consists of the following line items:

- *Sales of energy and electrical energy transmission.* This line item refers to revenues from sales of energy and capacity to clients and sales on the spot market and to revenues from energy transmission to third parties, net of intercompany transactions.
- *Sale of hydrocarbons.* This line item refers to revenues from the sale of hydrocarbon liquids (LPG and natural gasoline). This item does not include the sale of dry gas to the related company Termoselva, due to the elimination of such revenues pursuant to the consolidation of the Aguaytía Financial Statements.

Cost of Sale of energy and electrical energy transmission services

This item consists of costs directly related to electricity generation and transmission, which consists of the purchase of energy and capacity, transmission charges, operating and maintenance expenses, and depreciation.

Cost of Sale of hydrocarbons

This item consists of costs directly related to natural gas extraction and fractionation, which consists of NGLs and dry gas royalties related to the exploitation of Block 31-C, operating and maintenance expenses and depreciation.

Administrative Expenses

This item consists of general expenses not directly related to natural gas extraction, fractionation, electricity generation or transmission, including charges for outsourcing of services (mainly intercompany services from Egenor). It also includes miscellaneous expenses (such as insurance, donations and supplies), general taxes and allowances for accounts receivable, among others.

Other Income

This item includes income mainly derived from the net gain on sale of assets. Other income also includes refunds on contributions and other miscellaneous income.

Other Expenses

This item includes expenses such as allowances for legal contingencies, penalties or fines and other miscellaneous expenses.

Financial Income

This item includes income derived from interest on time deposits and interest received from clients due to overdue or non-payment of invoices.

Financial Expenses

This item includes expenses derived from financial interest, such as interest due under bank and other loans and other financial expenses.

Exchange difference (net)

This item refers to the impact in our statements of profit or loss and other comprehensive income of fluctuations in foreign exchange rates, which can result in either a loss or a profit.

Income Tax Expense

Our income tax allowance consists of estimated current income tax and deferred income tax for the relevant period.

EGENOR'S RESULTS OF OPERATIONS

Results of Operations for the Year Ended December 31, 2016, Compared to the Year Ended December 31, 2015

The following table presents Egenor's results of operations for the years ended December 31, 2016 and 2015:

	For the years ended December 31,		
	2016	**2015**	**Change**
	(in thousands of *Soles*)		(%)
Sale of energy and electrical energy transmission services	430,281	420,652	2.3%
Cost of sale of energy and electrical energy transmission services	(227,960)	(205,059)	11.2%
Gross profit	202,321	215,593	(6.2)%
Administrative expenses	(57,634)	(50,402)	14.3%
Selling expenses	(4,718)	(4,881)	(3.3)%
Other income	55,531	58,077	(4.4)%
Other expenses	(2,979)	(5,102)	(41.6)%
Financial income	1,663	3,419	(51.4)%
Financial expenses	(15,693)	(16,047)	(2.2)%
Exchange difference (net)	1,202	(2,535)	147.4%
Profit before income tax	179,693	198,122	(9.3)%
Income tax expense	(71,000)	(52,497)	35.2%
Net profit for the year for continuous operations	108,693	145,625	(25.4)%

Sale of energy and electrical energy transmission services

Sale of energy and electrical transmission services for the year ended December 31, 2016, were S/430,281 thousand a 2.3% increase compared to S/420,652 thousand for the year ended December 31, 2015, primarily due to price increases under our PPAs due to the devaluation of the *Sol* in 2016, which was partially offset by (i) a lower contracting level as a result of the termination of our PPA with Yanacocha, (ii) a 3.7% decrease in energy usage by our clients and (iii) a decrease in water availability.

Cost of sale of energy and electrical energy transmission services

Cost of sale of energy and electrical energy transmission services for the year ended December 31, 2016, was S/227,960 thousand, an 11.2% increase compared to S/205,059 thousand for the year ended December 31, 2015, primarily due to energy purchases on the spot market during the dry season, resulting from increased marginal costs, as a result of the unavailability of some of our competitors and a decrease in water availability.

Gross Profit

As a result of the foregoing factors, Egenor's gross profit for the year ended December 31, 2016, decreased by 6.2% to S/202,321 thousand from S/215,593 thousand for the year ended December 31, 2015.

Administrative Expenses

Administrative expenses for the year ended December 31, 2016, totaled S/57,634 thousand, a 14.3% increase compared to S/50,402 thousand for the year ended December 31, 2015, primarily due to a one-time costs in connection with the I Squared acquisition.

Selling Expenses

Selling expenses for the year ended December 31, 2016, totaled S/4,718 thousand, a 3.3% decrease compared to S/4,881 thousand for the year ended December 31, 2015, primarily due to a decrease in fees paid for outside consulting services in 2016.

Other Income

Other income for the year ended December 31, 2016, totaled S/55,531 thousand, a 4.4% decrease compared to S/58,077 thousand for the year ended December 31, 2015, primarily due to increased net revenues from asset sales in 2015 in the amount of S/19,604 thousand and other miscellaneous income of S/5,376 thousand, which was partially offset by (i) a S/4,541 thousand increase in the tariffs paid by Aguaytía, Termoselva and Eteselva pursuant to intercompany agreements and (ii) a S/16,087 thousand penalty Yanacocha paid to Egenor for early termination of a PPA.

Other Expenses

Other expenses for the year ended December 31, 2016, totaled S/2,979 thousand, a 41.6% decrease compared to S/5,102 thousand for the year ended December 31, 2015, primarily due to increased expenses in 2015 related to (i) a S/596 thousand commission paid to a real estate broker in connection with the sale of lands and buildings related to the Piura thermoelectric power plant and (ii) a one-time S/556 thousand payment in 2015 with respect to our temporary tax on net assets liability from 2012.

Financial Income

Financial income for the year ended December 31, 2016, totaled S/1,663 thousand, a 51.4% decrease compared to S/3,419 thousand for the year ended December 31, 2015, primarily due to a S/2,523 thousand refund in 2015 from the National Superintendency of Tax Administration (*Superintendencia Nacional de Aduanas y de Administración Tributaria* or "SUNAT"), which was partially offset in 2016 by increased interest payments on deposits and on accounts receivable.

Financial Expenses

Financial expenses for the year ended December 31, 2016, totaled S/15,693 thousand a 2.2% decrease compared to S/16,047 thousand for the year ended December 31, 2015, primarily due to the payment of interest to SUNAT in 2015 related to a restatement of Egenor's advanced tax payments for the years 2011 to 2014.

Exchange difference (net)

Exchange difference (net) for the year ended December 31, 2016, was a S/1,202 thousand gain, a 147.4% increase compared to a S/2,535 thousand loss for the year ended December 31, 2015, primarily due to a lower devaluation of the *Sol* in 2016 compared to 2015, which generated foreign exchange losses mainly due to the conversion of our U.S. Dollar-denominated debt to *Soles*.

Income Tax Expense

The income tax provision for the year ended December 31, 2016, was S/71,000 thousand a 35.2% increase compared to S/52,497 thousand for the year ended December 31, 2015, primarily due to an increase in the applicable tax rate, from 28% in 2016 to 29.5% in 2017 which resulted in a greater deferred tax liability.

Net Profit

Net profit for the year ended December 31, 2016, was S/108,693 thousand, a 25.4% decrease compared to S/145,625 thousand for the year ended December 31, 2015, for the reasons discussed above.

Results of Operations for the Year Ended December 31, 2015, Compared to the Year Ended December 31, 2014

The following table presents Egenor's results of operations for the years ended December 31, 2015 and 2014:

	For the years ended December 31,		
	2015	**2014**	**Change**
	(in thousands of *Soles*)		(%)
CONTINUOUS OPERATIONS			
Sale of energy and electrical energy transmission service	420,652	375,715	12.0%
Cost of sale of energy and electrical energy transmission services	(205,059)	(190,060)	7.9%
Gross profit	215,593	185,655	16.1%
Administrative expenses	(50,402)	(52,067)	(3.2)%
Selling expenses	(4,881)	(6,227)	(21.6)%
Other income	58,077	46,329	25.4%
Other expenses	(5,102)	(4,269)	19.5%
Financial income	3,419	1,592	114.8%
Financial expenses	(16,047)	(16,119)	(0.4)%
Exchange difference (net)	(2,535)	860	(394.8)%
Profit before income tax	198,122	155,754	27.2%
Income tax expense	(52,497)	(26,491)	98.2%
Net profit for the year for continuous operations	145,625	129,263	12.7%
Net Profit for the year from discontinued operations	—	27,360	100%
Net profit for the year	145,625	156,623	(7.0)%

Sale of energy and electrical energy transmission service

Sale of energy and electrical energy transmission service for the year ended December 31, 2015, were S/420,652 thousand, a 12.0% increase compared to S/375,715 thousand for the year ended December 31, 2014, primarily due to (i) an increase in volumes sold under our PPAs with Regulated Customers and Unregulated Customers in 2015 compared to 2014 (1,832,568 MWh in 2015 versus 1,656,198 MWh in 2014, respectively) and (ii) price increases under our PPAs due to the devaluation of the *Sol* in 2015, which were partially offset by the decrease in average PPA price, which resulted from a new bid process conducted by Yanacocha.

Cost of sale of energy and electrical energy transmission services

Cost of sales of energy and electrical energy transmission services for the year ended December 31, 2015 was S/205,059 thousand, a 7.9% increase compared to S/190,060 thousand for the year ended December 31, 2014, primarily due to (i) increased toll charges related to higher volumes sold pursuant to our PPAs and (ii) increased purchases of energy on the spot market during the dry season to meet our customers' needs.

Gross Profit

As a result of the foregoing factors, Egenor's gross profit for the year ended December 31, 2015, increased by 16.1% to S/215,593 thousand from S/185,655 thousand for the year ended December 31, 2014.

Administrative Expenses

Administrative expenses for the year ended December 31, 2015, totaled S/50,402 thousand, a 3.2% decrease compared to S/52,067 thousand for the year ended December 31, 2014, primarily due to a decrease in Profit Sharing expenses and a decrease in severance packages, which resulted in decreased personnel expenses.

Selling Expenses

Selling expenses for the year ended December 31, 2015, totaled S/4,881 thousand, a 21.6% decrease compared to S/6,227 thousand for the year ended December 31, 2014, primarily due to lower costs for outside services, mainly market studies.

Other Income

Other income for the year ended December 31, 2015, totaled S/58,077 thousand, a 25.4% increase compared to S/46,329 thousand for the year ended December 31, 2014, The increase in other income for the year ended December 31, 2015, was primarily due to greater net revenues from the 2015 sale of land and buildings related to the Piura thermoelectric power plant for S/19,604 thousand versus the net revenues from the 2014 sales of the Paita and Sullana thermoelectric power plants for S/10,897 thousand.

Other Expenses

Other expenses for the year ended December 31, 2015, totaled S/5,102 thousand, a 19.5% increase compared to S/4,269 thousand for the year ended December 31, 2014, primarily due to a S/596 thousand commission paid to a real estate broker in connection with the sale of lands and buildings related to the Piura thermoelectric power plant in 2015.

Financial Income

Financial income for the year ended December 31, 2015, totaled S/3,419 thousand, a 114.8% increase compared to S/1,592 thousand for the year ended December 31, 2014, primarily due to a refund from SUNAT in 2015 of S/2,523 thousand related to excess income tax payments made in 2002 and 2003.

Financial Expenses

Financial expenses for the year ended December 31, 2015, totaled S/16,047 thousand, a 0.4% decrease compared to S/16,119 thousand for the year ended December 31, 2014, primarily due to (i) an interest payment to SUNAT made in 2014 related to a restatement of our 2010 to 2013 income tax returns related to the sale of the Las Flores thermal plant and (ii) increased expenses related to Egenor's Dollar-denominated debt interest payment obligations due to the 14.2% depreciation of the *Sol* against the U.S. Dollar in 2015.

Exchange difference (net)

Exchange difference (net) for the year ended December 31, 2015 was a loss of S/2,535 thousand, a 394.8% decrease compared to a gain of S/860 thousand for the year ended December 31, 2014, primarily due to the 14.2% depreciation of the *Sol* against the U.S. Dollar in 2015, which generated foreign exchange losses mainly due to the conversion of our U.S. Dollar-denominated debt to *Soles*.

Income Tax Expense

The income tax provision for the year ended December 31, 2015 was S/52,497 thousand, a 98.2% increase compared to S/26,491 thousand for the year ended December 31, 2014, primarily due to a reduction of our deferred tax liability in 2014, due to the reduction of the income tax rate from 30% to 28% in 2015 and 2016, 27% in 2017 and 2018 and 26% in 2019, according to the income tax laws in effect as of December 31, 2014.

Net Profit for the year for continuous operations

Net profit from continuing operations for the year ended December 31, 2015 was S/145,625 thousand, a 12.7% increase compared to S/129,263 thousand for the year ended December 31, 2014, for the reasons discussed above.

Net Profit for the year from Discontinued Operations

Net profit from discontinued operations for the year ended December 31, 2015 was S/0, a 100% decrease compared to S/27,360 thousand for the year ended December 31, 2014, due to the sale of the Las Flores thermal plant in 2014.

Net Profit

Our net profit for the year ended December 31, 2015 was S/145,625 thousand, a 7.0% decrease compared to S/156,623 thousand for the year ended December 31, 2014, for the reasons discussed above.

AGUAYTÍA'S RESULTS OF OPERATIONS

Results of Operations for the Year Ended December 31, 2016, Compared to the Year Ended December 31, 2015

The following table presents Aguaytía's results of operations for the years ended December 31, 2016 and 2015:

	For the years ended December 31,		
	2016	2015	Change
	(in thousands of U.S.$)		(%)
Sale of energy and electrical energy transmission services	84,359	104,352	(19.2)%
Sale of hydrocarbons	18,761	30,823	(39.1)%
Total of sales	103,120	135,175	(23.7)%
Cost of sale of energy and electrical energy transmission services	(51,772)	(57,944)	(10.7)%
Cost of sales of hydrocarbons	(17,954)	(22,259)	(19.3)%
Total cost of sales	(69,726)	(80,203)	(13.1)%
Gross Profit	33,394	54,972	(39.3)%
Administrative expenses	(16,462)	(12,341)	33.4%
Other income	784	726	8.0%
Other expenses	(233)	(775)	(69.9)%
Financial income	388	491	(21.0)%
Financial expenses	(828)	(812)	2.0%
Exchange difference (net)	(526)	(690)	(23.8)%
Profit before income tax	16,517	41,571	(60.3)%
Income tax expense	(3,987)	(17,848)	(77.7)%
Net profit for the year	12,530	23,723	(47.2)%

Total of Sales

Total of sales for the year ended December 31, 2016 were U.S.$103,120 thousand, a 23.7% decrease compared to U.S.$135,175 thousand for the year ended December 31, 2015, for the reasons discussed below.

Below is a brief discussion of the main changes in the components of Aguaytía's operating sales:

- Sale of energy and electrical energy transmission services for the year ended December 31, 2016, were U.S.$84,359 thousand, a decrease of 19.2% compared to U.S.$104,352 thousand for the year ended December 31, 2015, primarily due to:
  - Lower revenues related to load dispatch and voltage regulations. Due to voltage regulation issues in the city of Pucallpa, COES forced Termoselva to dispatch to Pucallpa. Due to the intervention of COES, Termoselva was able to collect at higher prices. By mid-2016, this matter was resolved as a result of the implementation of "capacitors" that replaced Termoselva's dispatch.
  - The 14.4% decrease in energy and capacity volumes sold under our PPAs, which in turn was the result of (a) our clients' lower energy consumption and (b) the termination of our PPAs with Agricola Paramonga and Agricola La Chira.
- Sale of hydrocarbons for the year ended December 31, 2016, were U.S.$18,761 thousand, a decrease of 39.1% compared to U.S.$30,823 thousand for the year ended December 31, 2015,

primarily due to (i) lower sales volume, which in turn was the result of scheduled maintenance and service interruptions due to unscheduled repairs and (ii) lower prices due to the decrease of the West Texas Index (“WTI”) from an average of U.S.$49.00 in 2015 to an average of U.S.$43.20 in 2016.

Total of cost of sales

Total of cost of sales for the year ended December 31, 2016, was U.S.$69,726 thousand, a 13.1% decrease compared to U.S.$80,203 thousand for the year ended December 31, 2015, primarily due to a decrease in volume and prices of natural gas and NGL royalties.

Gross Profit

As a result of the foregoing factors, Aguaytía’s gross profit for the year ended December 31, 2016, decreased by 39.3% to U.S.$33,394 thousand from U.S.$54,972 thousand for the year ended December 31, 2015.

Administrative Expenses

Administrative expenses for the year ended December 31, 2016, totaled U.S.$16,462 thousand, a 33.4% increase compared to U.S.$12,341 thousand for the year ended December 31, 2015, primarily due to the U.S.$6,056 thousand increase of our bad debt allowance in relation to natural gasoline sales to Maple Gas, which was partially offset by decreased expenses for outside legal services.

Other Income

Other income for the year ended December 31, 2016, totaled U.S.$784 thousand, a 8.0% increase compared to U.S.$726 thousand for the year ended December 31, 2015, primarily due to a reduction in legal contingencies.

Other Expenses

Other expenses for the year ended December 31, 2016, totaled U.S.$233 thousand, a 69.9% decrease compared to U.S.$775 thousand for the year ended December 31, 2015, primarily due to increased expenses in 2015 due to inventory adjustments.

Financial Income

Financial income for the year ended December 31, 2016, totaled U.S.$388 thousand, a 21.0% decrease compared to U.S.$491 thousand for the year ended December 31, 2015, primarily due to a decrease in interest received from overdue accounts receivable in 2016.

Financial Expenses

Financial expenses for the year ended December 31, 2016, totaled U.S.$828 thousand, a 2.0% increase compared to U.S.$812 thousand for the year ended December 31, 2015, primarily due to a prepayment on our loan with Citibank which was partially offset by a decrease in interest payments on the same loan.

Exchange difference (net)

Exchange difference (net) for the year ended December 31, 2016, was a loss of U.S.$526 thousand, a 23.8% decrease compared to a loss of U.S.$690 thousand for the year ended December 31, 2015, primarily due to the decrease in depreciation of the *Sol* in 2016 compared to 2015.

Income Tax Expense

The income tax provision for the year ended December 31, 2016, was U.S.$3,987 thousand, a 77.7% decrease compared to U.S.$17,848 thousand for the year ended December 31, 2015, primarily due to (i) a decrease in taxable income in 2016 and (ii) revenues from deferred income taxes in 2016, which was the result of Aguaytía's tax loss carry-forward of U.S.$6,002 thousand.

Net Profit

Net profit for the year ended December 31, 2016, was U.S.$12,530 thousand, a 47.2% decrease compared to U.S.$23,723 thousand for the year ended December 31, 2015, for the reasons discussed above.

Results of Operations for the Year Ended December 31, 2015, Compared to the Year Ended December 31, 2014

The following table presents Aguaytía's results of operations for the years ended December 31, 2015 and 2014:

	For the years ended December 31,		
	2015	2014	Change
	(in thousands of U.S.$)		(%)
Sale of energy and electrical energy transmission services	104,352	90,094	15.8%
Sale of hydrocarbons	30,823	52,143	(40.9)%
Total of sales	135,175	142,237	(5.0)%
Cost of sale of energy and electrical energy transmission services	(57,944)	(56,926)	1.8%
Cost of sales of hydrocarbons	(22,259)	(41,842)	(46.8)%
Total of cost of sales	(80,203)	(98,768)	(18.8)%
Gross profit	54,972	43,469	26.5%
Administrative expenses	(12,341)	(8,508)	45.1%
Other income	726	4,477	(83.8)%
Other expenses	(775)	(274)	182.8%
Financial income	491	516	(4.8)%
Financial expenses	(812)	(797)	1.9%
Exchange difference (net)	(690)	(1,473)	(53.2)%
Profit before income tax	41,571	37,410	11.1%
Income tax expense	(17,848)	(14,104)	26.5%
Net profit for the year	23,723	23,306	1.8%

Total of Sales

Total of sales for the year ended December 31, 2015, were U.S.$135,175 thousand, a 5.0% decrease compared to U.S.$142,237 thousand for the year ended December 31, 2014, for the reasons discussed below.

Below is a brief discussion of the main changes in the components of Aguaytía's operating sales:

- Sale of energy and electrical energy transmission services for the year ended December 31, 2015, were U.S.$104,352 thousand, an increase of 15.8% compared to U.S.$90,094 thousand for the year ended December 31, 2014, primarily due to higher load dispatch and an increase in dispatch of energy from Central Térmica Aguaytía to Pucallpa pursuant to a COES regulation mandating that Central Térmica Aguaytía dispatch to the city due to the fact that Pucallpa did not have access to other sources of energy, which was partially offset by an increase in the elimination of intercompany revenues due to increased sales of electrical energy transmission services to Termoselva.

- Sale of hydrocarbons for the year ended December 31, 2015, were U.S.$30,823 thousand, a decrease of 40.9% compared to U.S.$52,143 thousand for the year ended December 31, 2014, primarily due to lower prices as a result of a 47.5% decrease in the WTI.

Total of cost of sales

Total of cost of sales for the year ended December 31, 2015 was U.S.$80,203 thousand, a 18.8% decrease compared to U.S.$98,768 thousand for the year ended December 31, 2014, primarily due to decreases in NGL royalties due to a decrease in volumes sold and lower third-party services due to thermal plant major maintenance in 2014 and insourcing of operation and maintenance for transmission lines.

Gross Profit

As a result of the foregoing factors, Aguaytía's gross profit for the year ended December 31, 2015, increased by 26.5% to U.S.$54,972 thousand from U.S.$43,469 thousand for the year ended December 31, 2014.

Administrative Expenses

Administrative expenses for the year ended December 31, 2015, totaled U.S.$12,341 thousand, a 45.1% increase compared to U.S.$8,508 thousand for the year ended December 31, 2014, primarily due to (i) an increase in Aguaytía's bad debt allowance in relation to natural gasoline sales and (ii) an increase in costs related to outside legal services, related to an arbitration proceeding.

Other Income

Other income for the year ended December 31, 2015, totaled U.S.$726 thousand, a 83.8% decrease compared to U.S.$4,477 thousand for the year ended December 31, 2014, primarily due to reclassification of U.S.$2,270 thousand in previous years' expenses related to pipeline erosion controls from maintenance expenses to capital expenditures in 2014 and a U.S.$1,885 thousand recovery of impairment provision related to turbine spare parts in 2014.

Other Expenses

Other expenses for the year ended December 31, 2015, totaled U.S.$775 thousand, a 182.8% increase compared to U.S.$274 thousand for the year ended December 31, 2014, primarily due to inventory adjustments in 2015 pursuant to the requirement that inventories must be stated at the lower of cost and net realizable value, which must be evaluated on a yearly basis.

Financial Income

Financial income for the year ended December 31, 2015, totaled U.S.$491 thousand, a 4.8% decrease compared to U.S.$516 thousand for the year ended December 31, 2014, primarily due to a decrease in interest on cash deposits, which was partially offset by an increase in interest income related to overdue accounts receivable.

Financial Expenses

Financial expenses for the year ended December 31, 2015, totaled U.S.$812 thousand, a 1.9% increase compared to U.S.$797 thousand for the year ended December 31, 2014, primarily due to an increase in bank fees.

Exchange difference (net)

Exchange difference (net) for the year ended December 31, 2015 was a loss of U.S.$690 thousand, a 53.2% decrease compared to a loss of U.S.$1,473 thousand for the year ended December 31, 2014, primarily due to a 6.90% depreciation of the *Sol* as compared to the U.S. Dollar in 2014.

Income Tax Expense

The income tax provision for the year ended December 31, 2015 was U.S.$17,848 thousand, a 26.5% increase compared to U.S.$14,104 thousand for the year ended December 31, 2014, primarily due to an increase in taxable income in 2015.

Net Profit

Net profit for the year ended December 31, 2015 was U.S.$23,723 thousand, a 1.8% increase compared to U.S.$23,306 thousand for the year ended December 31, 2014, for the reasons discussed above.

Critical Accounting Estimates and Policies

Use of Estimates in Preparation of Financial Statements

In preparing the Egenor Financial Statements and the Aguaytía Financial Statements, our management makes estimates concerning a variety of matters. Some of these matters are highly uncertain, and the estimates involve judgments based on the information available to management at the time. In the discussion below, our management has identified several matters for which its financial presentation would be materially affected if either it had used different estimates that could reasonably be used or in the future we change our estimates in response to changes that are reasonably likely to occur. This discussion addresses only those estimates that our management considers most important based on the degree of uncertainty and the likelihood of a material impact if a different estimate had been used. There are many other areas in which the estimates of management about uncertain matters are used, but the reasonably likely effect of changed or different estimates is deemed not material to our financial presentation. See the notes to the Financial Statements for a more detailed discussion of the application of these and other accounting policies.

The following are the accounting policies that we believe are the most important to the presentation of our financial condition and results of operations and that require subjective judgment to be made by management.

Property, plant and equipment

Egenor

Property, plant and equipment are presented at cost, net of accumulated depreciation and any recognized impairment loss. Initial disbursements, as well as those subsequently incurred, related to goods whose cost can be estimated reliably, and it is probable that future economic benefits will be obtained from them, are recognized as property, plant and equipment.

Disbursements for maintenance and repairs are recognized as expenses in the year when incurred. Profits or losses arising from the sale or disposal of an item of property, plant and equipment are determined as the difference between the sales proceeds and the carrying amount of the asset, which are recognized in profit or loss for the period in which the sale is considered performed.

Important components and spare parts that are expected to use for more than one period and that are related to an item of property, plant or equipment are recognized as such at the date of acquisition.

Work in progress are presented at cost. The cost of these assets in process includes professional fees and other costs, for qualifying assets, borrowing costs. Those assets are subsequently reclassified to their category of property, plant or equipment once the construction or acquisition process is complete and they are ready for their intended use. These assets are depreciated from that moment, similarly to the rest of property, plant and equipment.

For Egenor, depreciation is determined using the straight-line method on the estimated useful life of property, plant and equipment, represented by equivalent depreciation rates. Annual depreciation is recognized as expense or cost of other asset and is calculated considering the useful lives estimated for the following items:

	Years
Buildings and other constructions	12 - 80
Machinery and equipment	3 - 35
Vehicles	2 - 24
Furniture and fixtures	10 - 16
Sundry equipment	2 - 28

Estimates on useful lives, residual values, if applicable, and depreciation method are reviewed regularly at the end of each reporting period in order to ensure that the depreciation method and period are consistent with the expected pattern of economic benefits of items of property, plant and equipment, prospectively incorporating the effects of any change in these estimates against net profit or loss in the period in which they are made.

Property, plant and equipment—Gas investments

Aguaytía

Gas investments are presented at cost, net of accumulated depreciation and any recognized impairment loss. Initial disbursements, as well as those subsequently incurred, related to goods whose cost can be estimated reliably, and it is probable that future economic benefits will be obtained from them, are recognized as gas investments.

Disbursements for maintenance and repairs are recognized as expenses in the year when incurred. Profits or losses arising from the sale or disposal of an item of gas investments are determined as the difference between the sales proceed and the carrying amount of the asset, which are recognized in profit or loss for the period when the sale is considered performed.

Important components and spare parts that are expected to be used for more than one period and that are related to an item of gas investments are recognized as such at the date of acquisition.

Work in progress are presented at cost. The cost of these assets in process includes professional fees and other costs, for qualifying assets, borrowing costs. Those assets are subsequently reclassified to their category of gas investments once the construction or acquisition process is complete and they are ready for their intended use. These assets are depreciated from that moment, similarly to the rest of gas investments.

The depreciation of gas investments directly related to the gas extraction and production process and the transformation of gas liquids into natural gasoline and LPG is calculated using the units of production method. The allocation factors of depreciation are determined by dividing the monthly production level by proven reserves (until the termination of the concession of 30 years) of dry natural gas and NGLs at the beginning of the period. Those factors are used for the determination of depreciation of each asset involved in the gas extraction and production process and the transformation of natural gas liquids into natural gasoline. The depreciation of gas investments indirectly related to the process is calculated using the straight-line method based on the estimated useful life of assets, represented by equivalent depreciation rates.

Annual depreciation is recognized as expense and is calculated considering the following:

- For gas investments, using the units of production method, depreciation factors applied to plants were:

	2016	2015	2014
	%	%	%
Gas and fractionation plant	5.0, 5.1 and 10.2	6.3, 6.4 and 13.3	5.2, 5.5 and 12.7

- For gas investments, using the straight-line basis, useful lives estimated for certain items are:

	Years
Vehicles	5
Furniture and fixtures	10
Sundry equipment	4 - 10

Estimates on useful lives, residual values, if applicable, and depreciation method are reviewed regularly at the end of each reporting period in order to ensure that the depreciation method and period are consistent with the expected pattern of economic benefits of items of gas investments, prospectively incorporating the effects of any change in these estimates against net profit or loss in the period they are made.

Property, plant and equipment—Energy generation and transmission

Property, plant and equipment are presented at cost, net of accumulated depreciation and any recognized impairment loss. Initial disbursements, as well as those subsequently incurred, related to goods whose cost can be estimated reliably, and it is probable that future economic benefits will be obtained from them, are recognized as property, plant and equipment.

Disbursements for maintenance and repairs are recognized as expenses in the year when incurred. Profits or losses arising from the sale or disposal of an item of property, plant and equipment are determined as the difference between the sales proceed and the carrying amount of the asset, which are recognized in profit or loss for the period when the sale is considered performed.

Important components and spare parts that are expected to be use for more than one period and that are related to an item of property, plant and equipment are recognized as such at the date of acquisition.

Works in progress are presented at cost. The cost of these assets in process includes professional fees and other costs, for qualifying assets, borrowing costs. Those assets are subsequently reclassified to their category of property, plant and equipment once the construction or acquisition process is complete and they are ready for their intended use. These assets are depreciated from that moment, similarly to the rest of property, plant and equipment.

Annual depreciation is recognized as expense for the period and is determined as follows:

Property, plant and equipment directly related to the electrical energy generation process, which exclusively uses dry natural gas from the field of our substation, are depreciated on the estimated useful life of our gas field, under the units of production method.

Allocation factors of depreciation are determined by dividing the monthly production level by proven reserves of dry gas at the beginning of the period, provided by us. Such factor is determined for each asset involved in the electrical generation process.

As of December 31, 2016, 2015 and 2014, depreciation factors applied to property, plant and equipment related to the useful life of our gas field ranged between 5.0% and 5.1%, between 6.3% and 6.4% and between 5.2% and 5.5%, respectively.

The substations and transmission lines Tingo Maria, Vizcarra and Paramonga, are depreciated by the straight-line method, based on the estimated useful life of 20 years, represented by equivalent depreciation rates.

Property, plant and equipment that are not involved directly in the energy generation process are depreciated using the straight-line method based on the estimated useful life of assets, represented by equivalent depreciation rates.

Useful lives estimated for certain items are as follows:

	Years
Buildings and other constructions	Between 22 and 33
Machinery and equipment	Between 4 and 10
Furniture and fixtures	5
Sundry and computer equipment	Between 4 and 10

Estimates on useful lives, residual values, if applicable, and depreciation method are reviewed regularly in order to ensure that the depreciation method and period are consistent with the expected pattern of economic benefits of items of property, plant and equipment, prospectively incorporating the effects of any change in these estimates against net profit or loss in the period in which they are made.

Income Tax

Income tax expense comprises estimated current income tax payable plus deferred income tax.

Current income tax is determined by applying the tax rate established under effective tax laws on net taxable income of the year.

Deferred income tax corresponds to the tax amount expected to be recovered or paid on temporary differences between reported carrying amounts of assets and liabilities, and their corresponding tax bases. Deferred income tax liabilities are generally recognized for all taxable temporary differences. Deferred income tax assets are generally recognized for all deductible temporary differences and tax credits, discounts and unused tax losses, to the extent that it is probable that Egenor and Aguaytía will have sufficient future taxable profit to make them effective. Those assets and liabilities are not recognized if temporary differences proceed from goodwill or initial recognition (except in a business combination) of other assets and liabilities in an operation that does not affect tax or accounting profit/loss.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is not probable that Egenor or Aguaytía hold sufficient future taxable profit to recover the entirety, or a part, of those assets.

Deferred income tax assets and liabilities are measured at tax rates expected to be applied when the asset is realized or the liability is settled, based on approved rates and tax laws, or whose approval process is virtually completed at the end of the reporting period. The measurement of such deferred taxes reflects tax consequences that could derive from the manner in which Egenor or Aguaytía expect to recover or settle the carrying amount of its assets and liabilities at the end of the reporting period.

Current and deferred income taxes are recognized as expense or income, and are included in the determination of net profit or loss for the period, except if those taxes related to items recognized in other comprehensive income or directly in equity, in which case, current or deferred income taxes are also recognized in other comprehensive income or directly in equity, respectively.

Financial Instruments

Financial instruments are defined as contracts that give rise simultaneously to a financial asset in a company and a financial liability or equity instrument in another company. Financial assets and liabilities are recognized when Egenor or Aguaytía become part of the contractual agreements of the corresponding instrument.

Financial assets and liabilities are initially recognized at fair value plus transaction costs directly attributable to the acquisition or issue of financial assets and financial liabilities, except for those classified at fair value through profit or loss, which are initially recognized at fair value and whose transaction costs, directly attributable to their acquisition or issue, are immediately recognized in profit or loss for the period.

Financial assets

Conventional purchases or sales of financial assets are recognized and derecognized using the accounting method at the contracting date, in which the following are recognized at such date: a) the asset to be received and the liability to be paid, and b) the derecognition of the asset being sold, the recognition of the possible output of the sale or disposal by other means, and the recognition of an account receivable from the buyer.

Financial assets held by Egenor and Aguaytía are classified as loans and receivables. These assets are recorded at amortized cost using the effective interest rate less any accumulated loss for recognized impairment. Income from interests is recognized using the effective interest rate, except for those short-term accounts receivable whose recognition is not considered significant. Egenor and Aguaytía do not hold financial assets that require to be classified as: Financial assets at fair value through profit or loss; held-to-maturity investments or available-for-sale financial assets, nor has it carried out transactions during the period when those classifications have been required.

Financial liabilities

Financial liabilities and equity instruments are classified in accordance with the content of contractual arrangements entered into and considering the economic substance of the contract. An equity instrument is any contract that evidences a residual interest in Egenor or Aguaytía's equity once all its liabilities are deducted.

The financial liabilities held are classified as other financial liabilities, and are recorded at amortized cost after initial recognition using the effective interest rate method, recognizing the interest expense throughout the corresponding period.

Revenue recognition

Revenue is measured using the fair value of the consideration, received or receivable, derived therefrom. Such revenue is reduced by estimates such as discounts and other similar concepts.

Sale of products, provision of services and others

Revenue from energy and power generation and energy transmission delivered, but not billed at the end of each month, is billed the following month, but is recognized as revenue based on estimated consumption of customers in the month in which the product is delivered. Revenue from the sale of dry natural gas, LPG and natural gasoline is recognized in the period in which the good is delivered. All risks and benefits inherent to ownership have been transferred to the buyer and it is probable that economic benefits related to the transaction will flow to Egenor or Aguaytía.

Revenue from management, administration and maintenance services is recognized in the month in which such services are provided.

Other revenue is recognized as realized and is recorded in the periods to which it relates.

Impairment of long-term assets

Management regularly review the carrying amounts of its long-lived assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). If it is not possible to estimate the recoverable amount of an individual asset, it is estimated the recoverable amount of the cash-generating unit where the asset belongs. If a reasonable and consistent allocation basis is identified, corporate assets are also allocated to individual cash-generating units, or otherwise, to the smallest group of cash-generating units for which a reasonable and consistent allocation basis is identified.

The recoverable amount is the higher of fair value less its cost to sell and value in use. Value in use is determined based on estimated future cash flows which are discounted to their present value, by using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks inherent to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is immediately recognized as expense.

An impairment loss can be subsequently reversed and recorded as income in profit for the period up to the amount in which the increased carrying amount does not exceed the carrying amount that had been determined if an impairment loss had not been recognized for the asset (or cash-generating unit) in previous years.

A summary of Egenor's significant accounting policies and practices is included in Note 2 to the Egenor Financial Statements included elsewhere in this offering memorandum. A summary of Aguaytía's significant accounting policies and practices is included in Note 2 to the Aguaytía Financial Statements included elsewhere in this offering memorandum.

Liquidity and Capital Resources

Egenor's capital requirements are primarily for the following purposes:

- operation, maintenance and administration expenses;
- capital expenditures related to expansion projects; and
- debt service.

Egenor's sources for liquidity and capital resources are:

- funds generated by its business activities through revenues from sales of electricity, revenues from energy transmission services and other revenues; and

• financial income from the investment of cash and available funds.

Aguaytía's capital requirements are primarily for the following purposes:

• operation, maintenance and administration expenses; and

• capital expenditures related to expansion projects.

Aguaytía's sources for liquidity and capital resources are:

• funds generated by its business activities through revenues from sales of electricity, revenues from sales of hydrocarbons, revenues from energy transmission services and other revenues; and

• financial income from the investment of cash and available funds.

Cash Flows

Egenor

The table below sets forth Egenor's cash flows for the years ended December 31, 2016, 2015 and 2014.

	Years ended December 31		
	2016	**2015**	**2014**
	(in thousands of *Soles*)		
Net cash and cash equivalents provided by (used in)			
Operating activities	154,763	162,939	169,100
Investment activities	(225,136)	3,004	321,215
Financing activities	(247,600)	(856)	(490,309)
Effect of exchange difference on cash and cash equivalents	752	28,405	15,653
Net (decrease) increase of cash and cash equivalents	(317,221)	193,492	15,659

Year ended December 31, 2016

Cash provided by operating activities for the year ended December 31, 2016, was S/154,763 thousand, mainly as a result of sales of energy and power pursuant to PPAs and on the spot market and sales of transmission services to third parties, net of cost of sale and operating expenses related to power generation and electrical energy transmission.

Cash used in investment activities during the year ended December 31, 2016 was S/225,136 thousand, mainly as a result of (i) a S/154,910 thousand non-current loan with our Peruvian Holding Company, (ii) current term loans to Aguaytía, Termoselva and Eteselva of S/36,872 thousand, S/13,408 thousand and S/3,352 thousand respectively and (iii) purchases of fixed assets related to power generation of S/15,578 thousand.

Egenor's financing activities resulted in a net cash decrease of S/247,600 thousand in 2016, as a result of a S/101,600 thousand dividend distribution approved on February 24, 2016 and a S/146,000 thousand dividend distribution approved on March 29, 2016.

Egenor's cash and cash equivalents decreased by S/317,221 thousand in 2016, for the reasons discussed above.

Year ended December 31, 2015

Cash provided by operating activities for the year ended December 31, 2015 was S/162,939 thousand, mainly as a result of sales of energy and power pursuant to PPAs and on the spot market and sales of transmission services to third parties, net of cost of sale and operating expenses related to power generation and electrical energy transmission.

Cash provided by investment activities during the year ended December 31, 2015 was S/3,004 thousand, mainly as a result of the net effect of (i) S/23,856 thousand sale of land and buildings related to the Piura thermoelectric power plant and (ii) purchases of fixed asset mainly related to power generation of S/17,885 thousand.

Egenor's financing activities resulted in a net cash decrease of S/856 thousand in 2015, mainly as a result of the payment of a financial lease for vehicles.

Egenor's cash and cash equivalents increased by S/193,492 thousand in 2015, for the reasons discussed above.

Year ended December 31, 2014

Cash provided by operating activities for the year ended December 31, 2014 was S/169,100 thousand, mainly as a result of sales of energy and power pursuant to PPAs and on the spot market and sales of transmission services to third parties, net of cost of sale and operating expenses related to power generation and electrical energy transmission.

Cash provided by investment activities during the year ended December 31, 2014 was S/321,215 thousand, mainly as a result of the sale of the Las Flores thermal plant to Kallpa Generación S.A.

Egenor's financing activities resulted in a net cash decrease of S/490,309 thousand in 2014, mainly as a result of (i) the prepayment of a financial lease in connection with the sale of the Las Flores thermal power plant, (ii) a S/122,628 thousand dividend distribution which was approved on March 26, 2014 and (iii) a S/185,000 thousand capital reduction which was approved on October 24, 2014.

Egenor's cash and cash equivalents increased by S/15,659 thousand in 2014, for the reasons discussed above.

Aguaytía

The table below sets forth Aguaytía's cash flows for the years ended December 31, 2016, 2015 and 2014.

	Years ended December 31		
	2016	**2015**	**2014**
	(in thousands of U.S.$)		
Net cash and cash equivalents provided by (used in)			
Operating activities	17,575	55,175	32,360
Investment activities	(9,434)	(14,265)	(4,389)
Financing activities	(70,721)	—	(13,800)
Net (decrease) increase in cash and cash equivalents	(62,580)	40,910	14,171

Year ended December 31, 2016

Cash provided by operating activities for the year ended December 31, 2016, was U.S.$17,575 thousand, mainly as a result of sales of energy and power pursuant to PPAs, transmission services to third parties and sale of LPG and natural gasoline, net of the cost of sale and operating expenses related to such activities.

Cash used in investment activities during the year ended December 31, 2016 was U.S.$9,434 thousand, mainly as a result of a U.S.$7,776 thousand investment in Aguaytía's gas facilities, including the storage and loading plant currently under construction, a fire system and a flare and blowdown system as well as purchases of machinery and equipment related to Aguaytía's generation business.

Aguaytía's financing activities resulted in a net cash decrease of U.S.$70,721 thousand in 2016, mainly as a result of (i) a U.S.$70,862 thousand dividend distribution, which was approved on March 29, 2016 and paid that year, (ii) prepayment of a U.S.$15,891 thousand loan with Citibank and (iii) a U.S.$16,032 thousand financing agreement with Egenor.

Aguaytía's cash and cash equivalents decreased by U.S.$62,580 thousand in 2016, for the reasons discussed above.

Year ended December 31, 2015

Cash provided by operating activities for the year ended December 31, 2015 was U.S.$55,175 thousand, mainly as a result of sales of energy and power pursuant to PPAs, transmission services to third parties and sale of LPG and natural gasoline, net of the cost of sale and operating expenses related to such activities.

Cash used in investment activities during the year ended December 31, 2015 was U.S.$14,265 thousand, mainly as a result of a U.S.$11,580 thousand investment in Aguaytía's gas facilities, including a SCADA system, a fire alarm system, a flare and blowdown system and works related to wells.

Aguaytía's cash and cash equivalents increased by U.S.$40,910 thousand in 2015, for the reasons discussed above.

Year ended December 31, 2014

Cash provided by operating activities for the year ended December 31, 2014 was U.S.$32,360 thousand, mainly as a result of sales of energy and power pursuant to PPAs, transmission services to third parties and sale of LPG and natural gasoline, net of the cost of sale and operating expenses related to such activities.

Cash used in investment activities during the year ended December 31, 2014 was U.S.$4,389 thousand, mainly as a result of purchases of turbine spare parts for Central Térmica Aguaytía.

Aguaytía's financing activities resulted in a net cash decrease of U.S.$13,800 thousand in 2014, mainly as a result of a U.S.$13,800 thousand dividend distribution which was approved on April 1, 2014 and paid that year.

Aguaytía's cash and cash equivalents increased by U.S.$14,171 thousand in 2014, for the reasons discussed above.

Capital Expenditures

Egenor's capital expenditures from January 1, 2014 through December 31, 2016 have amounted to S/44,981 thousand. Egenor's capital expenditures from January 1, 2014 through December 31, 2016 include ongoing maintenance and environmental improvement work.

The table below sets forth Egenor's capital expenditures for the periods indicated.

Years ended December 31,		
2016	2015	2014
	(in thousands of *Soles*)	
15,578	17,885	11,518

Aguaytía's capital expenditures from January 1, 2014 through December 31, 2016 have amounted to U.S.$28,088 thousand. Aguaytía's capital expenditures from January 1, 2014 through December 31, 2016 include ongoing property, plant and equipment and improvement works.

The table below sets forth Aguaytía's capital expenditures for the periods indicated.

Years ended December 31,		
2016	2015	2014
	(in thousands of U.S.$)	
9,434	14,265	4,389

Egenor anticipates making capital expenditures of up to approximately U.S.$15,149 thousand during the period 2017-2019 in connection with the implementation of automated control systems in hydroelectric plants, replacement of equipment, overhauls of machinery and IT software upgrades. Aguaytía anticipates making capital expenditures of up to approximately U.S.$19,189 thousand during the period 2017-2019 in connection with the completion of a new natural gasoline storage and loading plant and flare and blowdown system in our gas plant, workover in wells and upgrade of equipment related to generation and transmission. In particular, we anticipate making additional significant capital expenditures in 2017 of an estimated combined U.S.$21.1 million related to the construction of a new natural gasoline storage and loading plant at Aguaytía, improvements to our fire protection infrastructure and engaging in several additional maintenance initiatives at both Egenor and Aguaytía. Below is a chart that provides a detailed breakdown of our anticipated capital expenditures in 2017.

2017 Capital Expenditures

	Year ended December 31,
	2017
	(in thousands of U.S.$)
AGUAYTÍA	
Loading plant	3,488
Fire system in Gas and Fractionation Plant	2,592
Flare	2,752
Control remote project	1,062
Civil works in Control room—Fractionation plant	366
Work over in wells and replacement of wellheads	649
Overhaul of compressors	440
Condition monitoring and remote control in CFA	436
Rejuvenation of spare parts	282
Other minor projects	2,643
Total Aguaytía	**14,710**
EGENOR	
Remote control system in hydro plants	1,120
New communication system for T-lines	234
Full body injector turbine	200
Upgrade of MAXIMO	150
Repowering of generator cooling system CARH	140
IT Licenses	524
Valves for CDP	457
Overhaul of generator in CDP	719
SCADA	174
Ambulance for CARH	157
Civil works in administrative offices in CARH	114
Other minor projects	2,368
Total Egenor	**6,357**
TOTAL	**21,067**

Our ability to make planned capital expenditures in future periods (including the remainder of 2017) will depend on our cash flow generation and ability to obtain the required financing from third-party sources. No assurance can be given that the necessary financing sources will be available in the future.

Contractual Obligations

The following table summarizes Egenor's contractual obligations as of December 31, 2016 as well as the maturity of those obligations:

	Payments Due by Period				
	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
	(in thousands of *Soles*)				
Financial obligations	15,309	15,309	45,927	309,015	385,560
Trade accounts payable	20,304	—	—	—	20,304
Other accounts payable	571	—	—	—	571
Accounts payable to related entities	316	—	—	—	316
Total Amount of Contractual Obligations	36,500	15,309	45,927	309,015	406,751

The following table summarizes Aguaytía's contractual obligations as of December 31, 2016 as well as the maturity of those obligations:

	Payments Due by Period				
	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total
	(in thousands of U.S.$)				
Trade accounts payable	10,611	—	—	—	10,611
Other accounts payable	288	—	—	—	288
Accounts payable to related entities	16,680	—	—	—	16,680
Total Amount of Contractual Obligations	27,579	—	—	—	27,579

See note 4 to the Egenor Financial Statements and note 4 to the Aguaytía Financial Statements.

Quantitative and Qualitative Disclosures of Market Risks

We are exposed to several market risks in our normal business activities. We operate in Peru, we are exposed to volatility in the exchange rate between our functional currency, the U.S. Dollar and the *Sol*. See note 4 to the Egenor Financial Statements and note 4 to the Aguaytía Financial Statements.

Exchange Rate and Interest Rate Risk

Foreign currency risk is the risk of incurring economic losses due to adverse changes in foreign currency exchange rates. While the majority of Egenor's and Aguaytía's revenues from PPAs are denominated in *Soles*, a significant portion of the prices payable under such PPAs for energy or capacity are indexed to fluctuations in the *Sol*/U.S. Dollar exchange rate. The PPA prices are updated every three months in the event that either of the new prices for energy and capacity calculated in accordance with the formulas set forth in such PPA results in a price that is 5% greater or less than the current applicable price for energy or capacity. Because a substantial portion of the components in the formula used to update the energy and capacity prices take into account the *Sol*/U.S. Dollar exchange rate, the net effect is that our revenues are naturally hedged against fluctuations in the *Sol*/U.S. Dollar exchange rate to a very significant extent.

As of December 31, 2016, 100% of Egenor's debt was fixed rate debt. As of the date of this offering memorandum, Egenor has not entered into any interest rate hedging agreements. Aguaytía does not have interest-bearing assets. Aguaytía has no debt. As of the date of this offering memorandum, Aguaytía has not entered into any interest rate hedging agreements.

Off-Balance Sheet Arrangements

Neither Egenor nor Aguaytía had any off-balance sheet arrangements or interest in or relationship with any special purpose vehicles as of the date of this offering memorandum.

DESCRIPTION OF INDEBTEDNESS

The following summary of certain provisions of the instruments evidencing Egenor's and Aguaytía's material indebtedness does not purport to be complete and is subject to, and qualified in its entirety by reference to, all of the provisions of the corresponding agreements related thereto, including the definitions of certain terms therein.

As of December 31, 2016, the principal amount outstanding of Egenor's debt was U.S.$75.0 million (represented by the principal amount of current and non-current loans but excluding amortized cost adjustment), with no debt obligations denominated in *Soles*. We intend to refinance all of our senior debt obligations (which are described below), with the net proceeds of the issuance of the Notes. See "Use of Proceeds" and "Summary—Recent Developments—Repayment of Bank Debt and the Liability Management Transaction."

As of the date of this offering memorandum, neither Egenor nor Aguaytía has any convertible debt securities, exchangeable debt securities or debt securities with warrants attached.

Material Financing Agreements

The most significant financing agreements and guarantees entered into by Egenor and Aguaytía are described below:

Orazul Loan Agreement

On December 14, 2016, our Peruvian Holding Company as borrower, entered into a loan agreement (the "Orazul Loan Agreement") with Deutsche Bank AG, London Branch, Banco de Crédito del Perú, The Bank of Nova Scotia and Banco Internacional del Perú S.A.A., as lenders, and Banco del Crédito del Perú, as administrative agent, and Citibank, N.A., as offshore collateral agent. On December 20, 2016, senior term loans in the aggregate principal amount of U.S.$450.0 million were incurred under the Orazul Loan Agreement, with a facility maturity date five years thereafter. Interest accrues on the loan under the Orazul Loan Agreement at either the base rate or the Eurodollar rate, plus an applicable margin varying from 2.50% to 3.00%, in the case of a base rate loan, or 3.50% to 4.00%, in the case of a Eurodollar loan, depending on borrower's leverage ratio at such time. Egenor and Aguaytía and their respective consolidated subsidiaries have granted corporate guarantees to secure payment of the Bank Debt under the Orazul Loan Agreement, and the equity interests in all such entities have been pledged in favor of the onshore collateral agent under the Orazul Loan Agreement in order to secure the borrower's payment obligations thereunder. It is expected that in connection with the Concurrent Transactions intended to be consummated with part of the proceeds of the issuance of the Notes, we will make a loan to our Peruvian Holding Company in order to allow it to repay its Bank Debt under the Orazul Loan Agreement, and that the security interests and guarantees in favor of the onshore collateral agent on behalf of the lenders thereunder will be released.

Local Bonds

On September 14, 2009, Egenor entered into a Master Indenture (*Contrato Marco de Emisión de Bonos Corporativos correspondientes al Segundo Programa de Bonos Corporativos Duke Energy Egenor)* (the "Master Indenture"), setting forth the terms for Egenor's second program of local corporate bonds (the "Second Program"), for an aggregate amount of U.S.$200.0 million (or the equivalent in local currency). The bonds are unsecured. The Second Program allowed Egenor to make several issuances.

Egenor has made the following two issuances under the Second Program, collectively referred to herein as the Egenor Bonds, both of which are still outstanding:

1. On November 10, 2011, Egenor made its first issuance under the Second Program for U.S.$35.0 million aggregate principal amount of notes. Interest accrues at 6.375% per year and is payable semi-annually. The maturity date is November 11, 2026.
2. On February 9, 2012, Egenor made its second issuance under the Second Program for U.S.$40.0 million aggregate principal amount of notes. Interest accrues at 5.8125% per year and is payable semi-annually. The maturity date is February 10, 2024.

On March 30, 2017, the first and second supplemental indentures to the Master Indenture were amended in order to implement a call option to allow the early optional redemption of the Egenor Bonds and a waiver under the Master Indenture (Contrato Marco) has been granted in order to allow the incurrence of additional debt by Egenor in excess of the leverage ratio contemplated in the Master Indenture and without breaching any covenants thereunder. It is expected that we will use some of the proceeds from the issuance of the Notes in order to redeem the Egenor Bonds. The call option and the waiver were approved for 90 days, beginning on March 30, 2017.

Working Capital Lines

On April 5, 2017, each of Egenor and Aguaytía entered into a one-year unsecured credit facility agreement in a principal amount of up to U.S.$15 million and U.S.$10 million, respectively with Banco de Crédito del Perú and mature on April 5, 2018. These credit facility agreements bear a 1.90% fixed interest rate per annum, or a one-month LIBOR plus a margin of 1%, or a two-month LIBOR plus a margin of 0.95% as chosen by us in the notice of disbursement. The proceeds to be obtained from these credit facility agreements will be used to finance our working capital requirements. The credit facility agreements also contain customary covenants including limitations on change of control, sale of assets and creation of liens, with certain specified exceptions. As of the date of this offering memorandum, Egenor and Aguaytía have no outstanding debt under these credit facility agreements.

INDUSTRY

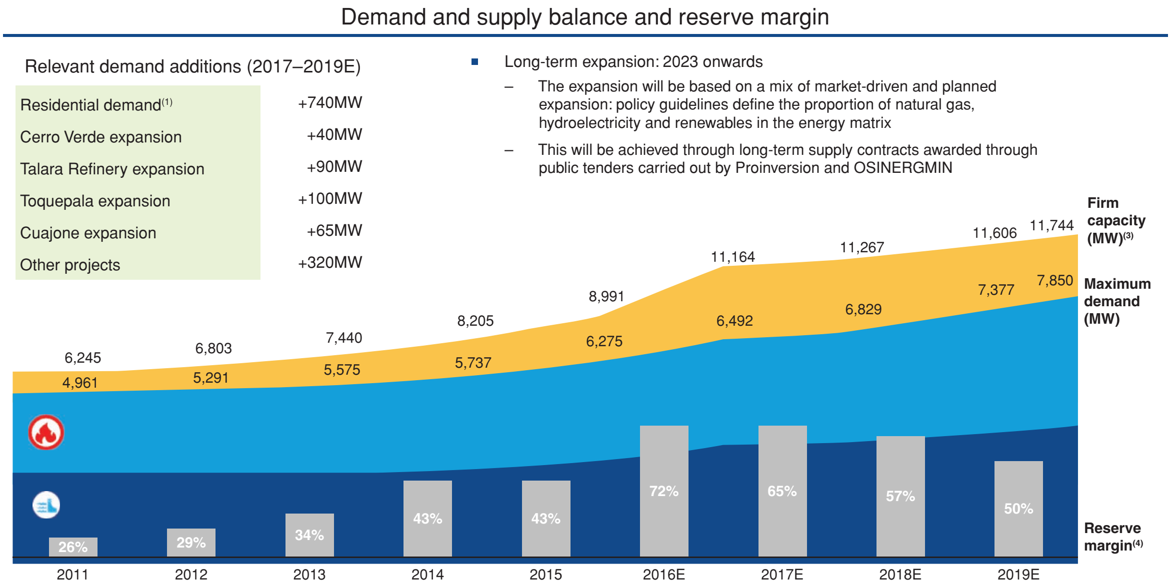
Electricity Utility Industry

Fueled by an increase in the country's GDP and an expansion in energy coverage, Peruvian energy consumption has grown in recent years. According to the World Bank, Peruvian GDP grew at a rate of 3.9%, 3.3%, 2.4% and 5.8% in 2016, 2015, 2014 and 2013, respectively. An increase in domestic demand, resulting from growth in the country's overall economic activity and infrastructure investment and increases in the Peruvian population's income and consumption, has led to an increase in investment in value-added manufacturing processes that will result in the creation of products to serve the domestic market and to export abroad. In addition, increased availability of natural resources, particularly metals, has led to a rise in energy-intensive mining activity, which has resulted in an increase in Peru's energy consumption from 29,492 GWh in 2010 to 42,988 GWh in 2016, according to OSINERGMIN, representing a compound average growth rate of 6.5%.

Spot prices in the Peruvian electricity market are at historically low levels (approximately U.S.$9/MWh for the first two months of 2017), owing primarily to a sustained increase in installed capacity, boosted by thermal power plants powered by gas extracted from the Camisea gas fields. Spot prices have also been reduced as a result of the commencement of operations in the third quarter of 2016 at two new hydroelectric power plants, Cerro del Águila and Chaglla, which have effective capacities of 513.8 MW and 467.0 MW, respectively. Moderate demand growth, coupled with the aforementioned increase in supply, has resulted in a rise in the reserve margin, a measure of excess capacity over expected maximum demand, from 29.0% in 2012 to 72.0% in 2016. As a result, maximum demand is expected to grow at a compound annual growth rate, or "CAGR," of 6.5% between 2016 and 2019, according to the company's estimates.

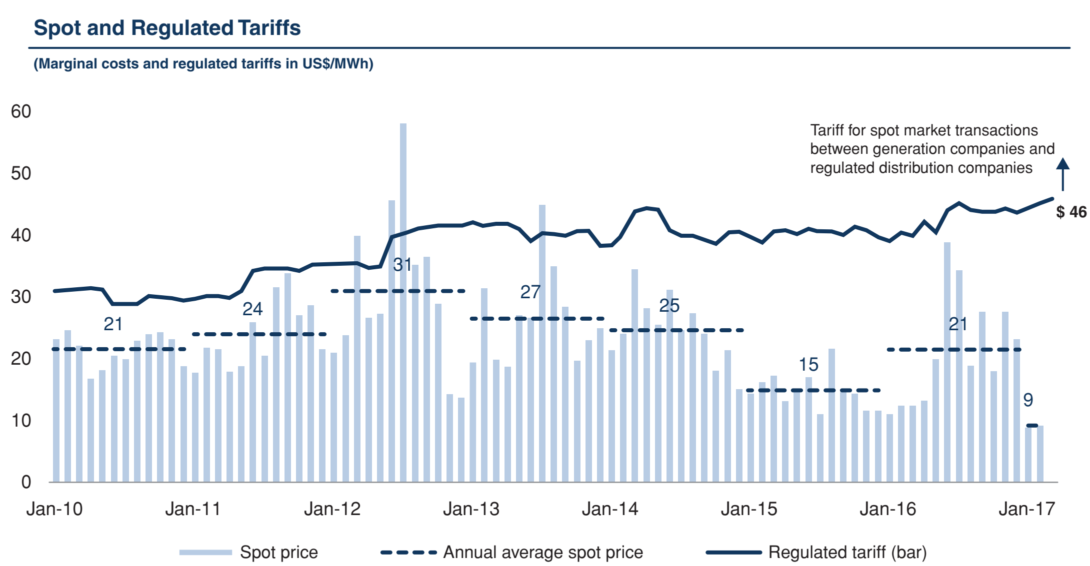
On the supply side, after 2016, it is anticipated that the most significant increases will occur in the open cycle of Malacas (51.2 MW), the combined cycle of Termochilca (104.4 MW) and the La Virgen hydroelectric plant (84.0 MW). Total firm capacity is expected to increase by a CAGR of only 1.7% between 2016 and 2019. The COES expects that such a small increase in supply coupled with sustained demand growth will push the reserve margin down to the point where it measures 49.6% in 2019, a decrease of 22 percentage points versus 2016. These factors may have implications for spot prices in the medium term and may lead to 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:



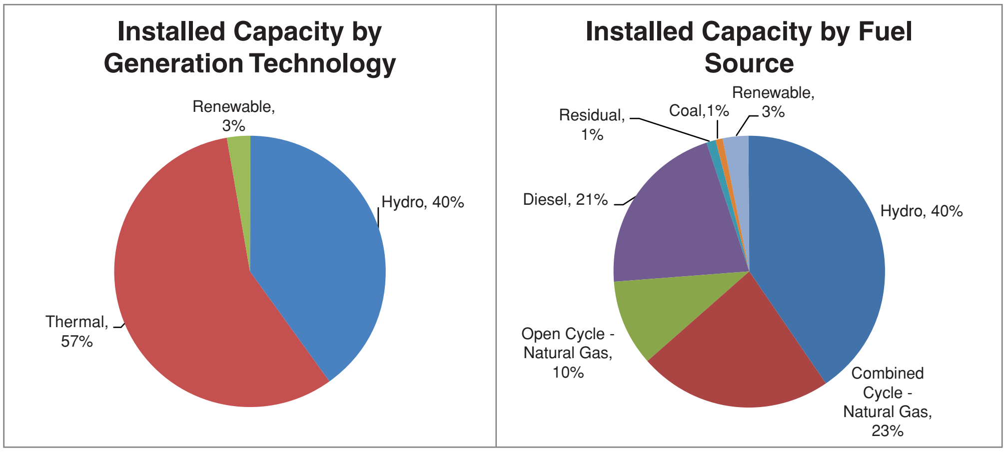
1/ Underlying demand growth.
2/ Firm capacity for wind and solar energy projects is defind as zero so these projects are not included. Firm capacity as declared by COES.
3/ Firm capacity considers cold reserve plants. For the forecast period (2016–2019) the COES assumes that a 201 MW thermal power station is out of service for maintenance purposes.
4/ Reserve margin calculated as (Firm Capacity minus Maximum Demand) / Maximum Demand.

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

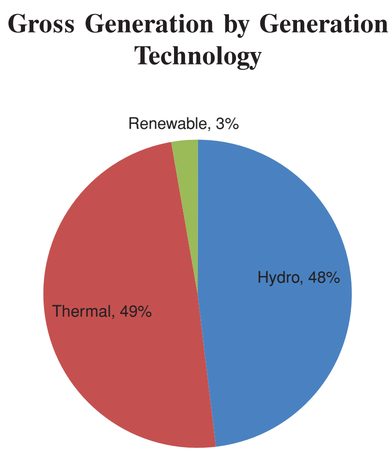


Source: COES—SINAC

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

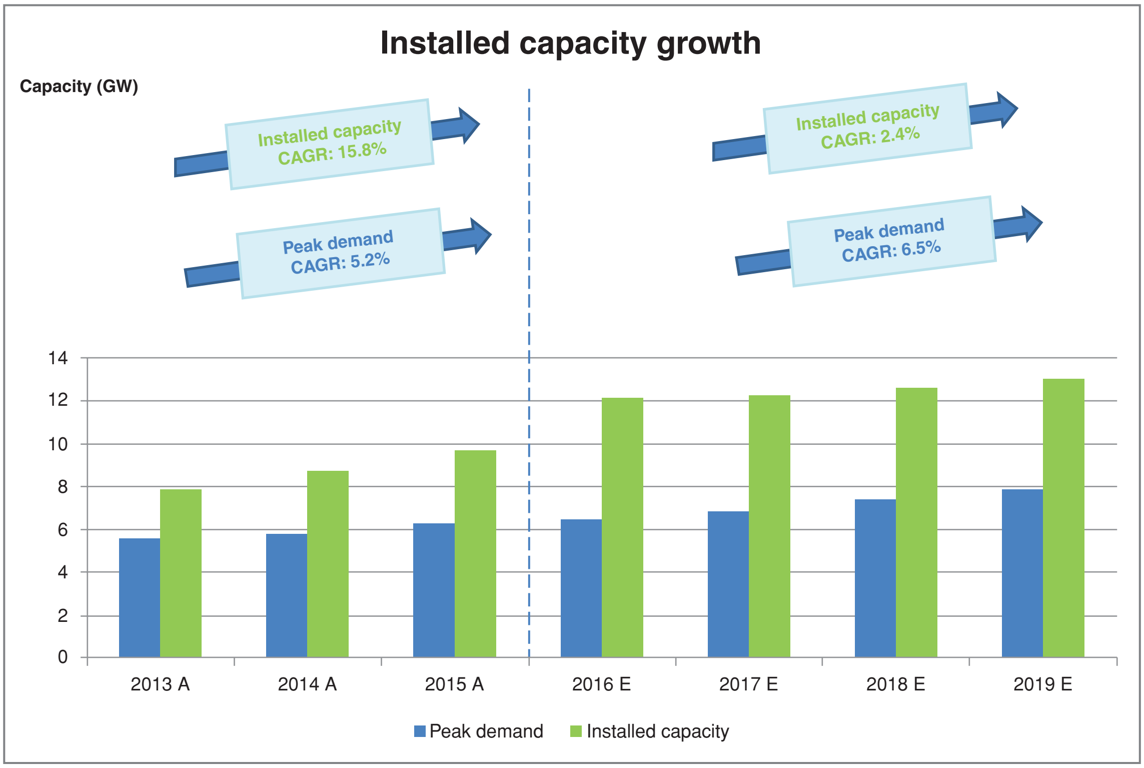


The following chart presents a breakdown of gross generation by generation technology, as of December 31, 2016:



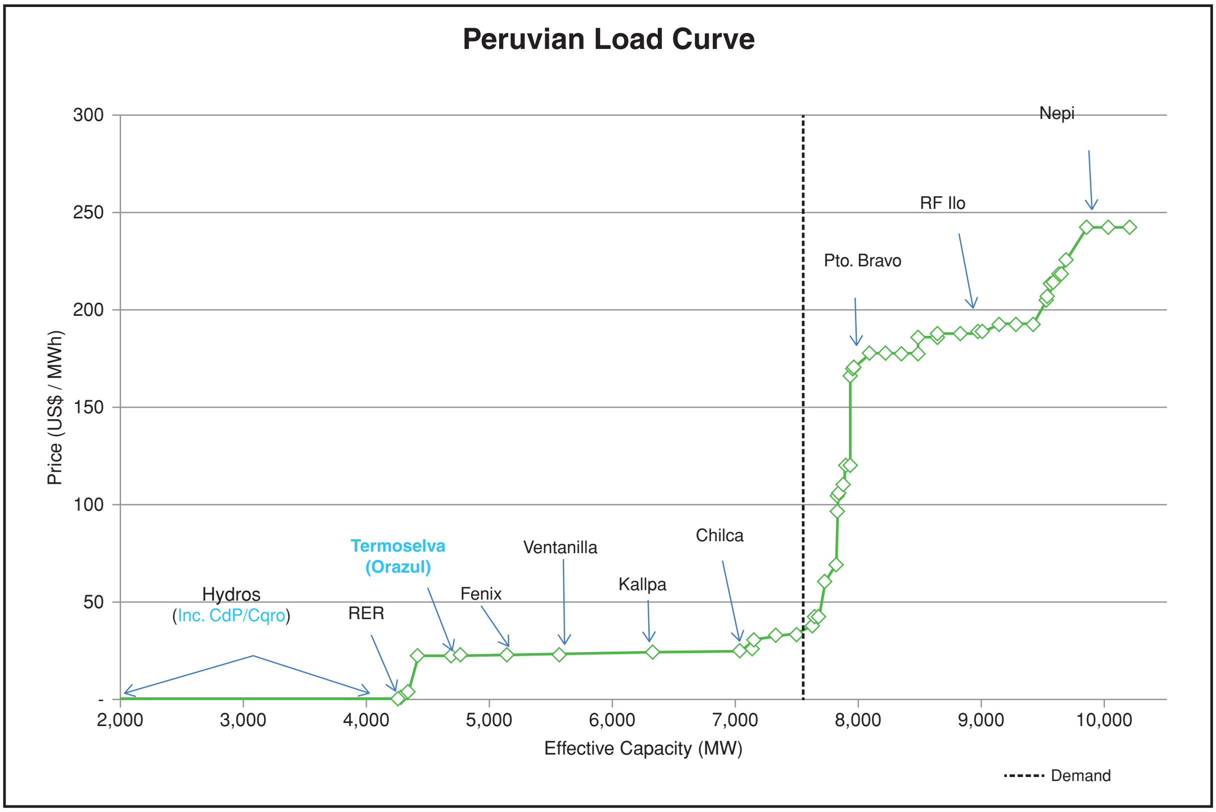
Source: COES.

The following chart presents historical and expected installed capacity growth and peak demand CAGR in Peru from 2013 to 2019:



Source: Company information and COES.

The following chart shows the projected Peruvian load curve through December 31, 2019:



Source: Company and COES.

Since 1992, the Peruvian market has been based on a "marginal generation cost" system embedded in the general electricity laws of Peru and administered by COES. For a description of the "marginal generation cost" regulatory framework, see "Regulatory Framework—Overview of Regulation of the Electricity Sector—Generation Companies."

Generation companies in the Peruvian electricity market sell their capacity and energy under PPAs or on the spot market. The principal consumers under PPAs are Distribution Companies and Unregulated Customers. 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 to contract as Regulated Customers with Distribution Companies. Customers with capacity demands below 200kW cannot participate in the unregulated market and must contract as Regulated Customers with Distribution Companies. 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 OSINERGMIN. Generation companies are authorized to buy and sell capacity and energy on the spot market to cover their needs and their commitments under their PPAs. Unregulated 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 on the spot market.

Within Peru, power is primarily generated by hydroelectric or thermal power stations, including thermal power stations fueled by natural gas, in amounts that vary in accordance with each year's rainy season and rainfall pattern. The amount of hydroelectric power dispatched during each year's rainy season from November to April is greater than that dispatched from May to October when the volume of rainfall declines and there is less water available for use in generating electricity. 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 spot market prices and in the dispatch of thermal power plants. As such, revenues within the Peruvian generation industry are generally subject to the effects of seasonality and rainfall patterns. Although generators act to reduce their exposure to such effects by contracting through long-term PPAs, such effects cannot be completely neutralized.

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

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

The demand for power and electricity in Peru is served by a variety of generation companies. The table below sets forth an overview of these companies, including their capacities and the types of power they generate, as of December 31, 2016:

	Capacity as of December 31, 2016								
	Hydroelectric	**Combined Cycle—Gas Natural**	**Open Cycle—Gas Natural**	**Diesel**	**Residual**	**Coal**	**Other**	**Total**	**Percentage of Effective Capacity (%)**
Engie Energia Perú	254	920		1175	39	142		2530	20.9%
Enel	589	479	711					1779	14.7%
Kallpa	514	865	197	632				2207	18.3%
ElectroPerú	898			16				914	7.6%
Fenix Power		570						570	4.7%
Egenor	376							376	3.1%
Aguaytía			176					176	1.5%
Other generation companies	2227		161	674	88		375	3526	29.2%
Total	**4858**	**2834**	**1245**	**2496**	**127**	**142**	**375**	**12078**	**100%**

Source: COES

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—Significant Factors Affecting Our Results of Operations—Price, Availability and Dispatch."

Hydrocarbon Industry

The real GDP for the Peruvian oil and gas sector increased at an average rate of 0.1% for the 6 years ending in 2016. The growth rate for this period rate was impacted by a reduction of 11.5% in 2015 and 5.1% in 2016. The oil and gas sector includes the exploration, production, transportation and commercialization of hydrocarbon products and derivatives.

According to MEM, during 2016, local production of hydrocarbons was approximately 494,431 MMcf of natural gas, 14.8 MMbbl of oil and 34.7 MMbbl of NGLs. These levels have grown an average of 1.6% each year from 2011 to 2016. Peruvian natural gas production has increased considerably since 2004, when the Camisea project, the largest natural gas project in Peruvian history, began operations.

The following chart presents and proven reserves and production of oil and natural gas in Peru from 2007 to 2015.

Proven Reserves	2007	2008	2009	2010	2011	2012	2013	2014	2015
Oil (MMSTB)	447.4	532.662	530.9	582	579.2	632.9	741.2	683	473
Natural Gas Liquids (MMSTB)	674.1	658.2	631.7	658	627	789.8	875.7	727	714
Natural Gas(TCF)	11.82	12.2	12	12.5	12.7	15.4	15	14.63	14.09

Production	2007	2008	2009	2010	2011	2012	2013	2014	2015
Oil(Bls)	28,146,400	28,027,100	25,926,863	26,531,268	25,386,800	24,395,576	22,956,024	25,295,795	21,172,853
Natural Gas Liquids (Bls)	13,415,800	15,903,300	27,100,166	30,831,711	30,354,379	31,595,725	38,187,067	37,750,846	33,359,964
Natural Gas (MPC)	94,485.50	119,955,700	122,681,000	255,609,227	401,169,423	418,794,750	430,559,339	456,406,975	441,243,800

Source: MINEM

The exploration and production sector is mainly served by global and regional companies including Pluspetrol, Repsol, CNPC, Sapet, Petromont, BPZ, Olympic and Savia. Certain local companies also undertake production activities. We are involved in natural gas and NGL production, processing and fractionation, as well as in LPG commercialization by land transportation. According to MEM, state-owned Perúpetro, is the largest local player in refining and transporting oil and its derivatives (as measured by volume of oil processed in 2016), operating the Talara, Iquitos, Conchan and El Milagro refineries, the North-Peruvian oil pipeline and service stations. Another important player is Transportadora de Gas del Peru S.A. ("TGP"), the largest transporter of natural gas and NGLs from the Peruvian Amazon to the Pacific coastline. In April 2016, TGP successfully completed an expansion project that increased its gas pipeline capacity from 655 MMcf/d to 920 MMcf/d. This project included an additional compression plant located in the province of Cusco, a 31 km pipeline between Chilca and Lurin, in the province of Lima, and a detour around the province of Ayacucho, which extended their gas pipeline by 20 km.

An important development in the industry is the execution of a new pipeline project in southern Peru. The project, named South Peru Gas Pipeline (*Gasoducto Sur Peruano* or "GSP"), involves designing, constructing and operating the pipeline that will transport natural gas, NGLs and LPG from gas fields in the Cusco region to the regions of Apurimac, Puno, Arequipa, Moquegua and Tacna. With an approximate length of 1,134 km, the GSP will constitute the backbone of socio-economic development of Cusco, Arequipa, Apurimac, Moquegua and Puno and will increase the reliability of the national natural gas supply, as the pipeline that will be constructed will be entirely separate and distinct from the existing transportation pipeline. On January 24, 2017, the Peruvian government terminated the concession agreement with the consortium in charge of developing the GSP, prompted by allegations of corruption on the part of the Odebrecht Organization, the leader of the consortium. As a result of the termination of the concession, the GSP project could be delayed for two years or more. It is anticipated that upon the completion of the GSP, diesel powered plants with aggregate installed capacity of 1,450 MW will convert to natural gas powered plants. The delay in this conversion will likely put significant pressure on the system, driving up expected PPA prices in the medium-term as Distribution Companies and Unregulated Customers seek to protect against higher prices.

Natural Gas

The organizational structure of the natural gas market, is based on the vertical integration of exploration and production, transportation, distribution and commercialization activities. Exploration activities include geological and geophysical work to determine the location and areas of natural gas fields, the drilling of wells and other activities that may be necessary for discovering hydrocarbons. Once a well has been drilled, the presence of natural gas can be detected and a determination is made as to whether exploitation is commercially viable. If exploitation is viable, production can begin. The production stage involves the systematic extraction of natural gas and a conditioning process to facilitate its transportation and may entail the design and construction of a production system, a gas basin, a processing plant, internal pipelines, storage tanks and metering facilities, as well as the operation of such facilities. As of the date of this offering memorandum, the most important blocks of natural gas under production in Peru are Block 88 and Block 56, known as the Camisea gas fields, which are located in the jungle of Cusco, in Peru's southern region. As of December 31, 2015, according to information provided by MEM, the natural gas reserves of the Camisea gas fields accounted for 88% of the proven natural gas reserves in Peru. According to the COES, as of 2015, 57.4% of all generators in Peru are thermal generators and 38.1% of all generators in Peru run on gas purchased from the Camisea consortium. Most of these thermal power generators are subject to take-or-pay gas supply contracts, which in turn incentivizes the cost under-declaration by Camisea-dependent thermal generators, to ensure dispatch and avoid paying for unused gas.

For a description of our gas reserves, see "Business—Hydrocarbon Extraction and Fractionation Activities."

Transportation activities include operating gas pipeline systems and compression and metering stations, installing and controlling valves, inspecting facilities and maintaining networks for use in safely transporting natural gas from production fields or treatment plants to consumption areas. At this stage, the natural gas is transferred from a well to a network of high pressure transmission pipelines using a transportation system, compression plants, pipelines, referrals and recompression.

Distribution involves supplying natural gas to final users through high pressure main line networks or medium or low-pressure pipelines. High pressure distribution is used to supply natural gas to initial and Unregulated Customers, while medium- and low-pressure distribution is used to supply natural gas to Regulated Customers. Distribution involves use of distribution systems, high-, medium- and low-pressure networks, nodes and regulation stations, which all work in tandem to supply natural gas to the end consumers.

Commercialization involves the transportation and distribution of compressed natural gas or Liquefied Natural Gas for final consumption in NGV stations or by industrial customers.

Peru's Gas Requirements

Peru's current natural gas demand is focused on power generators, and industrial, vehicular and domestic users. Nevertheless, it is important to note that since the rules governing the natural gas industry were issued, demand for natural gas in Peru has increased beyond initial estimates. This unanticipated increase in the demand for natural gas has led to temporary congestion of the transportation infrastructure. As a result, through Supreme Decree No. 050-2012-EM, the government established the following priority order for the local use of natural gas, in emergency situations, applicable to natural gas producers, among other market players: (i) residential customers and regulated commercial customers, (ii) NGV suppliers that are part of Lima's segregated high capacity corridor integrated system (*sistema integrado de transporte del corredor segregado de alta capacidad de*

Lima), (iii) other NGV suppliers, (iv) power generation companies, (v) regulated industrial customers with 30,000 or less cubic meters daily consumption, (vi) regulated industrial customers with more than 30,000 cubic meters daily consumption, (vii) natural gas compression and liquefaction stations, (viii) initial or independent customers with firm natural gas supply and transportation agreements, excluding those mentioned in (iv) above, and (ix) initial or independent customers with interruptible natural gas supply and transportation agreements, excluding those mentioned in (iv) above.

Power Transmission Industry

Transmission Activities

Transmission involves the transportation of energy from generators to consumption centers, utilizing transmission networks and transformation sub-stations. The transmission grid of the SEIN is operated by COES, which may submit expansion plans for the transmission grid to OSINERGMIN and MEM for the latter's final approval.

Prior to 2006, Peru's transmission system only comprised lines associated with the MTS and STS systems, the former including high- and very-high-tension transmission lines that were connected to a network of sub-stations and latter including medium- and low-tension transmission lines that brought power from the MTS System to end users.

Since the implementation of Law 28832, the Law to Ensure Effective Development of Power Generation (*Ley para asegurar el desarrollo eficiente de la generación eléctrica*) in 2006, two new categories have been added to Peru's transmission system: the GTS and CTS systems. The GTS comprises transmission facilities that are granted as concessions through public bids in accordance with a "Transmission Plan," or a document that details investments required to maintain or improve the system's overall quality, security or profitability over a ten-year period. The Transmission Plan is updated every two years by COES and approved by OSINERGMIN and MEM.

The CTS comprises transmission facilities that are granted as concessions through private initiatives in accordance with the Transmission Plan and generally includes all other transmission facilities that are not included in the Transmission Plan.

The Peruvian power transmission system currently comprises all four of these systems. All transmission lines that were built after the implementation of the Law 28832, however, may only be classified under the GTS or CTS systems.

Pursuant to Peruvian power sector regulations, transmission companies awarded a GTS concession under a public bid will receive transmission tolls and connection tariffs set by OSINERGMIN, which cover an annual fixed fee of 12% of the replacement value of the relevant transmission project and the operation and maintenance costs of such project, in each case, from Distribution Companies and generation companies. This compensation system is designed to pass on the costs of constructing the relevant transmission project to all end users. Transmission lines that are part of the GTS are accessible to all generators and allow power to be delivered to all of their customers.

Transmission companies awarded CTS concessions under private initiatives are compensated according to a different structure, set by OSINERGMIN, based on proposals by the owners of transmission facilities made in accordance with OSINERGMIN-approved methodologies. Fees assessed in connection with CTS concessions are only borne by users of the relevant transmission lines.

Transmission Fees

Pursuant to Peruvian power sector regulations, power transmission companies are only authorized to transmit power, and are forbidden to participate in the direct purchase and re-sale of power. As such, power generators tend to be the main customers of transmission companies, and usually the extension of power transmission lines is made to meet the requirements of power generators. Parties that solicit the extension of transmission lines are obligated to pay the cost of such extensions and any costs required to continue the use of such extensions.

As previously stated, transmission systems are open to third-party access and regulated fees apply. OSINERGMIN has fixed the toll and compensation schedule for the STS and CTS systems for period from the May 1, 2013 to April 30, 2017.

Compensation for use of the MTS System is provided on a monthly basis by the generation companies that are connected to the MTS System. Such compensation must cover the total transmission cost, represented by the sum of the annual investment, operating costs and maintenance costs. The annual investment is calculated by OSINERGMIN, in accordance with the corresponding provisions of the BOOT (build-own-operate-transfer) concession agreements, and takes into consideration several variables, such as the replacement value of the facilities.

Compensation for use of the GTS is provided by means of a base rate established by OSINERGMIN that considers three components: (i) any investments made, calculated as annuities for recoupment of the total investment (with a maximum of 30 years); (ii) the efficient operation and maintenance cost of transmission facilities; and (iii) if applicable, differences between the previous year's base rate and the actual amount received by the transmission company.

Distribution Activities

Under Peruvian regulations, Distribution Companies are required to supply energy to Regulated Customers at regulated prices. Distribution Companies may also supply energy to Unregulated Customers through PPAs. Among private companies with distribution concessions in Peru, Luz del Sur, Enel Distribución, Edecañete, Coelvisac and Electro Dunas, were collectively responsible for 66.2% of the power sold by Distribution Companies in Peru in 2015, based on information available from MEM. The remaining power is sold through government-owned companies.

Prior to July 2006, the pricing mechanism in contracts between generators and Distribution Companies for the resale of power to Regulated Customers included energy tariffs that comprised charges for capacity, generation and transmission, or bus bar prices, and charges called the Value Added by Distribution (*Valor Agregado de Distribución* or "VAD charge"), which includes the margin above the cost of purchasing power from generators that distributors charge to their end users. The VAD charge is designed to provide a distributor with a return above its capital investments, fixed operating and maintenance costs and to hold such distributor accountable for a fixed percentage of its power distribution losses. Currently, the amount of power purchased by Distribution Companies from generators at bus bar prices under older PPAs is less than 20%, based on information available from OSINERGMIN. The VAD charge and the bus bar prices under these older PPAs are set annually by OSINERGMIN.

Pursuant to Peruvian power sector regulations, since 2006, contracts to sell power to Distribution Companies for resale to Regulated Customers may be made at fixed prices based on public bids made by generation companies or at the bus bar prices set by OSINERGMIN. After the bidding process concludes, the Distribution Company awarded the contract will be entitled, for the life of the relevant PPA, to purchase energy from the winning bidder at the bid price determined through such process. The prices obtained through the public bid process are subject to a maximum energy price set by OSINERGMIN prior to bidding. If all the bids are higher than the price set by OSINERGMIN, all public bids are disregarded and no PPA will be awarded. The process may be repeated until the prices offered are below the cap set by OSINERGMIN. Under Peruvian power sector regulations, the prices charged to Regulated Customers under these PPAs are capped at a price based on a weighted average of the bid price of the winning generator and applicable bus bar prices. As these prices are typically in excess of bus bar prices, these PPAs allow Distribution Companies to more effectively pass on their operating costs to their end users.

Concessions and Authorizations

Authorizations and concessions to operate in the Peruvian power sector are granted by MEM. When a concession or authorization is not required, generation, transmission and distribution activities may be performed without restriction, as long as: (i) the activities are conducted in compliance with applicable environmental preservation and cultural heritage rules and (ii) MEM is notified at the start of operations and informed about the technical characteristics of the installations and infrastructure.

Pursuant to Peruvian power sector regulations, MEM is responsible for granting both temporary and permanent concessions. Temporary concessions are granted to conduct feasibility studies for a two-year term, with the potential for a one-year extension.

Permanent concessions are granted by Ministerial Resolution and contemplate entering into a concession agreement with the Peruvian government. A concession is necessary in order to perform the following activities: (i) to generate power using hydraulic or renewable resources, when the installed capacity exceeds 500 kW; (ii) to transmit power, when facilities affect government property or require an easement to be granted by the government; and (iii) to distribute power as a public service, when demand exceeds 500 kW.

Permanent concession and authorizations are granted for an indefinite period of time. Concessions granted as result of an investment promotion process will have a term of up to 30 years.

A concession may be terminated with the consent of the parties, upon the maturity thereof or upon the occurrence of a default under the relevant concession. In the case of a termination event, MEM may appoint a new concessionaire, after completion of the auction procedure outlined in the relevant concession contracts, or may appoint a provisional administrator with respect to a concession or its related assets, who is thereby entitled to manage the concession.

Concession Supply Agreements under the RER legal framework

RER power generation is mainly governed by Legislative Decree 1002 and its associated regulations, approved by means of the Supreme Decree 012-2011-EM. Pursuant to said statutes, nonconventional RER generation is defined as power generated with biomass; wind; solar; geothermic; water (not exceeding 20 MW); and tidal resources.

In order to promote investment in non-conventional RER generation, titleholders of such RER power projects are entitled to the following benefits:

- Priority in the energy dispatch ordered by COES, for which it is considered that its variable operating cost equals zero;
- Access priority to transmission and distribution systems, up to the maximum annual rate set by MEM;
- Participate in RER tenders and, if awarded a CSA, a guaranteed annual income equal to their bid;
- Accelerated depreciation for income tax purposes (*Impuesto a la Renta*) of machinery, equipment and civil works, with an annual rate not exceeding 20% (pursuant to Legislative Decree 1058)

RER tenders are convened and conducted by OSINERGMIN every two years, approximately, if MEM considers same are required in order for RER power plants to represent 5% of the Peruvian power matrix. MEM also approves the tender documents and the share corresponding to each RER technology at the tender. Successful bidders are entitled to execute a CSA with the Peruvian government, for the construction, operation, and energy supply to SEIN, at a fix price. Under a CSA, a concessionaire assumes, among other things, to supply the awarded energy to the SEIN. A CSA concessionaire is entitled to the awarded tariff for the net injections of energy delivered to the SEIN (up to the awarded energy). Energy injections exceeding the awarded energy will be paid at the spot market price. Carhuaquero IV and Carhuaquero V are legally considered as RER generation plants. Currently, both plants have a CSA in force.

REGULATORY FRAMEWORK

Overview of Regulation of the Electricity Sector

In Peru, power is generated by companies that 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 Egenor and Aguaytía, 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 Peruvian government has remained, in actual fact, in the role of supervisor and regulator. In addition, the Peruvian government owns multiple power generation and Distribution Companies in Peru, although their market participation has diminished over time and they face significant legal restrictions to engage in new projects or investments.

Regulatory Entities

There are six entities in charge of regulation, operation and supervision of the electricity market in Peru in general, and of our operations in Peru, in particular:

MEM—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 Supervisory 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; (f) supervising public tenders with regard to PPAs between generation companies and Distribution Companies for the supply to Regulated Customers; (g) supervising operations of COES; and (h) ensuring compliance with electrical and infrastructure safety standards, as well as initiating sanctioning proceedings in the case of breach of laws and regulations related thereto.

Generation tariffs for the sale of energy by generation companies to Distribution Companies are generally determined based on tenders where OSINERGMIN sets a price cap 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. OSINERGMIN also determines the annual capacity prices used in agreements between generation companies and Distribution Companies, as well as on the spot market.

COES—the Committee for the Economic Operation of the System, an independent private entity subject to public law, composed of qualified participants undertaking activities in the SEIN (*i.e.*, electric power generators, transmission companies, distributors and major Unregulated Customers) responsible, among other things, 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.

In Peru, businesses are generally not required to receive prior authorization to conduct their activities from INDECOPI, except for the electricity sector. The Antitrust and Anti-oligopoly Law for the Electricity Sector and its Regulations or Law 26876, imposes a mandatory pre-notification and authorization procedure for vertical or horizontal concentrations that occur in projects of electricity generation, transmission or distribution.

Peruvian regulations define 'horizontal concentration' as transactions that involve companies that undertake one of the aforementioned activities and 'vertical concentration' as transactions that involve companies that undertake more than one of aforementioned activities.

Additionally, in order to promote economic efficiency and protect consumers, anti-competitive behavior is sanctioned by law. Practices prohibited according to national law include: (i) abuse of a dominant market position; (ii) concerted horizontal practices; and (iii) concerted vertical practices. Moreover, under the Unfair Competition Law it is illegal to act in a way that may hinder the competitive process. An unfair behavior is one that is objectively contrary to the entrepreneurial good faith, ethical behavior and efficiency in a market economy.

OEFA—OEFA is a specialized technical governmental agency, dependent on the Ministry of Environment, and responsible for enforcing, overseeing, controlling and imposing sanctions in respect of environmental matters. It has the authority to directly oversee certain industries, such as mining, energy (electric power, oil and gas), fishing and manufacturing (beer, paper, cement, tannery among others). On March 4, 2011, OEFA took on the responsibility of verifying the compliance with environmental regulations of companies operating in the hydrocarbon and energy industries.

SENACE—SENACE (as defined herein) was created by Law No. 29968, enacted on December 20, 2012. SENACE is a specialized technical governmental agency, dependent on the Ministry of Environment, and is in charge of reviewing and approving detailed environmental impact assessments related to projects involving activities, works or services that may have a significant impact on the environment. In this regard, pursuant to Ministerial Resolution No. 328-2015-MINAM dated November 25, 2015, the transfer of jurisdiction from MEM in favor of SENACE has been completed. Therefore, as of December 28, 2015, SENACE reviews and approves detailed EIAs (as defined herein) 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 to be approved by the General Directorate of Energy-Related Environmental Affairs ("DGAAE") of MEM or by the corresponding regional governments, as the case may be.

SUNAFIL—SUNAFIL is a public agency, which forms a part of the Ministry of Labor and Promotion of Employment and whose responsibilities include promoting, protecting and supervising compliance with occupational health and safety standards.

Generation Companies

Since 1992, the Peruvian market has been operating based upon a marginal generation cost system. Such system is embedded in the general electricity laws of Peru and is administrated by COES. In such capacity COES has as its main mandate to satisfy all the demand of 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 such purpose, 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 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 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. 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 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 determines, 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. Distribution Companies and Regulated Customers cannot purchase power off the grid at spot prices. Distribution Companies must enter into agreements that guarantee offtakes of Regulated Customers located in their concession areas. Regulated Customers must enter into agreements with Distribution Companies and Unregulated Customers may contract directly with Distribution Companies or power generation companies at freely negotiated prices.

Power generation companies are also paid capacity fees by SEIN, based on their firm capacity and other variables. Capacity transactions are subject to the Electricity Concessions Law. 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 are 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 on 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 Peruvian government issued Emergency Decree 049-2008, extended by Emergency Decree 079-2010, Law 30115 and Law 30513. Pursuant to this decree, COES is required to simulate energy spot prices without accounting for limitations due to shortage in supply and transportation of natural gas and for limitations on the transmission system. The latter scheme caps spot prices at a maximum amount of S/313.5 per MWh. 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 Customers and Unregulated Customers) and collected by Distribution Companies. As of the date of this offering memorandum, the aforementioned government decree will be in force until October 1, 2017. Emergency decrees are legislative statutes that are exceptionally issued by the executive branch of the Peruvian government which can only be issued in 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 regulated tariff approved by OSINERGMIN is applicable. 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 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 Government of Peru acting through MEM and embedded in an agreement between the generator and MEM, while an authorization is merely a unilateral permit granted by MEM. Authorizations and concessions are granted by MEM 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 Decree Law 25844 and related regulations. However, 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 MEM (in addition to easements agreed with the owner of the affected land lots) 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 MEM. Also, definitive concessions for generation with renewable energy sources, and authorizations for thermal generation, 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 as concessionaires.

Definitive concessions and authorizations may be terminated by relinquishment or breach upon the occurrence of certain termination events set forth in Decree Law 25844 and upon completion of a procedure regulated by the general electricity laws in Peru. Termination events include: (1) failure to provide evidence of registration of the concession agreement in the public registry within the term of twenty business days following such registration; (2) non-compliance with the schedule for completion of the project included in the concession agreement, unless otherwise authorized by MEM due to force majeure; (3) failure to operate for at least 876 hours during a calendar year, without justified cause; and (4) failure by the concessionaire, after being penalized, to operate the facilities in accordance with COES' operative regulations, unless otherwise authorized by MEM by justified reasons. The termination procedure for breach of the project schedule may be suspended by the concessionaire upon delivery of a new project schedule that is guaranteed with a performance bond, thereby providing a mechanism that in practice substantially reduces the risk of termination for such cause. According to Legislative Decree 1221, this guaranteed schedule will be approved only once.

Notwithstanding the foregoing, Decree Law 25844 provides that if the Peruvian government declares the termination of a definitive concession for reasons different from those mentioned above (*i.e.*, termination at will), the concessionaire shall be indemnified at the present value of the net cash flow of future funds generated by the concession's activities, using the discount rate set forth in article 79 of such law (12% on an annual basis). As of the date of this offering memorandum, we believe no concession has been terminated by the Peruvian government invoking its authority to terminate at will.

Termination of a definitive concession is declared by a ministerial resolution issued by MEM. In such case, MEM 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. MEM shall appoint a consultant to make a valuation of the concession and its assets, elaborate the corresponding bidding rules and organize a tender procedure. MEM 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 remaining 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 OSINERGMIN and MEM for MEM's final approval; prior to executing COES expansion plan, the Peruvian government prepares the transmission plan. Transmission companies that 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 (*Prolnversión*). The transmission company awarded the tender may build and operate the line over the term of its concession (usually 30 years, which is the maximum term established by Decree Law 25844) and would be eligible to receive tariff payments paid by all the final users in the SEIN, as specified in the tender document and incorporated into its concession contract. The development of any transmission activity requires a definitive concession if the installation of the transmission lines will be within Peruvian state properties or if an easement from MEM will be required.

The group of transmission lines created pursuant to such tenders after 2006 are known as "guaranteed transmission lines", included in the GTS. Transmission lines not included in plans such as the aforementioned, independently constructed by transmission companies after 2006, are known as "complementary transmission lines", included in the CTS; 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 "main transmission lines", include in the MTS. Transmission lines only used by specific generation or Distribution Companies and only available to these generation companies are categorized as STS.

On July 2, 2016, OSINERGMIN issued Resolution 164-2016-OS/CD, or the "Transmission Toll Resolution," which sets forth a new methodology, starting in May 2017 and ending in May 2021, for the calculation of the transmission tolls payable by generation companies to transmission companies for a generator's use of the STS and CTS systems within the grid. Pursuant to the current methodology, a generation company must pay a transmission toll for each of the STS or CTS systems utilized by it; the new methodology set forth in the Transmission Toll Resolution provides that each generation company must pay a transmission toll for each of the STS and CTS systems within the grid, regardless of whether such generation company uses any particular STS or CTS systems within the grid.

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 Unregulated 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, Enel Distribución, Edecañete, Electro Dunas and Coelvisac. These five companies distributed 66.2% of all energy distributed by Distribution Companies in Peru in 2015. The remainder of power is sold by state-owned entities.

Prior to July 2006, pricing in all contracts between generation companies and Distribution Companies with respect to sale of power to Regulated 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.

Currently, the amount of power purchased by Distribution Companies from generators at bus bar prices under older PPAs is less than 20%, based on information available from OSINERGMIN.

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 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 OSINERGMIN prior to bidding. If all the bids are higher than the price set by 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 OSINERGMIN for each process.

Regulated tariffs are annually set by OSINERGMIN through a public procedure conducted by the Tariff Regulation Office (*Gerencia de Regulación Tarifaria*) and are effective from the month of May of each year. During this process, OSINERGMIN will take into account a proposal delivered by COES.

The price components of the regulated tariffs are: (1) the regulated price of energy; (2) the capacity price; and, (3) 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% annually. The evaluation period includes a projection for the next 24 months and the 12 months preceding 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 during 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 during 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 during peak hours the unit values of the transmission toll and the connection toll referred to in Article 60 of Decree 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.

The development of electricity distribution activities requires a definitive concession if such activities are dedicated to public service and the demand exceeds 500 kW.

Overview of Peruvian Hydrocarbon Regulation

The MEM is the entity charged with defining governmental policies for the development of hydrocarbon activities in Peru, from the stage of exploration and production through processing, transportation, commercialization and export. In addition, the Congress of the Republic of Peru is authorized to legislate on issues directly or indirectly related to the natural gas sector. OSINERGMIN is the entity that supervises and imposes sanctions regarding the obligations related to the oil and gas industry. SUNAFIL is in charge of supervising all labor issues related to oil and gas operations, and OEFA is in charge of overseeing compliance with environmental standards and impact assessment studies as well as imposing sanction in case of non-compliance.

Exploration and Production of Natural Gas Fields

Peru's hydrocarbon legislation regarding oil and gas exploration and production activities includes, among others, the Hydrocarbon Organic Law and the regulations governing the qualification of petroleum companies, the exploration and production of hydrocarbons, the transportation of hydrocarbons and the safety requirements for such activities.

The foregoing regulations define the roles of Peruvian government agencies that regulate the oil and gas industry; provides the framework for the promotion and development of hydrocarbon activities based on the principles of private-sector competition and access to all economic activities; and set the safety and security standards as well as the legal proceedings for carrying out operations.

The Peruvian Constitution establishes that the government is the sole proprietor of underground hydrocarbons within its national territory. However, the Peruvian government has granted Perúpetro, a state-owned company authorized to negotiate and enter into agreements for the exploration and/or production of hydrocarbons, the ownership right over the hydrocarbons extracted which allows Perúpetro to enter into such agreements. Furthermore, MEM, OEFA, OSINERGMIN and SUNAFIL constitute public entities that play an active role in oil and gas regulation.

MEM is responsible for devising energy and mining policies. Within such entity, the General Directorate of Hydrocarbons is responsible for regulating the development of hydrocarbon activities and promoting investment in the oil and gas sector, and DGAAE is responsible for promoting the sustainable development of hydrocarbon activities and reviewing and approving regulations related to environmental risks associated with such activities.

OSINERGMIN is a public agency ascribed to the Presidency of the Council of Ministers and is responsible for ensuring compliance with process and infrastructure safety standards in the hydrocarbon industry, as well as for initiating sanctioning proceedings in case of breach of such regulations. Aguaytía is subject to the supervision, authority and regulations enacted by the foregoing agencies.

SUNAFIL, or the National Labor Inspection Superintendency (Superintendencia Nacional de Fiscalización Laboral), is a public agency, which forms a part of the Ministry of Labor and Promotion of Employment and whose responsibilities include promoting, protecting and supervising compliance with occupational health and safety standards.

OEFA is a public agency ascribed to the Peruvian Ministry of the Environment and is responsible for evaluating and ensuring compliance with applicable environmental rules covering hydrocarbon activities, as well as initiating sanctioning administrative proceedings in case of breach of such rules.

Regarding hydrocarbon exploration and production activities, companies are required to enter into either a licensing or a services agreement with Perúpetro; other contractual arrangements are permitted with prior approval from MEM. The foregoing agreements are governed by private law and must be approved by MEM and the Peruvian Ministry of Economy and Finance. In licensing agreements, licensees obtain authorizations to explore and produce hydrocarbons in a determined area, are granted ownership over the extracted hydrocarbons and are subject to the payment of royalties, in accordance with their production. Licensees may trade the hydrocarbons with no limitations on sales prices, except in the event of a national emergency.

Services agreements grant contractors the right to perform hydrocarbon exploration and production activities in a determined area and receive compensation according to the production of hydrocarbons. The contractor is technically and financially responsible for the operations, but Perúpetro maintains the ownership over the hydrocarbons extracted.

Both, licensing and services agreements are intended for the exploration and production of hydrocarbons. Such agreements commonly include a minimum performance schedule guaranteed by performance bonds and require corporate guarantees to be issued to secure the licensee's or contractor's compliance with the provisions established by Perúpetro.

Additionally, a company must be qualified by Perúpetro prior to entering into hydrocarbon exploration and production agreements. In order to qualify, a company must meet the standards under the Regulations of Qualification of Petroleum Companies, requiring companies to demonstrate that they have the technical, legal and financial capacity to comply with all the obligations they will assume under the agreement with Perúpetro. Such capacities are measured according to the characteristics of the area to be explored or produced, the expected investment required for the project, and the strict fulfillment of the rules regarding prior consultation, citizen participation and environmental issues related to the operation's performance. Upon a positive evaluation, the company is issued a qualification certificate that allows it to initiate the negotiations of the agreement; notwithstanding the company remains responsible for obtaining all other licenses, permits and approvals required by applicable regulation.

Under the current regulation, thirty (30) years is the maximum term of service agreements for the production of crude oil, and forty (40) years is the maximum term, for the production of non-associated natural gas and/or condensates.

All licensees or contractors must comply with the Regulation of Hydrocarbon Exploration and Exploitation Activities, approved by Supreme Decree N° 032-2004-EM, and the Safety Regulations for Hydrocarbons Activities, approved by Supreme Decree N° 043-2007-EM, for the development of their hydrocarbon exploration and production activities. OSINERGMIN, SUNAFIL and OEFA are in charge of the supervision and enforcement of such regulation.

Peru's Gas Requirements

Peru's current natural gas demand is focused on power generators, and industrial, vehicular and domestic users. Nevertheless, it is important to note that since the rules governing the natural gas industry were issued, demand for natural gas in Peru has increased beyond initial estimates. This unanticipated increase in the demand for natural gas has led to temporary congestion of the transportation infrastructure. As a result, through Supreme Decree No. 050-2012-EM, the government established the following priority order for the local use of natural gas, in emergency situations, applicable to natural gas producers, among other market players: (i) residential customers and regulated commercial customers, (ii) NGV suppliers that are part of Lima's segregated high capacity corridor integrated system (*sistema integrado de transporte del corredor segregado de alta capacidad de Lima*), (iii) other NGV suppliers, (iv) power generation companies, (v) regulated industrial customers with 30,000 or less cubic meters daily consumption, (vi) regulated industrial customers with more than 30,000 cubic meters daily consumption, (vii) natural gas compression and liquefaction stations, (viii) initial or independent customers with firm natural gas supply and transportation agreements, excluding those mentioned in (iv) above, and (ix) initial or independent customers with interruptible natural gas supply and transportation agreements, excluding those mentioned in (iv) above.

Natural Gas Regulatory Framework

The general regulations for hydrocarbon related activities in Peru are established by the Organic Hydrocarbons Law, approved by Supreme Decree No. 042-2005-EM, which states that the government promotes the development of hydrocarbon activities on the basis of free competition and access to these activities.

The Organic Hydrocarbons Law regulates hydrocarbon exploration and production activities, and designates MEM as the entity in charge of approving regulations applicable to transportation by pipelines, storage, refinement, processing, distribution and commercialization of hydrocarbons. This law also includes general regulations on the free trade of hydrocarbons, natural gas distribution, rights of use, easement and expropriation, environmental protection and labor regime, among others.

The Law to Promote the Development of the Natural Gas Industry Law N° 27133, was intended to establish specific conditions to promote the development of the natural gas industry, promote competition and encourage the diversification of energy sources to increase the reliability of the energy supply and the competitiveness of Peru's productive industries. This law also capped natural gas well-head prices, produced from blocks with proven reserves, and established a guaranty for main grid projects. The main grid is composed of a pipeline network for natural gas transportation and for the distribution of natural gas at high pressure. The guaranty is a mechanism that secures annual incomes that adequately reward the cost of service to investors, which is currently only valid for the natural gas transportation pipeline network.

The promotion and development of the natural gas industry was declared a national interest and a matter of public need by Article 3 of Law N° 27133.

The installation and operation of the natural gas pipelines used to supply natural gas to Central Térmica Aguaytía and the natural gas processing plant, are regulated by the abovementioned regulations, and the Regulation of Hydrocarbon Pipeline Transportation, approved by Supreme Decree N° 081-2007-EM.

Natural Gas Processing Plant Framework

The design, construction, operation and maintenance of Aguaytía's natural gas processing plant, for the separation of natural gas from NGLs, is regulated by the Investment Promotion Law of Natural Gas Processing Plan, approved by Law Nº 28176, and the associated regulations, approved by Supreme Decree N° 031-2004-EM. In order to install and commercialize a final product, the operator of a processing plant must be registered with the Hydrocarbon Registry, administered by OSINERGMIN, in addition to obtaining any other required authorizations.

The abovementioned regulations also establish the available economic benefits that could be granted to the investor, as owner and/or operator of a natural gas processing plant.

NGL Fractionation Plant Framework

The design, construction, operation and maintenance of refineries and hydrocarbon processing plants is regulated by the Regulation of Specifications for the Refining and Processing of Hydrocarbons, approved by Supreme Decree N° 051-93-EM. In order to install and commercialize a final product, the operator of a fractionation plant must be registered with the Hydrocarbon Registry, administered by OSINERGMIN, in addition to obtaining any other required authorizations.

Peruvian Energy Policy 2010-2040

The Energy Policy 2010-2040 was approved by Supreme Decree 064-2010-EM, pursuant to which 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;
- create a competitive energy supply. One of the main guidelines is to promote private investment in energy projects. The Peruvian government takes a subsidiary role in the economy as mandated by the Peruvian Constitution;
- establish a universal access to energy supply. Among other guidelines, the Peruvian government shall develop plans to ensure the supply of power and hydrocarbons;

- promote a more efficient supply chain and efficient energy use. Comprises promoting the automation of the energy market through technological repowering;
- achieve energy self-sufficiency. For such purpose, the Peruvian government will promote the use of energy resources located in the country;
- develop an energy sector with minimal environmental impact and low carbon in a sustainable development framework. Promote the use of renewable energy and eco-friendly technologies that avoid environmental damage and promote obtaining certified emission reductions by the energy projects developed;
- strengthen the institutional framework and transparency of the energy sector. Maintain 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;
- establish regional market integration for long-term development. Regional interconnection agreements will permit the development of infrastructure for energy uses; and
- develop the natural gas industry and its use in household activities, transportation, commerce and industry as well as efficient power generation.

Environmental Matters

The development of economic activities in the Peruvian territory, such as those related to the power industry, is subject to a broad range of general environmental laws and regulations, such as: (i) the General Environmental Law, enacted by Law N° 28611; (ii) the Organic Law for the Sustainable Exploitation of Natural Resources, enacted by Law N° 26821; (iii) the Law on the National System of Environmental Impact Assessment, enacted by Law N° 27446 and its associated regulations, approved by Supreme Decree N° 019-2009-MINAM; (iv) the Environmental Quality Standards for Water, approved by Supreme Decree N° 002-2008-MINAM and amended by Supreme Decree N° 015-2015-MINAM; (v) the Environmental Quality Standards for Air, approved by Supreme Decree N° 003-2008-MINAM; (vi) the Environmental Quality Standards for Soil, approved by Supreme Decree N° 002-2013-MINAM; (vii) the Environmental Quality Standards for Noise, approved by Supreme Decree N° 085-2003-PCM; and (viii) the General Law on Solid Waste, enacted by Law N° 27314 and its associated regulations approved by Supreme Decree N° 057-2004-PCM, among others. Additionally, the environmental aspects of the electric power industry are specifically governed by the Regulations of the Environmental Protection for Electric Activities ("REPEA") approved by Supreme Decree N° 029-94-EM.

The abovementioned 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, which shall be considered for the preparation, assessment and approval of the corresponding environmental management instrument.

The Ministry of Environment and other administrative entities, such as DGAAE, have the authority to enact implementing regulations related to environmental matters.

Companies that carry out activities in the electricity sector (whether generation, transmission or distribution) are obliged to perform their activities in a manner that ensures the protection of the environment by controlling and mitigating the environmental impact of their activities. Consequently, and according to applicable laws and regulations, the execution of electric activities requires the prior approval of an environmental management instrument (*i.e.*, Environmental Impact Study ("EIA"), semi-detailed Environmental Impact Study (“EIAsd”) or Environmental Impact Declaration (“DIA”), as the case may be). The applicable environmental management instrument depends on the level of impact that the specific activity may have on the environment, as explained below:

Category	Level of impact	Applicable Management Instrument
I	Non-significant negative environmental impacts	DIA
II	Moderate negative environmental impacts	EIAsd
III	Significant negative environmental impacts	EIA

Before undertaking any kind of activity in the electricity sector, the applicable environmental management instrument must be submitted to the DGAAE of MEM or the National Service for Environmental Certification of Sustainable Investments (*Servicio Nacional de Certificación Ambiental para las Inversiones Sostenibles* or “SENACE”) for its approval, as the case may be.

SENACE was created by means of Law No. 29968 enacted on December 20, 2012. SENACE is a specialized technical governmental agency, dependent of the Ministry of Environment, in charge of reviewing and approving EIAs related to projects involving activities, works or services that may cause significant impacts to the environment. Pursuant to Ministerial Resolution No. 328-2015-MINAM dated November 25, 2015, the transfer of jurisdiction from MEM in favor of SENACE has been completed. Therefore, as of December 28, 2015, SENACE reviews and approves detailed EIAs submitted by titleholders of electricity sector activities. However, other environmental management instruments that are not detailed EIAs (*i.e.*, DIAs and EIAsds) will continue to be approved by the DGAAE of MEM.

Pursuant to the REPEA, an applicant for definitive concessions or authorizations for carrying out generation activities must prepare and submit an environmental management instrument to DGAAE or SENACE, as applicable, for its corresponding approval, prior to the commencement of construction activities. An environmental management instrument includes a description of the activities to be performed in an electric power project, detailing (i) information about its location, including main and ancillary components; and (ii) the environmental baseline study (*i.e.* geographic, social, cultural and economic aspects within the areas of influence of the project), among other items. Additionally, it identifies and classifies the potential or existing environmental impacts throughout the lifespan of the project and proposes mitigating actions for avoiding, reducing, and/or compensating for those impacts. The corresponding environmental management instrument—in more or less detail, as the case may be—includes an environmental management plan detailing the measures to be implemented to comply with environmental quality standards and other obligations, a contingency plan, a compensation plan, a community participation plan and a closure plan. The titleholder must strictly comply with its environmental commitments included in the corresponding environmental management instrument (whether DIA, EIAsd or EIA) throughout the life-cycle of the project. Once the corresponding environmental management instrument is approved, the titleholder is allowed to initiate its project.

Based on the particular characteristics of each project and the activities to be undertaken, the REPEA includes additional obligations and permits.

The most relevant permits necessary for the performance of activities in the electricity sector, depending on the particular type of activity, include the following:

- certificate of non-existence of archaeological remains (*Certificado de Inexistencia de Restos Arqueológicos*) granted on request by the Ministry of Culture;
- archeological Monitoring Plan (*Plan de Monitoreo Arqueológico*), approved by the Ministry of Culture;

- rights for water use, including licenses, permits or authorizations, granted on request by the ANA;
- registry as a direct consumer of liquid fuels, which is an authorization for the operation of hydrocarbon storage tanks, before OSINERGMIN;
- registry in the Registry for Regulated Assets (*Registro para el Control de Bienes Fiscalizados*) before SUNAT for the acquisition, use and warehousing of regulated assets;
- authorization for the discharge and/or re-use of wastewaters, granted on request by the ANA;
- authorization for forest clearing activities, granted on request by the National Forest and Forest Wildlife Service (*Servicio Nacional Forestal y de Fauna Silvestre*) of Peru; and
- authorization for the use of explosives, granted on request by the National Superintendency of Control of Security Services, Arms, Ammunition and Explosives for Civil Use (*Superintendencia Nacional de Control de Servicios de Seguridad, Armas, Municiones y Explosivos de Uso Civil*).

OEFA is the competent authority in charge of regulating, supervising and imposing sanctions on companies in the electric industry with respect to their non-compliance with the applicable environmental legislation. In addition, there are other competent governmental agencies or authorities on specific environmental matters such as water, forestry resources, and aquatic environment that regulate and supervise environmental compliance and liability.

Pursuant to Law 30230 published on July 12, 2014, OEFA 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. 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 the fact that the three-year period will expire July 2017, by means of Resolution 005-2017-OEFA/CD, dated February 3, 2017, OEFA issued the new Regulations for Direct Supervision, which establish that the role of direct supervision aims to prevent environmental damage and promote voluntary correction of alleged breaches of environmental obligations. Thus, such regulations promote the implementation of corrective measures and the correction of infringements in order to avoid initiating unnecessary administrative sanctioning proceedings.

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 do not apply to: (i) severe infringements that cause real and/or severe damage to an individual's health or life; (ii) activities carried out in prohibited areas or without the appropriate environmental management instrument or the authorization to start operations; and (iii) titleholders considered reoffenders.

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 damage. Therefore, any third party, under the principles of tort liability, could file a civil claim against the titleholder of a project for causing environmental damage due to the use or exploitation of an asset or activity that implies a risk or danger.

In addition, the Peruvian Criminal Code contains a section that typifies different kinds of environmental crimes and their corresponding sanctions (*i.e.*, environmental contamination). They generally require a severe breach of applicable laws and regulations and the production of damages that harm the environment.

The sanctions for committing environmental crimes vary from two to twelve years of imprisonment, depending on the specific crime, and may include the imposition of community service hours and fines. Criminal liability shall apply to the individuals within the company's business structure (including managers) who had decision-making power over environmental matters at the time in which the infringement was committed. That is, the decision-making officers of the companies that carry out activities in the electricity sector are the ones exposed to criminal investigation, prosecution and, eventually, liability if there is a gross infraction that is typified as a crime.

Labor Regulations

Peruvian legislation establishes indefinite term contracts by default. It permits the hiring of employees through fixed-term contracts only in cases that are established by law, but part-time employment contracts may be used freely.

The minimum wage in Perú is S/850 per month.

There is a maximum 8-hour work day, or 48-hour work week. In the case of overtime, employers must pay at least an additional 25% over the employee's regular hourly wage for the first two hours of overtime worked, and an additional 35% over the employee's regular hourly wage for any additional hours worked.

Employees are entitled to a minimum rest of 24 consecutive hours per week, and thirty days of annual paid vacation per year.

As a general rule, fulltime employees are entitled to receive: (i) an additional 10% of the minimum wage, provided that they have minor or student children; (ii) two additional monthly salary payments per year, one in July and one in December; (iii) life insurance, provided they have been employed for at least four years; (iv) compensation for length of service that is deposited in a bank until the employee leaves the company, amounting each biannual deposit made in May and November to roughly one-half of a month's remuneration; (v) health insurance coverage from the social security health insurance program, EsSalud (*Seguro Social de Salud del Perú*), to which employers contribute an amount equivalent to 9% of an employee's salary; and (vi) a share in the company's profits, provided the company has twenty or more employees, that varies from 5% to 10% of taxable profits and is distributed among them in accordance with the number of days worked during the year, and their salary.

There are strong protections against dismissal for fulltime employees. Employees may only be dismissed for causes established by the law as *numerous clauses*; otherwise they may be reinstated or collect an indemnification, as they so choose.

Special labor regimes exist for agriculture, civil construction, foreign employees and micro and small business employees, among other groups.

BUSINESS

Overview

Our business is composed of a diversified portfolio of hydro and thermal power generation, electricity transmission and natural gas production and processing assets. We believe we are the only vertically integrated power company that owns and operates natural gas extraction and electricity transmission assets in Peru. We are primarily focused on the Peruvian energy market where we believe there are attractive growth opportunities. For the year ended December 31, 2016, substantially all of our sales were derived from our business operations in Peru, and substantially all of our operating assets were located there.

We conduct our operations through two primary business units: Egenor, which is comprised of hydro power generation and electricity transmission assets, and Aguaytía, which is an integrated gas-to-power complex comprised of natural gas production and processing, thermal power generation and electricity transmission. Our hydro and thermal power generation assets are owned, respectively, by two entities, Egenor, and Aguaytía's consolidated subsidiary, Termoselva. As of December 31, 2016, Egenor and Termoselva together represented the fifth largest privately held power generation business in Peru in terms of total effective capacity. For the year ended December 31, 2016, our hydro and thermal power generation business accounted for 89.9% of our combined sales. Under our Egenor business, we generate hydro power through two power plants, Cañón del Pato and Carhuaquero I-III, IV and V, while under our Aguaytía business we generate thermal power through one gas-fired, open-cycle power plant, Central Térmica Aguaytía. Together, we own and operate power generation assets with a combined effective capacity of 552.1 MW. Cañón del Pato is one of the largest hydroelectric plants in Peru by installed capacity and has been in operation since 1958, providing a long history of operational performance and hydrological stability. Completed in 1991, 2008 and 2009, respectively, Carhuaquero I-III, IV and V account for an effective capacity of 110.2 MW. At both hydro facilities, our diverse water supply allows us to mitigate the effects of seasonality on our hydroelectric power generation business. In particular, due to Cañón del Pato's access to water supply from glaciers, lagoons and rainfall, we can rely on a more diverse water supply than our competitors in the same region. As it relates to our thermal generation operations, Central Térmica Aguaytía is the only thermal power plant in Peru with its own natural gas supply, which we believe offers substantial operating and commercial advantages. From a commercial standpoint, both Egenor and Termoselva are supported by long term power purchase agreements with credit-worthy counterparties that are either denominated in U.S. Dollars or linked to U.S. Dollars. For the year ended December 31, 2016, 92.4% of our combined power and electricity sales derived from capacity payments and sales of electricity under our PPAs, with the remaining 7.6% of combined power and electricity sales generated by sales to the spot market and other revenues. We believe our highly-contracted revenue structure, coupled with a long-history of operational performance and stable hydrology, should provide substantial stability to our future cash flows.

We conduct our electricity transmission activities through Egenor's consolidated subsidiary, Etenorte, and Aguaytía's consolidated subsidiary, Eteselva. Our electricity transmission activities support our hydro and thermal power generation business, as well as provide services to third parties, and, for the year ended December 31, 2016, accounted for 2.0% of our combined sales. Our power transmission infrastructure consists of 740 km of transmission lines and two substations owned and operated by us, which have the capacity to transmit in 220 kV and 138 kV, and an operating transformation capacity of 193 MVA (with a reserve of 0 MVA). Etenorte and Eteselva transmit electricity to the SEIN, the primary transmission network in Peru. Our electricity transmission activities are compensated based on regulated tariff rates allocated to us based on the electricity transmission capacity made available to the SEIN, independent of the power actually transmitted through our electricity transmission assets. This feature of our power transmission activities provides us with stable cash flows, as we receive availability revenues even when our own power generation assets are not dispatched.

Additionally, through Aguaytía, we conduct our natural gas production and processing activities. For the year ended, December 31, 2016, our sales of NGLs accounted for 8.1% of our combined sales. Our activities consist of the extraction and production of natural gas to support our power generation business and the sale of the associated NGLs to the Peruvian market. We extract natural gas and NGLs from Block 31-C under the License Agreement, whereby Aguaytía has the right to request an extension of the license under the License Agreement for up to an additional 10-year period. Located in the Amazon basin of Peru, the Cushabatay formation holds natural gas reserves that are extracted from a depth of approximately 9,000 feet. As of December 31, 2016, estimated remaining proven natural gas reserves owned by Aguaytía in the Cushabatay formation total 151.8 Bcf. These natural gas and NGL reserves, with a conservative remaining reserve life estimate of approximately 17 years, provide us with a low-cost source of gas and assure a steady supply of gas for our thermal generation plant. The remaining reserve life estimate is based on calculations performed by an independent oil and gas consulting firm, based on our projections of production levels in different scenarios.

Aguaytía is a fully integrated gas-to-power complex, with the capability to produce, process and market natural gas and NGLs. Upon extraction, the wet natural gas is delivered to a 55.75 mmscfd processing facility to separate the dry natural gas from the associated NGLs. The dry natural gas is then sent to Central Térmica Aguaytía when the plant is dispatched by the system operator, or reinjected into the reservoir to the extent it is not. The NGLs, on the other hand, are sent to Aguaytía's fractionation facility, where they are separated into a mix of gasses, mainly butane and propane, which are then converted into LPG and natural gasoline. The production volume of these commodities is not dependent on the dispatch of Central Térmica Aguaytía. We sell LPG to LPG bottlers and gas stations in the Peruvian market at international prices, and we currently deliver all of our natural gasoline to a refinery operated by Maple Gas. LPG is primarily used by the end users for heating, cooking and motor-vehicle fuel. Natural gasoline is refined by Maple Gas and converted into gasoline and other derivatives at Maple Gas' refinery located in Pucallpa, which is then sold by Maple Gas to fuel distribution companies. We are currently building our own natural gasoline storage and loading plant that we expect would allow us to store and sell the natural gasoline that we currently deliver to Maple Gas to third parties that would then process, refine and remarket that natural gasoline in the Peruvian market. We believe that the new loading and storage facility will allow us to diversify our revenues from sales of natural gasoline to third parties. As of the date of this offering memorandum, we are engaged in discussions with Petroperú geared towards commencing sales of natural gasoline to them upon completion of the facility. In the context of such discussions, Petroperú has delivered a Letter of Intent to purchase our natural gasoline, which we are currently reviewing. For additional information about our relationship with Maple Gas, our current dispute with Maple Gas and our planned storage and loading plant project, see "—Hydrocarbon Extraction and Fractionation Activities—Our Gas Supply Contracts."

Background and History

Egenor S.A. was incorporated as a limited liability company in December 1996 as a result of the merger between Nor Peru S.A. and Power North S.A. In March 1999, Egenor became an open stock corporation. In October 1999, Duke Energy International Perú Holdings No. 2, LLC, a subsidiary of Duke Capital Corporation, became the controlling shareholder of Egenor, and in July 2000, the company changed its name to Duke Energy International Egenor S.A.A. In June 2003, Egenor became a limited by shares partnership (*sociedad en comandita por acciones*), and changed its name to Duke Energy Egenor S. en C. por A.

In October 2006, Egenor approved by a shareholders' vote the reorganization of the company, in which Egenor transferred the assets and liabilities related to its transmission activity to its subsidiary

Etenorte. In May 2010, Egenor approved by a shareholders' vote the expansion of the scope of its activities to other activities related to the energy sector.

In January 1996, the Aguaytía Energy Consortium of Peru was formed in order to finance, build and operate the Integrated Energy Project of Aguaytía, and to commercially exploit the gas deposits. Operations began on July 20, 1998. A consortium made up of DEI, Illinova Generating, PPL Global LLC, El Paso Energy, Maple Gas and Scudder (now Conduit Capital Partners LLC) developed, constructed, financed and operated Aguaytía. Through a series of transactions from 2001 to 2009, Duke Energy purchased all of the ownership interests held by its consortium partners.

On October 10, 2016, Duke Energy announced that it had reached an agreement to sell its operating businesses in Peru and other Latin American countries to I Squared. The Acquisition was consummated on December 20, 2016. Our Peruvian Holding Company, which is owned by ISQ Global Infrastructure Fund, an investment fund managed by I Squared. Concurrently with the consummation of the Acquisition, IFC, a member of the World Bank Group and IFC Global Infrastructure Fund, LP, an IFC affiliate, made a material investment in our indirect parent, Orazul Energy Partners LLC, pursuant to which IFC and its affiliate became our indirect minority shareholders. On January 23, 2017, Egenor changed its name to Orazul Energy Egenor S. en C. por A.

Business Strengths

Significant market position in an attractive energy market. We maintain an important market position in Peru. As of December 31, 2016, we had an effective capacity of 552.1 MW, representing 4.6% of Peru's effective capacity. During the year ended December 31, 2016, we generated 5.0% of the gross energy (in GWh) in Peru and our Cañón del Pato facility is one of the largest hydroelectric power plants in Peru, with approximately 7.0% of market share in terms of energy dispatched by hydroelectric power plants.

Peru is one of the fastest growing economies in Latin America, with an average gross domestic product, or "GDP," growth of approximately 5.7% per year from 2006 through 2016, according to the Peruvian Central Reserve Bank (*Banco Central de Reserva del Perú*). Peru also enjoys low inflation levels, a stable regulatory framework and a well-run energy market. Electricity consumption per capita was 1,359 kWh for the year ended December 31, 2015, well below the global average, thereby providing ample growth prospects. 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 the country's manufacturing industry. The government is stable and market-friendly and actively seeking to improve and develop infrastructure to support and stimulate economic growth. 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.

Diversified and long-term competitive energy asset base. We own and operate significant hydro and thermal generation, electricity transmission and gas production and processing assets in Peru. In total, we own one of the largest privately-owned generation portfolios in Peru, which contributes 4.6% of the country's total effective capacity and 5.0% of the total generation of Peru. We own two of the largest hydroelectric plants in Peru, Cañón del Pato & Carhuaquero I-V, both of which have perpetual concessions to operate, and the only thermal power plant in Peru with access to a gas supply, contractually guaranteed through at least 2024, which is supplied by Aguaytía.

With respect to our hydroelectric power generation business, we aim to maintain PPA contracting levels at Egenor that maximize our margins while minimizing the risk of over-committing capacity or energy. The optimal PPA contracting level for our hydroelectric power generation plants varies depending on prevailing spot market prices. When spot market prices are low, as is the case as of the date of this offering memorandum, we aim to increase our PPA contracting level because we can maximize our sales under our PPAs to improve our margins during the rainy season and our costs associated with purchasing energy on the spot market during the dry season are minimized. When spot market prices are high, we aim to maintain PPA contracting levels at lower levels in order to minimize our costs associated with purchasing energy on the spot market during the dry season. We have determined that under current market conditions, Egenor's optimal contracting level is 1,570 GWh per year, as compared to our firm energy legal limit of 1,952.7 GWh per year.

The natural gas required to fuel our thermal power plant Central Térmica Aguaytía, is supplied by our own gas production and processing facilities. This vertical integration provides significant commercial advantages and allows us to maintain more control over the operating margins of our businesses. For example, unlike other thermal generators in Peru, we are not subject to a take-or-pay gas supply contract. As such, when electricity spot prices are lower than the prices agreed upon under our PPAs, we are able to make strategic purchases of energy in the spot market to fulfill our PPAs, at margins higher than what we could otherwise earn by generating the electricity ourselves. We understand that our competitors who purchase their gas mainly from the Camisea consortium have take-or-pay contracts, under which they are required to pay for gas even when they are not dispatched. As such, they are strongly incentivized to generate, even when it would not be economically efficient to do so, as they would otherwise need to make spot market purchases to meet their PPA obligations on top of the sunk cost of gas. The absence of a take-or-pay contract also allows us the flexibility to declare a price to the system operator, COES, that allows us to optimize our priority in the dispatch order and maintain our profitability, without incurring any costs that would not be recovered if our thermal plant was dispatched.

In addition, our balanced portfolio of hydro and thermal assets, along with our diverse water supply, allows us to mitigate the effects of seasonality on our hydroelectric power generation business. During the dry season of May to October, our hydroelectric plants, along with the all other hydro facilities in Peru, are unable to operate at full capacity. When hydroelectric production in the country is low, thermal generators such as Central Térmica Aguaytía are typically dispatched at higher levels than during the rainy season, helping to us to mitigate the effects of seasonality. Additionally, due to Cañón del Pato's access to water supply from glaciers, lagoons and rainfall, we can rely on a more diverse water supply than our competitors in the same region.

Our power generation businesses are also supported by our electricity transmission activities, which we conduct through our subsidiaries Eteselva and Etenorte. Our electricity transmission activities are compensated based on regulated tariff rates, allocated to us based on the electricity transmission capacity made available to the SEIN, independent of the amount of electricity actually transmitted. This feature of our electricity transmission activities provides us with stable cash flows, as we receive availability revenues even when our own power generation assets are not dispatched. Such assets contribute to our balanced portfolio, as revenues are earned independent of changes in the supply and demand of electricity.

Highly contracted energy portfolio leads to stable margins, cash flow generation. We hold a highly-contracted energy portfolio through long-term PPAs that generally limits our exposure to fluctuations in Peruvian energy spot market rates, generates stable and predictable margins and helps create stability and predictability in our cash flows. Distribution Companies must contract three years in advance of demand, which provides us with consistent demand for our PPAs. We contract with highly creditworthy counterparties, which mitigates the risk of customer default. Some of our major customers in Peru include Distriluz S.A., Luz del Sur S.A.A., a subsidiary of Sempra Energy, Enel Distribución Peru S.A.A., Minera Barrick Misquichilca S.A., a subsidiary of Barrick Gold Corporation, and Agricola del Chira S.A., among others. We have entered into contracts representing 73.0% of our optimal contracting level through 2023. For the year ended December 31, 2016, we made 79.6% of our aggregate energy sales (in GWh) pursuant to PPAs. As of December 31, 2016, the weighted average remaining life of our PPAs was approximately 5.3 years. We have historically renewed, and aim to continue renewing our long-term PPAs before they approach their expiration date and/or to enter into new long-term contracts. We maintain a consistent record of re-contracting with current clients. We place a strong focus on optimizing our contracted profile to mitigate cash flow volatility and maintain high profit margins.

Experienced management teams and shareholders. Our management team has an average of approximately 17 years of experience in the Peruvian electricity generation, hydrocarbons and electricity transmission sector. Key members of management have previously held senior positions at Duke Energy Peru, Shell, Statkraft, Aguaytía Energy Group and OSINERGMIN. Our management team brings extensive energy industry experience, specifically in the areas of hydro and thermal power generation, transmission, and gas production and processing in Peru, in-depth market knowledge and a constructive relationship with government regulators. We actively cooperate with the governmental agencies that regulate our business to manage potential regulatory issues and address the challenges associated with the Peruvian energy sector. We believe that this overall level of experience, expertise and engagement within the sector allows our management team to lead us in the effective operation of our business. In addition, each of our division heads has over 20 years of experience and continues to implement the high quality standards that we continue to observe, put in place by our previous owner, Duke Energy.

In addition to our management team, our shareholders also bring valuable experience in the industry and the region to our business. With over 5,500 MW of power generation assets under management, I Squared has extensive experience and expertise in developing and operating energy and utility businesses across the globe, providing us with managerial expertise and technical support to help us further develop our business and enhance our operating and financial performance. Our business is further supported by IFC, the largest global development institution focused exclusively on the private sector in developing countries and one of our shareholders. IFC is a global leader in the definition and implementation of world-class environmental, health and safety standards and also provides unique insights into market, regulatory and political developments across Latin America.

Operational excellence, world-class safety and culture of social responsibility. We strive to achieve operational excellence by delivering high-quality products in a safe and environmentally responsible manner. We have operated at weighted average availability rates of 94.3% in 2016, 94.0% in 2015 and 91.4% in 2014. Our operating performance is driven by our experienced, well-trained staff, adequate capital expenditures and consistent maintenance.

We have maintained the world-class safety culture set in place by our previous owner Duke Energy, a world-leading energy company and we also maintain a strong commitment to social responsibility, having started several successful sustainability projects that focused on health, education and business development. For example during 2015, our health initiatives benefitted 12,620 people, education projects benefitted 23,529 people and business development projects benefitted 32,941 people. Our focus on operational excellence, safety and the culture of social responsibility that we have built help earn us consist high marks as one of the best companies to work for in Peru by the Great Places to Work Institute Survey, earning satisfaction scores of 85% in 2013, 89% in 2014 and 88% in 2015.

Business Strategy

We seek to improve our financial performance and cash flow generation, and create value for our shareholders, by focusing on leveraging our operating and strategic strengths. Key elements of our strategy are to:

Maintain our position as a significant player in the Peruvian energy sector through growth initiatives and a focus on renewable energy. We endeavor to evaluate expansion and acquisition opportunities to optimize our operations. We aim to grow our renewable energy business, which will enable us to contribute further to the sustainable development of the communities that surround our current and future assets. IFC, a member of the World Bank Group, and IFC Global Infrastructure Fund, LP, a private equity investment fund managed by the IFC Asset Management Company, LLC, made a material investment in our business to support a transition to lower carbon and cleaner energy sources in the region. In addition, we have identified opportunities to enhance our hydrology systems at Cañón del Pato, using cash on hand, whereby we would be able to further diversify our water sources by capturing and storing water from nearby lagoons. Finally, in connection with our hydrocarbon activities, we are currently building a new storage and loading plant for natural gasoline at our Aguaytía complex, which will allow us to sell the natural gasoline we produce directly to producers and other refineries. We expect that the addition of this natural gasoline storage and loading plant will allow us diversify our revenue streams, eliminate our dependence on Maple Gas for revenues associated with our natural gasoline sales and reduce our counterparty risk. We expect this expansion project to be completed and fully operational in July 2017.

Continue to optimize our commercial policies focusing on stable margins and high level of contracted capacity with creditworthy counterparties. For the year ended December 31, 2016, we made 79.6% of our aggregate energy sales (in GWh) pursuant to PPAs. Additionally, 94.7% of our clients have contract prices indexed to the to the U.S. Dollar/*Sol* exchange rate, providing us with U.S. Dollar-linked revenues commensurate with our future U.S. Dollar-denominated liabilities. While our PPAs as of December 31, 2016 had a weighted average remaining life of 5.3 years, we will seek to enter into new, long-term PPAs with Regulated Customers or Unregulated Customers in advance of their expected expiration in order to maintain a highly-contracted profile and reduce exposure to spot price volatility. As we have in the past, we will seek to contract with high-credit quality counterparties, with a particular focus on subsidiaries of large multinational corporations, such as, Luz del Sur S.A.A., a subsidiary of Sempra Energy, Enel Distribución Peru S.A.A. and Minera Barrick Misquichilca S.A., a subsidiary of Barrick Gold Corporation.

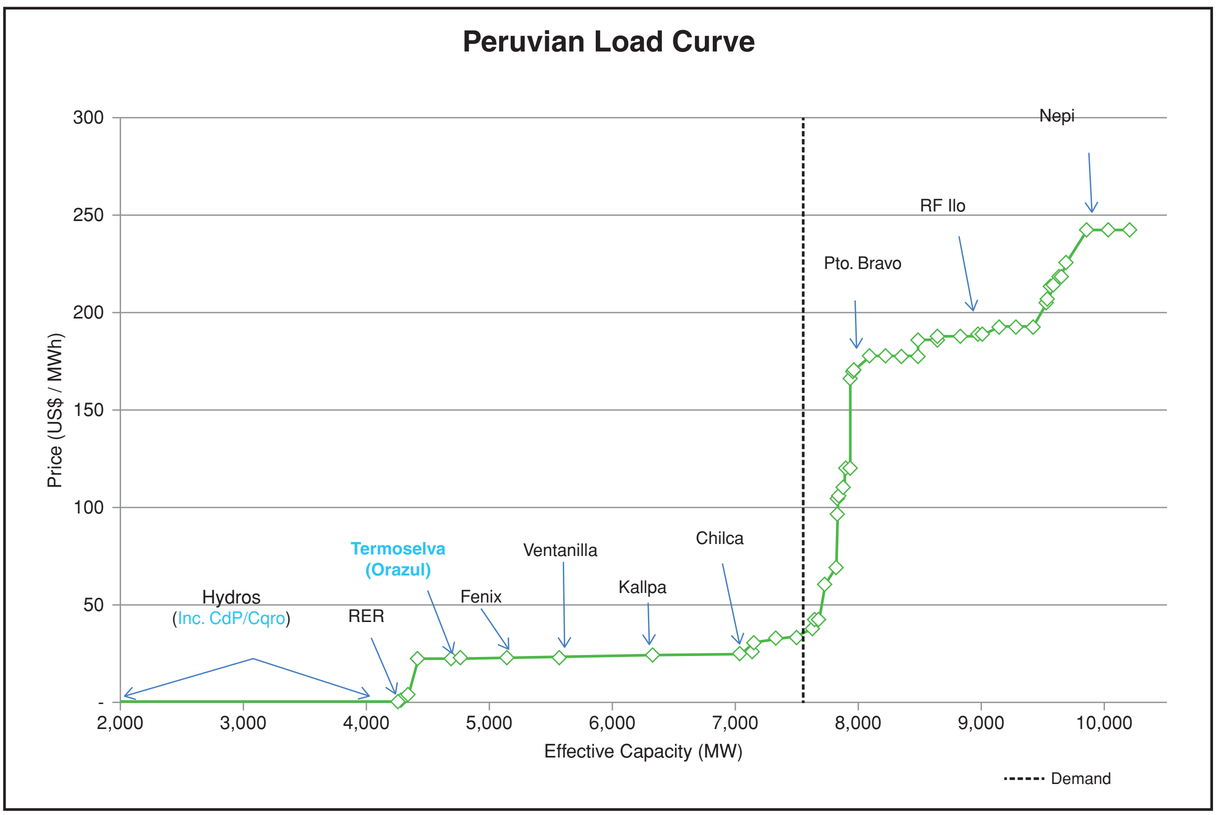
Focus on current and long-term availability, reliability and asset integrity, while operating our facilities safely and efficiently. We strive to provide world-class quality service while operating our facilities safely and efficiently. Our business adheres to global benchmarks for safety, environmental 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. In the more than 2,000,000 hours our employees have worked in the past three years, there has not been a single lost-time incident. We will also continue to focus on ensuring long-term availability, reliability and asset integrity with preventive maintenance activities supported by a number of predictive techniques. We expect that our significant capital expenditures of U.S.$6,266 thousand, U.S.$7,925 thousand and U.S.$6,294 thousand, respectively, on our power generation plants and our transmission assets in 2014, 2015 and 2016, which included infrastructure improvement projects such as tunnel repair, bridge construction, generator overhaul, and protection and control system modernization, will result in decreased overall maintenance and operational costs. We expect to make additional significant capital expenditures in 2017 of an estimated U.S.$21.1 million related to the construction of a new storage and loading plant at Aguaytía, improvements to our fire protection infrastructure and engaging in several additional maintenance initiatives at both Egenor and Aguaytía. We use cost-benefit analysis to determine and fine-tune the best maintenance strategy for all of our equipment in an effort to maintain stable and reliable operations. Several levels of managers, supervisors and technicians continuously train and evaluate our employees to execute our maintenance strategy. 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 important stakeholders in our business and seek to be good corporate citizens. We have taken action on our corporate social responsibilities with 240 external stakeholders at the local level through several health, education and economic development initiatives. We invest over U.S.$500,000 a year in social projects. We leverage this investment to engage the local community and government to create a value that exceeds our initial contribution by approximately 50%, as measured by the additional value contributed by our beneficiaries and strategic partners. 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.

Our Hydro and Thermal Electricity Generation Business

We have an aggregate effective capacity of 552.1 MW divided between four hydroelectric power plants, Cañón del Pato, Carhuaquero, Carhuaquero IV and Carhuaquero V, each with a non-expiring permit to operate and one thermal power plant, Central Térmica Aguaytía, all of which are located in Peru. We have effective capacity of 265.6 MW in our Cañón del Pato power plant, an aggregate effective capacity of 110.2 MW at our Carhuaquero power plant, and an effective capacity of 176.3 MW at our Central Térmica Aguaytía power plant.

The recent reduction in royalty payments makes Termoselva (Central Térmica Aguaytía) one of the most competitive thermal generators in the country, as the royalty value is lower than the Camisea gas price. The following graphic shows the Peruvian load curve demonstrating when our hydroelectric power plants and thermal power plant are dispatched, respectively:



The table below shows the effective capacity of our five power plants as of December 31, 2016:

	COD	Effective Capacity (MW)	Gross Energy Generated (GWh)
Turbine			
Cañón del Pato	1999	265.6	1,545
Carhuaquero	1991	94.5	411
Carhuaquero IV	2008	10.0	72
Carhuaquero V	2009	5.7	26
Hydroelectric Total		**375.8**	**2,054**
Central Térmica Aguaytía (Gas Powered)	1998	176.3	368
Total		**552.1**	**2,422**

For the year ended December 31, 2016, revenues attributable to our electricity generation business accounted for 89.9% of our combined sales revenues.

Hydroelectric power plants

Cañón del Pato

Our Cañón del Pato power plant, located in Huallanca in the Huaylas Province of Peru, is one of the largest hydro power plants in Peru that generates electricity consistently throughout the year on account of snowmelt in the spring and summer and rainfall in the winter. Cañón del Pato was commissioned in 1958 and sits 1,400 m above sea level. The power plant takes advantage of a 398 m net head to generate its electricity. Our operations include four natural snow-melt and rain fed lakes accounting for a total useful volume of 78.6 cubic hectometers, and one reservoir of 728,000 cubic meters. The water flows from the Santa River through the lakes and the reservoir in the following order: Aguashcocha Lake, Rajucolta Lake, Parón Lake, San Diego Reservoir and the Cullicocha Lake. The power plant has six generation units with two turbines each and a total design flow of 72 cubic meters per second. The energy generated is transported via three lines of 138 kV to the Chimbote I substation, located in the Chimbote district of Peru. Our principal maintenance projects at Cañón del Pato in the last three years included the mechanical cleaning of a tunnel that eliminated the need for annual cleaning and will keep the tunnel clean through 2024. Additionally, over the past three years we have overhauled our five generators and repowered our transmission lines.

In 2015, we reached our highest historical production rate of 1,580 GWh and our highest historical effective capacity of 265.7MW. The table below sets forth certain information for our Cañón del Pato power plant for the periods presented:

	For the years ended December 31,		
	2016	2015	2014
Effective Capacity (MW)	265.6	263.5	263.5
Energy Generated (GWh)	1,545	1,580	1,430
Availability Factor (%)	90.2	91.0	91.5

Carhuaquero

Carhuaquero, located in the Cajamarca Province of Peru, is a run-of-river hydro power complex composed of three power plants, five hydroelectric units, and a dam. The plants utilize the water flows from the Chancay River located in Cajamarca approximately 375 meters above sea level to generate electricity. The three power plants that comprise the complex are Carhuaquero, which was commissioned in 1991 and is the largest power plant in the complex and Carhuaquero IV and

Carhuaquero V, which are relatively smaller hydroelectric units and were commissioned in 2008 and 2009, respectively. Carhuaquero is comprised of three generation units and has a total design flow of 24.0 m^3/s. In 2016, we improved the efficiency of Carhuaquero and improved its warranty power to 6.5MW. The principal recent maintenance project at Carhuaquero was the overhaul of the G1 generator in 2015. During the wet season months of January through April, additional available water flows through Carhuaquero IV, which is adjacent to Carhuaquero and approximately 2.6 km downstream from the water discharge of Carhuaquero. Carhuaquero IV and Carhuaquero V each have one generation unit, with a total design flow of 2.5 m^3/s and 20 m^3/s, respectively. The Cirato Regulation dam, also located in the Carhuaquero complex, has a capacity of 0.35 cubic hectometers. The energy generated at the Carhuaquero complex is transported via single circuit to the Chiclayo substation.

The table below sets forth certain information for the Carhuaquero, Carhuaquero IV and Carhuaquero V power plants for the periods presented:

	For the years ended December 31,		
	2016	2015	2014
Carhuaquero			
Effective Capacity (MW)	94.5	95.1	95.1
Energy Generated (GWh)	411.2	515.2	534.4
Availability Factor (%)	93.8	93.0	95.6
Carhuaquero IV			
Effective Capacity (MW)	10.0	10.0	10.0
Energy Generated (GWh)	71.9	79.8	73.1
Availability Factor (%)	93.3	97.4	93.1
Carhuaquero V			
Effective Capacity (MW)	5.7	5.7	5.7
Energy Generated (GWh)	26.1	32.3	33.1
Availability Factor (%)	96.6	96.8	95.8

Thermal power plants

Central Térmica Aguaytía

Our Central Térmica Aguaytía (Termoselva's power plant), located in Aguaytía in the Padre Abad Province of Peru, is Peru's only thermal generator with its own gas supply contractually guaranteed until 2024. The plant receives its gas supply directly from Block 31-C, which Aguaytía exploits under a concession agreement with Perúpetro. See "—Hydrocarbon Extraction and Fractionation Activities." After 2024, Termoselva has the right to request an extension of the gas supply contract with Aguaytía for an additional 10 years. Central Térmica Aguaytía is the only thermal power plant in Peru that purchases its gas on a non-take-or-pay basis. Thus, Central Térmica Aguaytía only pays for the gas that it utilizes to generate electricity to sell pursuant to its PPAs and on the spot market. This structure allows us to maximize the revenues of both Termoselva and Aguaytía. Aguaytía's gas reserves are sufficient to supply Termoselva through 2031. Central Térmica Aguaytía operates two simple-cycle gas turbines, ABB and Alstom. The plant has an effective capacity of 176.3MW. The power plant operates under a generation permit issued by MEM and approved by a ministerial resolution in 1996. The permit does not have a termination date and Termoselva owns all land and rights of way necessary to operate. The principal recent maintenance projects were the overhauls of our two gas turbines, ABB and Alstom in 2014 and the addition of remote control and in-house operation and maintenance to our transmission systems.

The table below sets forth certain information for our Termoselva power plant for the periods presented:

	For the years ended December 31,		
	2016	2015	2014
Effective Capacity (MW)	176.3	175.4	175.4
Energy Generated (GWh)	368.5	440.7	380.0
Availability Factor (%)	99.7	98.7	89.1

Power Purchase Agreements

As of December 31, 2016, Egenor had entered into PPAs with nine Distribution Companies and four Unregulated Customers and Aguaytía's subsidiary, Termoselva, had entered into PPAs with nine Distribution Companies and five Unregulated Customers. Under each of these PPAs, we have committed to provide capacity and associated energy to these customers and the customers have agreed to purchase a specific amount of capacity and their requirement of energy from us. As of December 31, 2016, Distribution Companies represented 52.3% of Egenor's contracted energy and capacity offtake while Unregulated Customers, including those party to RER contracts, made up the remainder. Egenor's PPAs with Unregulated Customers have tenors of three to four years, while Egenor's PPAs with Distribution Companies have tenors of up to 10 years. As of December 31, 2016, Distribution Companies represented 84.8% of Termoselva's contracted energy offtake and capacity while Unregulated Customers made up the remainder. Termoselva's PPAs with Unregulated Customers have tenors of five to six years, while Termoselva's PPAs with Distribution Companies have tenors of up to 10 years.

Under our PPAs with Distribution Companies, which were awarded to us through two energy auctions conducted by OSINERGMIN in March 2010 and November 2010, the terms and conditions for the sale of capacity and energy are included in the terms of reference for the relevant auction and approved by OSINERGMIN. The terms of these PPAs cannot be freely amended or changed by the parties without OSINERGMIN's prior approval. Our PPAs with Distribution Companies cannot be terminated other than upon breach by us or our customers. Conversely, under our PPAs with Unregulated Customers, we and our customers are free to determine the price, duration and other terms and conditions through a private negotiation process prior to the execution of such PPAs. Furthermore, most of our PPAs with Unregulated Customers include the right to terminate the PPA upon prior notice and subject to the payment of a termination penalty. Based on the current prices and remaining tenors of our PPAs with Unregulated Customers, we do not expect our Unregulated Customers to exercise such right. Distribution Companies must contract three years in advance of their expected demand requirements, as such there is consistent demand in the market for our PPAs. Our PPAs with Distribution Companies have historically allowed us to sell energy at higher prices than those available the spot market. The average spot price during 2016 was U.S.$21.41/MWh, which compares to our average realized PPA price during 2016 of U.S.$44.51/ MWh.

Under our PPAs with Distribution Companies, prices for capacity are generally calculated based on a base price in *Soles* specified in the PPA, adjusted for fluctuations in the U.S. Dollar/*Sol* exchange rate, a U.S. inflation index and a Peruvian inflation index, plus transmission and transformer charges. Prices for energy are generally calculated based on a base price in *Soles* specified in the PPA for peak and off-peak periods, adjusted for fluctuations in the price of gas in the Camisea basin and, indirectly, fluctuations in the U.S. Dollar/*Sol* exchange rate.

Under our PPAs with Unregulated Customers prices for capacity are generally calculated based on a base price denominated in, or linked to, U.S. Dollars specified in the PPA, adjusted for fluctuations in a U.S. inflation index, plus transmission and transformer charges. Prices for energy are generally calculated based on a base price in U.S. Dollars specified in the PPA for peak and off-peak periods, adjusted for fluctuations in the regulated price of gas in the Camisea gas fields. We enter into PPAs with Unregulated Customers despite their typically shorter terms than PPAs with Distribution Companies, because such shorter terms provide upside exposure to the economic cycle and market sentiment. The weighted average life of our remaining PPAs is 5.3 years (1.4 years for Unregulated Customers and 6.6 years for Distribution Companies). We have a long and successful recontracting history. Distribution Companies must contract three years in advance, and, as such there is consistent demand for our PPAs.

The following table sets forth a summary of relevant information about our PPAs with Distribution Companies and Unregulated Customers as of the date of this offering memorandum:

	Number of Signed Contracts	Contracted Capacity (MW)	Excecution Date	Performance Begin Date	Performance End Date	Remaining Term (Years)(2)	Energy Price (U.S.$/ MWh)(3)	Type of Contract	Indexation Formula(1)	Corporate Rating	Type of Customer	Parent Company
Luz del Sur S.A.A.	4	192.4	Nov. 18, 2010	Jan. 2014	Dec. 2023	7.0	44.81	Auction Process	100% Nat. Gas	Pe AAA	Distribution Co	SEMPRA
Electrica Sta Rosa 2(5)	1	44.0	Nov. 30, 2015	Dec. 2015	Dec. 2018	2.0	22.00	Bilateral Contract	PPI	NA	Unregulated	GCZ Group
Hidrandina S.A	4	42.2	Apr. 14, 2010	Jan. 2013	Dec. 2022	6.0	45.12	Auction Process	Basket of Fuels(1)	NA	Distribution Co	State-owned Company
Minera Barrick Misquichilca S.A.	2	35.0	Jan. 16, 2014	Aug. 2014	Dec. 2017	1.0	44.51	Bilateral Contract	CPI	NA	Unregulated	Barrick Gold
Electronorte S.A.	4	29.9	Apr. 14, 2010	Jan. 2013	Dec. 2022	6.0	46.47	Auction Process	Basket of Fuels(1)	NA	Distribution Co	State-owned Company
Electrocentro S.A.	4	25.0	Apr. 14, 2010	Jan. 2013	Dec. 2022	6.0	46.85	Auction Process	Basket of Fuels(1)	NA	Distribution Co	State-owned Company
Electronoroeste S.A.	4	21.0	Apr. 14, 2010	Jan. 2013	Dec. 2022	6.0	48.45	Auction Process	Basket of Fuels(1)	NA	Distribution Co	State-owned Company
Contratos RER(6)	2	16.0	Mar. 31, 2010	Apr. 2010	Mar. 2030	13.3	77.60	Auction Process	PPI	NA	Distribution Co	MEM
Enel Distribución S.A.A.	2	15.8	Nov. 18, 2010	Jan. 2014	Dec. 2023	7.0	44.65	Auction Process	100% Nat. Gas	Pe AAA	Distribution Co	ENEL
Alicorp S.A.A.	1	13.8	Jul. 15, 2012	Apr. 2013	Dec. 2017	1.0	49.90	Bilateral Contract	100% Nat. Gas	NA	Unregulated	Romero Group
Electroriente S.A.	2	11.5	Nov. 18, 2010	Jan. 2014	Dec. 2023	7.0	45.58	Auction Process	100% Nat. Gas	NA	Distribution Co	State-owned Company
Industria Textil Piura S.A.	1	10.0	Jul. 15, 2012	Apr. 2013	Dec. 2019	3.0	35.00	Bilateral Contract	CPI	NA	Unregulated	Romero Group
Electrica Sta Rosa 3	1	10.0	Nov. 15, 2016	Jan. 2017	Jun. 2017	0.5	23.00	Bilateral Contract	PPI	NA	Unregulated	GCZ Group
Agricola del Chira S.A.	1	9.8	Nov. 5, 2015	Jan. 2016	Jan. 2019	2.1	24.15	Bilateral Contract	Barra Price with discount	NA	Unregulated	Romero Group
Electrica Sta Rosa 1(4)	1	7.0	May 7, 2014	Dec. 2015	Dec. 2017	1.0	37.28	Bilateral Contract	70% Nat. Gas + 30% PPI	NA	Unregulated	GCZ Group
Hidrandina S.A. Free Client	1	7.0	Oct. 10, 2014	Oct. 2014	Sept. 2019	2.7	34.40	Bilateral Contract	CPI	Pe AAA	Unregulated	State-owned Company
Tecnofil S.A.	1	5.4	Apr. 30, 2014	May 2014	Dec. 2017	1.0	40.21	Bilateral Contract	70% Nat. Gas + 30% PPI	NA	Unregulated	—
Minera Austria Duvaz S.A.	1	4.0	Nov. 1, 2012	Jan. 2013	Dec. 2019	3.0	22.00	Bilateral Contract	50% CPI + 50% Nat. Gas	NA	Unregulated	—
Compañía Universal Textil S.A.	1	3.1	Jul. 15, 2012	Apr. 2013	Dec. 2017	1.0	50.01	Bilateral Contract	100% Nat. Gas	NA	Unregulated	Romero Group
Industrias del Espino S.A.	1	3.0	Jul. 15, 2012	Apr. 2013	Dec. 2017	1.0	50.00	Bilateral Contract	CPI	NA	Unregulated	Romero Group
Empresa de Generación Eléctrica de Junín S.A.C.	1	3.0	Dec. 31, 2016	Jan. 2017	Apr. 2017	0.3	23.00	Bilateral Contract	PPI	NA	Unregulated	GCZ Group
Consorcio Eléctrico de Villacurí S.A.C.	4	0.9	Apr. 14, 2010	Jan. 2013	Dec. 2022	6.0	45.06	Auction Process	Basket of Fuels(1)	NA	Distribution Co	—
Electrodunas S.A.A.	2	0.3	Nov. 18, 2010	Jan. 2014	Dec. 2023	7.0	46.64	Auction Process	100% Nat. Gas	Pe AA	Distribution Co	Blue Water Worldwide

(1): 0.107 (Product Price Index or "PPI") × U.S. Dollar/Sole exchange rate ("TC") + 0.019 (Price of Diesel in *Soles*/gallon or "D2") + 0.109 (Residual Price in *Soles* per gallon or "R6") + 0.673 (Price of Natural Gas in Soles per MMBTU or "Nat. Gas")+ 0.092 (Price of Coal in *Soles* per ton or "Price of Coal").

(2): remaining period since January 2017

(3): average energy price in December 2016 (exchange rate 3.4 Soles/U.S.$)

(4): Currently billing the minimum billed capacity due to the fact that Electrica Sta Rosa lost its client.

(5): This contract has a growing demand, 44.2 MW correspond to the maximum demand during the contract period.

(6): Pursuant to RER contracts, we have agreed to supply 66.5 GWh/year from Carhuaquero IV (10 MW) and 21.5 GWh a year from Caña Brava (5.7 MW) hydro plants.

The average spot price during 2016 was U.S.$21.41/MWh, which compares to our average realized PPA price during 2016 of U.S.$44.51/ MWh. The remaining weighted average life of our PPAs is 5.3 years (1.4 years for PPAs with Unregulated Customers and 6.6 years for Distribution Companies), and we have a long and successful history of recontracting.

Concessions

We operate our hydroelectric plants pursuant to concession agreements, pursuant to which Egenor must pay the Ministry of Agriculture a statutory fee for the use of water for power generation activities. Pursuant to such concession agreements, Egenor may freely set the price at which it sells power, except (i) when selling to other power generators that are members of COES and (ii) when selling power to public utilities. In addition to the above concession agreements, Egenor also holds a renewable energy auction general concession, pursuant to which Egenor may participate in auctions to enter into PPAs with the government pursuant to the RER regulatory framework.

Hydrocarbon Extraction and Fractionation Activities

As an integral part of our thermoelectric power generation business, Aguaytía extracts and produces gas and liquids from the Cushabatay formation, from Block 31-C, located in the Padre de Abad province of Peru pursuant to the License Agreement. The gas extracted is used to support the thermoelectric generation business of Termoselva. Aguaytía pays royalties to Perúpetro, which have recently decreased from U.S.$2.5/mmBtus to U.S.$1.70/mmBtus pursuant to an arbitration agreement we reached with Perúpetro in December 2016. Pursuant to the License Agreement, Aguaytía is subject to the income tax framework in place at the time such agreement was entered into, which stipulates a 30% income tax rate, and not the general income tax regime applicable to other entities in Peru. The tax stability provisions in the License Agreement only apply to Aguaytía's hydrocarbon exploitation activities.

Aguaytía supplies gas to Central Térmica Aguaytía, Termoselva's thermal gas plant directly pursuant to a natural gas supply agreement that expires in 2024. Termoselva utilized 29.8% and 34.0% of the natural gas extracted by Aguaytía at Block 31-C in 2016 and 2015, respectively. See "—Our Hydro and Thermal Electricity Generation Business—Thermal power plants." The natural gas that is not utilized by Termoselva to power the Central Térmica Aguaytía plant is reinjected to the reservoir.

In addition to dry natural gas, Aguaytía also produces LPG and natural gasoline through the separation and fractionation of associated natural gas liquids (NGLs). We sell LPG to the Peruvian market at international prices and we currently sell all of our produced natural gasoline to a refinery operated by Maple Gas. LPG is used by our customers as fuel in the residential, commercial and industrial sectors. As the only local producer of LPG in the city of Pucallpa, we believe Aguaytía benefits from several commercial advantages vis-à-vis its competitors. First, Aguaytía is exempt from the obligation to charge value-added tax to its LPG customers, providing an 18% cost advantage. Secondly, our competitors are primarily importers from the coast of Peru, who incur substantial expense to deliver their product via truck to the remote, Amazonian region where Pucallpa is located. As a result, we are able to offer competitive pricing to our customers and benefit from a natural barrier to entry against other potential competitors. In 2016, natural gasoline sales and LPG sales represented 3.7% and 4.4% of our combined sales revenues, respectively.

Located in the Amazon basin of Peru, the Cushabatay formation holds gas reserves that are extracted from a depth of approximately 9,000 feet. The estimated remaining reserves in Block 31-C in the Cushabatay formation total 151.8 Bcf, and there exists the potential to tap additional reserves in the Pucara and Copacabana formations which are located below Cushabatay. These deeper formations will produce gas and liquids from a depth of approximately 13,000 feet, and Aguaytía Energy del Perú S.R.L. owns 66.2% of the operating rights to explore and produce from the Pucara and Copacabana formations of the Aguaytía field.

The following table sets forth estimated proved natural gas reserves in Block 31-C as of December 31, 2016. We have only included estimates of proved reserves and have not included any estimates of probable and possible reserves.

	Proven and Probable	Proven, Probable, and Possible
Natural Gas		
Recoverable (Bcf)	151.8	161.8
NGLs		
Recoverable (mmstb)	6.1	7.1
Gasoline (mmstb)	3.5	4.1
LPG (mmstb)	2.5	3.0

Through its natural gas processing plant, Aguaytía separates the dry natural gas and produces a current average of 1,500 barrels per day of NGLs, and through its fractionation plant, produces 915 barrels per day of natural gasoline, and 585 barrels of LPG. Aguaytía transports its dry natural gas to Central Térmica Aguaytía and its natural gasoline to the Pucallpa refinery through its pipeline network. As of December 31, 2016, Aguaytía's natural gas distribution network consisted of primary and secondary pipelines with a total length of approximately 286.7 km and a design processing capacity of 55.8 MMcfd for natural gas and 4,179 bbl/ day for NGLs.

The chart below summarizes the specifications of our gas and fractionation plant:

Gas Plant Specifications		Fractionation Plant Specifications		
		Process	Design	Current Operations
Design capacity	55.8 MMscfd	Total capacity	4,179 Bbl/day	1,500 Bbl/day
Current capacity	52.5 MMscfd	Gasoline production	2,505 Bbl/day	915 Bbl/day
NGL production	1,500 Bbl/day	LPG production	1,674 Bbl/day	585 Bbl/day
Recovery factor	28.6 Bbl/MMscfd	Gasoline/NGL gas ratio	60%	61%
Natural gas quality	970 BTU (dry)	LPG/NGL gas ratio	40%	39%

Our Gas Supply Contracts

Aguaytía sells up to 50.0 MMcfd of the natural gas it extracts to Termoselva on a no-take or pay basis. The contract price was defined as royalties paid to Perúpetro pursuant to the License Agreement plus 5% until 2016 and is now defined as U.S.$2.61/mmBtu as of 2017. The contract with Termoselva will expire in 2024. Aguaytía has also entered into a commitment to supply 1 MMcfd to a future Distribution Company in the Ucayali region, although no commercial terms have been defined.

Aguaytía sells LPG at international prices, with no supply contracts. The volume for 2016 was 217,926 Bbl and is expected to be 215,074 Bbl in 2017. Our customers include three bottling companies and twelve gas stations.

Our only supply contract for the natural gasoline produced by Aguaytía is with Maple Gas, which refines the natural gasoline and produces a variety of products, including gasoline. Sales under the supply contract are defined in U.S. Dollars and indexed to a basket of commodities. The contract with Maple Gas expires in March 2024. Our volume for natural gasoline in 2016 was 284,884 Bbl and is expected to be 341,836 Bbl in 2017.

In June 2014, Maple Gas started to fall behind in its payments to Aguaytía and in 2016 ceased making payments to us pursuant to our supply contract, although we continued to make all scheduled deliveries of natural gas to Maple Gas. See "Risk Factors—Risks Related to our Business—We are exposed to counterparty risks." Pursuant to our natural gasoline purchase agreement with Maple Gas, we deliver all of the natural gasoline owned or held by us. As of March 31, 2017, Maple Gas has failed to make approximately U.S.$15.9 million in payments under our supply contract. We continue to make these deliveries to Maple Gas because the natural gasoline we produce is the natural by-product of the fractionation of the NGLs into LPG. If we discontinue production of natural gasoline, we would no longer be able to produce LPG, which would result in a loss in revenue and a shortage of LPG in the region. Between 1994 and 1996, Maple Gas built a natural gasoline pipeline that connects the Aguaytía fractionation plant with the Pucallpa refinery, which is operated by Maple Gas pursuant to a concession agreement with Perúpetro. Aguaytía currently has no method of storing the natural gasoline produced as the natural by-product of the LPG that the company sells to bottlers and gas stations. However, Aguaytía has contracted SNC Lavalin Perú S.A. to build a new storage and loading plant that will allow it to store the natural gasoline in barrels and sell it directly to third parties. The budget for this facility is estimated to be U.S.$4.9 million of which U.S.$2.5 million had been spent as of March 31, 2017. As of March 31, 2017, construction is approximately 63% complete and the storage and loading plant is expected to be fully operational in July 2017. The storage and loading plant will consist of two dispatch islands, a storage tank capable of holding 5,000 barrels and interconnection pipelines between the dispatch islands and the storage tank. Aguaytía has hired Apoyo Consultoria S.A.C., a market research firm, to conduct a study of the demand for Aguaytía's natural gasoline and has also initiated conversations with potential buyers of the natural gasoline. The market research study concluded that Aguaytía will likely be able to obtain a price similar to the currently contracted price with Maple Gas if it sells the natural gasoline to third parties. As of the date of this offering memorandum, we are engaged in discussions with Petroperú geared towards commencing sales of natural gasoline to them upon completion of the construction of the facility. Our contract with Maple Gas can be terminated by either party for failure on the part of the other party to perform any material covenant or obligation imposed thereunder and upon certain other events. As of the date of this offering memorandum, we have not given notice of termination to Maple Gas. As of the date of this offering memorandum, Petroperú has delivered a Letter of Intent to purchase our natural gasoline, which we are currently reviewing.

Our Electricity Transmission Activities

We operate our electricity transmission activities through Etenorte, which is a subsidiary of Egenor and through Eteselva, which is a subsidiary of Aguaytía. Our electricity transmission activities support our hydro and thermal electricity generation businesses. Both companies operate transmission services pursuant to transmission concessions with MEM without termination dates, pursuant to which we are permitted to transmit energy at the tariff set by OSINERGMIN. We own 740 km of transmission lines, 2 substations, the capacity to transmit 220 kV and 138 kV and an operating transformation capacity of 193 MVA. We transmit electricity to the SEIN. Since the Peruvian electric transmission system is subject to the open access rule, the access of power generators to the transport system is guaranteed. Our transmission activities are divided in two categories. In the first category, tariffs are set annually and are paid by the demand in *Soles* and this category is further divided into the MTS System, or the "main system" (comprised of facilities built before 2006) and the GTS, or the "guaranteed system" (comprised of facilities built after 2006). In the second category, tariffs are set every four years and are paid by the demand in *Soles* and/or the generators according to their respective use. This category is further divided into the STS, or the "secondary system" (comprised of facilities built before 2006) and the CTS or the "complementary system" (facilities build after 2006). Since 2013, our revenues attributable to our transmission activities have increased as our third-party revenue sources have overtaken revenues from Termoselva. For the year ended December 31, 2016, revenues attributable to our transmission activities accounted for 2.0% of our combined sales revenues.

Operations and Information Technology

We have operated at weighted average availability rates of 94.3% in 2016, 94.0% in 2015 and 91.4% in 2014. Our operating performance is driven by our experienced, well-trained staff, adequate capital expenditures and consistent maintenance, which together keep our facilities in excellent operating condition, maximizing the availability and reliability of our facilities.

We promote operational excellence by delivering high-quality products in a safe and environmentally responsible manner. As part of our mission to constantly improve our performance, we developed an asset management model in 2014 and established a roadmap to operational excellence, which will take four years to implement.

Our asset management model has eight phases that result in the continuous improvement of our processes. In Phase 1, we align our goals with our vision and mission, and establish strategic and operational key performance indicators. In Phase 2, we focus on critical assets and risk assessment with permanent ranking through the implementation of risk and vulnerability analysis. In Phase 3, we decrease losses by eliminating current failures and implementing root cause analysis, a problem solving method used for identifying the root causes of faults or problems. In Phase 4, we decrease potential losses by identifying new failure modes and optimizing the maintenance plan through tools such as reliability centered maintenance ("RCM') and autonomous maintenance. Autonomous maintenance is independence maintenance carried out by operators of machines rather than by dedicated maintenance technicians. In Phase 5, we focus on systematizing the maintenance plan interfaced with the process management software Enterprise Resource Planning through MAXIMO Enterprise Asset Management and human resource management system PeopleSoft. In Phase 6, we frequently measure and compare results. In Phase 7, we focus on optimizing expenditures through the implementation of Life Cycle Cost Analysis. Life Cycle Cost Analysis is a tool used to determine the most cost-effective option among different competing alternatives to purchase, own, operate, maintain and dispose of an object or process. Finally, in Phase 8, we assure continuous improvements.

Our roadmap is divided into three main categories: (a) people who develop our operations and maintenance personnel, (b) methods and world class tools and (c) technology that improves the monitoring and control of our process and management tools.

We are constantly working to improve our information technology systems to ensure that our plants operate as seamlessly as possible. In 2016, we began working to standardize our plants' control systems, which will allow us to integrate all SCADA processes and to centralize our control and operations in Lima. In connection therewith, we have been moving all of our records online, which will allow us to reduce our margin of error and operations costs and to improve our ability to react more swiftly to any plant operations issues that arise. As of December 31, 2016, we had recorded U.S.$274,000 in costs related to this standardization project and we expect that the total of cost will be U.S.$3.2 million We expect the project will be completed by late 2018.

We expect this standardization project will cost a total of U.S.$ 3.2 million and will be complete by 2018.

In addition to standardizing our plants' control systems, we have been working on several other information technology initiatives. At the end of April 2017, we expect to complete an effort to make the communications of all of our operations redundant, which will significantly increase our data networks' level of availability and reliability to support our operations' information and monitoring systems. This year we will finish integrating our real-time information systems, which will allow us to automate our preventive maintenance activities, thereby optimizing our asset life cycle and maintenance costs.

In order to address the risk of failure to comply with the laws and regulations to which we are subject, we have begun to implement the use of a software program called GEORGE, which monitors our compliance with applicable laws and regulations. It was developed by a Peruvian law firm in order to maintain a comprehensive record of environmental, health and safety requirements, to ensure that employees are held accountable for compliance with such requirements and to ensure that a record of such compliance is kept. The GEORGE system tracks all periodic renewal and reporting requirements, including any renewal or reporting requirements to which we have committed ourselves in connection with environmental studies we have undertaken. The GEORGE system is installed and in use in connection with our power generation business, and we expect to begin utilizing it in connection with our hydrocarbon extraction activities in the near future. A committee has been appointed to monitor the correct use of the system and to deliver periodic progress reports in connection therewith.

Health, Safety and Environmental Matters

We endeavor to comply with applicable Peruvian national and local environmental standards, rules and regulations, and believe that our current operations are substantially in compliance with such standards, rules and regulations as they have historically been interpreted and enforced. Because some of our facilities are located in protected areas, we are subject to additional Peruvian national and local environmental standards, rules and regulations with which we believe we are also substantially in compliance.

We believe that we operate our facilities and conduct our operations, in all material respects, in accordance with internationally accepted good management practices on environmental and social issues. In the greater than 2,000,000 hours our employees have worked in the past three years, there has not been a single lost-time incident. In addition, we are pleased to have finished 2016 with only one minor recordable incident involving employees and without any recordable incidents involving contractors. All accidents, even minor ones, are subjected to a root cause analysis process in order to identify appropriate corrective and preventive actions.

Additionally, we provide appropriate safety training and make written operating procedures available to all of our employees. Inspections and audits are routinely conducted. We are now focused on strengthening our near-miss program, called "Uy, Casi," which has become our primary tool for risk control. Uy, Casi led our employees to submit approximately 1,000 reports last year that will help us to correct or modify unsafe acts or conditions in the workplace. We seek to continue to rigorously implement and follow the strictest industry safety standards in order to safeguard our employees and contractors and the communities in which our operations are located.

Our hydroelectric power operations comply with several international quality standards and are in compliance with OHSAS 18001 and ISO 14001. Our internal procedures and audit reviews are based on Duke Energy International's guidelines and procedures, which are even stricter than U.S. Occupational Safety and Health Administration (OSHA) standards.

In order to comply with our EHS obligations, we have maintained documentation such as Internal Procedures, EHS Hazard Identification and Risk Assessment (IPER) process, training sessions, and delivery of Personal Protection Equipment, etc.

Community Engagement and Initiatives

We strive to promote economic development by helping vulnerable families in the areas in which we operate to enhance their technical abilities and to gain access to technology so that they are able to earn a sustainable income. In this area, we help individuals with the production of avocado and cacao, fish farming and small-sized businesses.

One of our most successful projects has been the "Women's Entrepreneur Program," through which, in 2015, we provided training to 155 women to help them develop certain skills, in areas such as sewing, cooking and baking, and to develop basic management skills that can be used in connection with running small-sized businesses. Approximately 40% of the women who have participated in our program have since launched their own small-sized business.

Another successful project has been the fish farming project developed in Ucayali, which has helped 40 families who reside in poor communities in proximity to our natural gas operations, to begin their own fish farm businesses for the breeding and sale of local fish species such as paco, paiche and gamitana. Since beginning this project in 2008, we have helped families to produce and sell 180 tons of fish.

Additionally, we are an active member of the National Mining, Oil and Energy Society (*Sociedad Nacional de Minería, Petróleo y Energía,* the "SNMPE"), which is comprised of the major companies from the mining and energy sectors and is a highly respected association actively involved in enhancing regulation through transparent collaboration with the government and the regulatory agencies.

The different working groups within the SNMPE meet on a regular basis in order to discuss proposals and amendments to current laws and regulations, which are later discussed with the officials in charge of their review and implementation. As an example, in connection with environmental issues, the environmental working group proposed and achieved the implementation of seven different regulations related both to the new process of environmental certification (*IntegrAmbiente*) and to environmental quality standards. For example, the new environmental certification rules arose as a result of work performed by the SNMPE and from work-group sessions focusing on analyzing the obstacles that companies face in the end-to-end evaluation process. As a result, the number of steps involved in the evaluation process has been reduced, the evaluation process has become more effective, and the number of permits required following the receipt of an environmental certification has been reduced. The new environmental quality standards arose as a result of the SNMPE's quest to ensure that each new standard fulfills certain technical requirements, including that it is technologically feasible, cost effective, reasonable and gradually implemented and that it fulfills certain risk-analysis criteria.

Environmental Proceedings

We may have to comply with certain obligations (i.e., to implement corrective measures, update the approved environmental management instruments, etc.) related to infringements detected by OEFA during its supervision of our facilities. For instance, OEFA could initiate sanctioning administrative proceedings against Egenor in connection with the following observations: (i) during its 2013 review, OEFA detected that Egenor had exceeded the maximum permissible limits related to suspended solid particles applicable to water discharged from the turbines at Cañón del Pato into the Santa river; (ii) during its 2015 review, OEFA detected that Egenor had exceeded the maximum permissible limits related to suspended solid particles applicable to water discharged from the turbines at Carhuaquero into the Chancay river; and, (iii) during its 2015 review, OEFA detected that Egenor had exceeded the maximum permissible limits related to suspended solid particles applicable to water discharged from the turbines at Carhuaquero V into the Chancay river. Besides the imposition of any corrective measures, these infringements each entail a potential fine up to 5,000 UIT.

Legal Proceedings

We are a party to several civil and administrative proceedings and claims that have arisen in the ordinary course of our business. Although there can be no assurance as to the ultimate outcome of these proceedings, our management believes, based upon the information available and consultation with external legal counsel handling these proceedings, that the expected outcome of these proceedings, individually and in the aggregate, is not likely to have a material adverse effect on our financial position, cash flows or results of operations. As of December 31, 2016, the aggregate amount of all claims made under the material legal proceedings served upon us, as summarized below, was approximately U.S.$11.1 million and no amount was provisioned by us in connection with these civil and administrative legal proceedings.

In addition to the above, during the three months ended March 31, 2017, we have become a party to certain material legal proceedings, for an aggregate amount of approximately U.S.$7.5 million and no amount has been provisioned by us in connection with such proceedings.

The following is a brief summary of the legal proceeding that our management considers to be the most significant as of the date of this offering memorandum.

Egenor

In 2017, OEFA commenced a sanctioning administrative proceeding against Egenor regarding an alleged breach of the maximum permissible limits related to suspended solid particles applicable to the water discharged from the turbines at Central Carhuaquero IV to the Chancay river. In connection with the proceeding, Egenor could incur fines that ranges from 50 UIT up to 5,000 UIT.

Aguaytía

Aguaytía is party to a sanctioning administrative proceeding initiated by OSINERGMIN for not having a Supervisory Control and Data Acquisition ("SCADA") system in place at Block 31-C in connection with which OSINERGMIN has imposed a fine of 5,674.38 UIT. Aguaytía has initiated one proceeding in local court to dispute the amount of the fine and another proceeding to determine whether Aguaytía committed the infraction in connection with which the fine is being imposed.

Aguaytía is also party to two additional sanctioning administrative proceedings initiated by OSINERGMIN. The first proceeding is for three infractions related to not having a sufficient fire protection system in its natural gas processing plant, and for four infractions related to presenting OSINERGMIN with inaccurate information in affidavits. The second proceeding is for six infractions related to not having a sufficient fire protection system in its fractioning plant, two infractions related to presenting OSINERGMIN with inaccurate information in affidavits and one infraction related to not having a pressurized, explosion-proof control room in the fractionation plant. In March 2017, OSINERGMIN delivered final investigation and fine calculation reports in which it recommended the imposition of fines of up to 650.13 UIT in the aggregate for the gas plant and 436.23 UIT in the aggregate for the fractioning plant. In both proceedings, Aguaytía has recognized its responsibility regarding the infractions and, in addition, has requested to be the beneficiary of the "prompt payment" benefit, which would entitle Aguaytía to a fine reduction of up to 30% for recognizing its responsibility and 25% for prompt payment.

Eteselva

Eteselva is party to a sanction proceeding initiated in 2016 related to alleged breaches of the Technical Standard for the Exchange of Information in Real Time with the SEIN (*La Norma Técnica para el Intercambio de Información en Tiempo Real para la Operación del Sistema Eléctrico Interconectado Nacional*) in connection with which it could be fined up to 1,000 UIT. Eteselva is party to a second proceeding related to non-compliance with the monitoring and trimming of the trees across a transmission line, which occasioned six disconnection events during 2016, in connection with which it could be fined up to 1,000 UIT. Finally, Eteselva is party to a third sanction proceeding initiated in 2017, related to alleged breaches of the Technical Standard for the Coordination of the Operation in

Real Time with the Interconnected Systems (*La Norma Técnica para la Coordinación de la Operación en Tiempo Real de los Sistemas Interconectados*) and the Internal Safety and Health at Work Regulations (*Reglamento de Seguridad y Salud en el Trabajo con Electricidad*) in connection with which it could be fined up to 1,150 UIT.

Termoselva

Termoselva is party to a sanction proceeding initiated by OSINERGMIN for an alleged breach of Technical Standard for the Exchange of Information in Real Time with the SEIN in connection with which it could be fined up to 1,000 UIT.

For further information on our significant litigation, see "Business—Legal Proceedings."

Tax disputes

The following is a brief summary of the tax disputes that our management considers to be the most significant as of December 31, 2016:

- As a result of Egenor's 2011 income tax audit by SUNAT, Egenor was ordered to pay S/1,864 thousand, an amount that included the additional income tax payment for 2011 that SUNAT determined Egenor owed, as well as a fine that SUNAT assessed. In February 2015, Egenor filed a claim against SUNAT, which SUNAT declared groundless. Egenor subsequently filed an appeal with the tax court, which has not been resolved to date. The possible contingency related to this matter is S/2,913 thousand.
- As a result of the audit of the temporary tax on net assets paid by Egenor for the year 2013, Egenor was ordered to pay S/857 thousand, an amount that included the additional temporary tax on net assets payment that SUNAT determined Egenor owed, as well as a fine that SUNAT assessed. In July 2015, Egenor filed a claim against SUNAT, which SUNAT declared groundless. Egenor subsequently filed an appeal with the tax court, which has not been resolved to date. The possible contingency related to this matter is S/1,334 thousand. See note 26 to the Egenor Financial Statements.

Insurance

We believe that we currently maintain customary insurance of the types and amounts that are generally consistent with prudent industry practice and applicable legal requirements for public service systems of a similar size and nature in Peru. Our insurance coverage is subject to limits and exclusions or limitations on coverage that we believe to be reasonable, given the cost of procuring insurance and current operating conditions. We regularly purchase for insurance policies of one-year terms in accordance with market conditions, and which can be renewed for successive one-year terms.

As of December 31, 2016, we had an all-risk material damage and business interruptions insurance policy for our assets with a coverage limit of U.S.$125,000,000. We also had a U.S.$50,000,000 policy for civil liability. Additionally, we had a U.S.$5,000,000 directors' and officers' civil liability policy. The terms of these policies expire on December 15, 2017, and we expect to be able to renew these policies or obtain similar coverage.

Employees

We had 308 employees as of December 31, 2016. Currently, 25 of our employees are affiliated with a labor union. In January 2017, we executed a collective bargaining agreement with the union with a one-year term, establishing the following main conditions for 2017: (i) cost of living salary increase of 3%, (ii) a one-time payment of S/300 per employee as an education allowance for school-aged children and (iii) an exceptional bonus of S/500 for closing the collective bargaining agreement. We believe we have a constructive relationship with the union. We have not experienced a strike since our founding. 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,		
	2016	2015	2014
Number of employees by category of activity:			
Operation and Maintenance	175	179	175
Commercial	23	22	22
Finance, Risk, Treasury, Accounting	22	23	24
HR, IT, Legal, EHS, Supply Chain, Public Affairs	88	88	85
Total	**308**	**312**	**306**

Pursuant to operational and management agreements, Egenor provides operational management services to each of Aguaytía, Etenorte, Eteselva and Termoselva. Therefore, all of our employees are employed by Egenor and none of Aguaytía, Etenorte, Eteselva and Termoselva have employees. See "Our Principal Shareholders and Related Party Transactions—Related Party Transactions."

In accordance with applicable laws, we provide statutory benefits to our employees, including health, risk and life insurance, a profit sharing program and a performance-based annual bonus (Short Term Incentive). Bonuses granted to employees come in the form of the Exceptional Contribution Award and Short Term Incentive. We must pay taxes, Social security contributions and withholding related to employee bonuses and withhold pension contributions made by employees.

Labor Proceedings

Egenor and Termoselva are party to several labor proceedings in connection with which they could be subject to claims that amount to approximately S/13.8 million, for which we have provisioned the aggregate amount of approximately S/2.9 million.

These proceedings include claims related to vacation time, arbitrary dismissals, payment of profit sharing and altered nature of labor intermediation agreements, among others.

MANAGEMENT

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

Name	Age	Hired	Current Position
Raúl Espinoza	46	September 1, 2000	General Manager
Carlos Fossati	61	June 3, 2003	Commercial Director
Dora Avendaño	55	October 16, 2000	Legal Director
Lourdes García	56	May 12, 2003	Finance, Accounting & IT Director
César Vega	42	March 10, 2014	Operations Director
Manuel De La Puente	44	January 6, 2014	EHS & Social Responsibility Director
Javier Uchuya	46	February 1, 2009	Human Resources, Administration and Logistics Director

Biographies of our Executive Officers

Raúl Espinoza, General Manager

Mr. Raúl Espinoza has served as our General Manager since 2014, as Director of Information Technology since 2009, as Administration and Information Technology Manager since 2008 and as Information Technology Manager since 2000. Previously, he worked as Head of Projects for the implementation of accounting and financial systems in several private banks and as Systems Manager for The Maple Gas Corporation del Perú and Aguaytía Energy del Perú S.R.L. He holds a Bachelor's degree in Systems Engineering from the Universidad Nacional de Ingeniería in Peru, a Masters of Business Administration from the Thunderbird School of Global Management at Arizona State University in the United States and a Masters of Business Administration from the Instituto Tecnológico y de Estudios Superiores de Monterrey in Mexico.

Carlos Fossati, Commercial Director

Mr. Carlos Fossati has served as our Commercial Director since 2011 and as Commercial Manager since 2003. He has previously worked as Plant Manager of Cerros Colorados Hydroelectric Complex in Argentina and as Director of the Corani Reservoir Project in Cochabamba, Bolivia. He holds a Bachelor's degree in Construction and Hydraulics Engineering from the Universidad Nacional de La Plata in Argentina and a Masters of Business Administration from the Escuela Internacional de Negocios de Neuquén in Argentina.

Cesar Vega, Operations Director

Mr. Cesar Vega has served as our Operations Director since 2014. Previously, he worked for more than eleven years as Plant Superintendent for Enersur GDF Suez (now Engie Energía Perú S.A.) and as Operations Manager at SN Power Perú. In 2010, he won the National Maintenance Award, awarded by the Instituto Peruano de Mantenimiento (Ipeman) for risk and reliability work on the project "RCM basis for the implementation of a remote control of hydroelectric power station," and in 2012, he won the same award for the project "Integration PAS 55 & Integrated Management Systems, a model to reach the World Class." He is the designer of the first remote control of a hydroelectric power plant (136 MW) currently in service and is finalizing the remote control for four more power plants (241 MW) in Peru. He holds a Bachelor's degree in Electronic Engineering from the Universidad Nacional de Ingeniería in Peru and a Masters in Strategic Business Administration from Centrum of the Pontificia Universidad Católica del Peru.

Lourdes García, Finance, Accounting and IT Director

Ms. Lourdes García has served as Finance, Accounting and IT Director since 2014, as Director of Administration and Finance since 2012, as Comptrollership Director since 2010 and as Comptroller since 2003. She has previously served as Senior Auditor at Hansen Holm Alonso & Co. and as General Accountant for Texport S.A.. She also has worked as General Accountant at The Maple Gas Corporation del Perú and at Shell Prospecting & Development, and as Comptroller at BellSouth Perú. She holds a Bachelor's degree in Accounting from the Pontificia Universidad Católica del Perú and a Masters in Business Administration from Centrum of the Pontificia Universidad Católica del Perú.

Dora Avendaño, Legal Director

Ms. Dora Avendaño has served as Legal Director since 2011, as Legal Manager since 2008 and as Legal Counsel since 2000. Previously, she served as Legal Manager of the National Society of Industries and as Head of the Legal Department of the Supervisory Body for the Investment in Energy and Mining at OSINERGMIN. She had worked at the law firm Jorge Avendaño Valdez prior to joining the company. She holds a Degree in Law from the Pontificia Universidad Católica del Perú.

Manuel De La Puente, EHS and Social Responsibility Director

Mr. Manuel de la Puente has served as EHS and Social Responsibility Director since September of 2014 and as Director of Safety and Environment in January of 2014. He has previously worked as Health and Industrial Safety Manager for Antamina, a Peruvian mining company. He holds a Bachelor's degree in Chemical Engineering from the Universidad Nacional de Ingeniería in Peru and a Masters in Business Management from the Universidad de Tarapacá in Peru.

Javier Uchuya, Human Resources, Administration and Supply Chain Director

Mr. Javier Uchuya has served as Human Resources, Administration and Supply Chain Director since 2016, as Human Resources, Administration and Supply Chain Manager since 2014, as Human Resources Manager since 2011 and as Vice Manager of Human Resources since 2009. Previously, he worked as Executive of Solventa Bank, as Administrator at Mobil Oil del Perú, as Head of Administration and Finance at American Laboratories and as Vice Manager of Administration at Compañía Latinoamericana de Radiodifusión. He holds a Bachelor's degree in Economics from the University of Lima in Peru, where he also completed the postgraduate program in Strategic Management of Human Resources.

Compensation of Executive Officers

Remuneration paid by Egenor to key personnel who have the authority and responsibility of planning, managing and controlling main activities, directly or indirectly, amounted to S/7,963 thousand (U.S.$2,370 thousand) in 2016.

OUR PRINCIPAL SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

As of December 31, 2016, the aggregate amount of Egenor's issued and outstanding capital stock was S/353,518,444.00, represented by 353,518,444 common shares with par value of S/1 per share. Egenor has 353,518,444 common shares subscribed, all of which are outstanding and fully paid. Egenor's common shares have full voting rights.

The following table shows Egenor's capital structure as of December 31, 2016:

Shareholders	Number of Shares	Percentage of Total
Orazul Energy Peru Holdings S.R.L	353,398,768	99.97%
Others	119,676	0.03%
Total	**353,518,444**	**100.00%**

As of December 31, 2016, Orazul Energy Peru Holdings S.R.L. owned 99.97% of Egenor's common shares. None of Egenor's executive officers is the beneficial owner of shares of our capital stock.

As of December 31, 2016, the aggregate amount of Aguaytía's issued and outstanding capital quotas was S/453,428,640 represented by 1,889,286 quotas with par value of S/240 per quota. Aguaytía has 1,889,286 quotas subscribed, all of which are outstanding and fully paid. Aguaytía's quotas have full voting rights.

The following table shows Aguaytía's capital structure as of December 31, 2016:

Quota-holders	Number of quotas	Percentage of Total
Aguaytía Energy LLC	1,836,836	97.00%
Perú Energy Holdings LLC	52,450	3.00%
Total	**1,889,286**	**100.00%**

As of December 31, 2016, Aguaytía Energy LLC and Perú Energy Holdings LLC owned 100% of Aguaytía's quotas. None of Aguaytía's executive officers is the beneficial owner of quotas of our capital.

Our Principal Shareholders

The controlling shareholder of Egenor is Orazul Energy Peru Holdings S.R.L., and the controlling shareholder of Aguaytía is Aguaytía Energy LLC, and both of them are indirectly controlled by Orazul Energía Perú S.A.C. Orazul Energía Perú S.A.C. is indirectly controlled by its majority shareholder ISQ Global Infrastructure Fund, which is managed by I Squared, and its minority shareholders IFC and IFC Global Infrastructure Fund. I Squared is an independent global infrastructure investment manager with approximately U.S.$4.0 billion in assets under management. I Squared has extensive experience and expertise in developing and operating energy and utility businesses and provides managerial expertise, and technical support. Including its investment in us, I Squared has invested and in some cases co-invested (with third parties, including investors in certain investment funds managed by I Squared) assets in Latin America, Asia, Europe and the United States with greater than 5,500 MW of installed capacity from hydropower and thermal generation, 740 km of transmission lines and natural gas processing facilities.

IFC is the largest global development institution focused exclusively on the private sector in developing countries. IFC Global Infrastructure Fund, LP is a private equity investment fund managed by the IFC Asset Management Company, LLC, a wholly owned subsidiary of IFC. IFC Asset

Management Company, LLC manages approximately U.S.$9.8 billion in assets across 13 funds that invest alongside IFC across Latin America and the Caribbean, Africa, the Middle East, Eastern Europe and Asia. Through the investment in Orazul Energy Partners LLC, IFC and IFC Global Infrastructure Fund, LP have invested in assets in Argentina, Chile, Ecuador and Peru with over 1,600 MW of installed capacity from hydropower and thermal generation, 740 km of transmission lines, and natural gas processing facilities.

Shareholders' General Meeting

Pursuant to the by-laws of each of Egenor and Aguaytía, a shareholders' general meeting must be held at least annually and within the first three months of each fiscal year.

Under Peruvian law, a corporation's shareholders general meeting may approve, among others, the following actions:

- approve the company's management and the economic results of a fiscal year as set forth in the corresponding financial statements;
- decide on dividend distribution, if any;
- appoint the external auditors and set their compensation;
- amend the by-laws;
- approve an increase or decrease of the capital stock;
- approve the issuance of debt instruments;
- approve specific investigations and audits;
- approve the transfer, in a single act, of assets with a book value that exceeds 50% of a company's capital stock; and
- approve any transformation, merger, spin-off, reorganization or dissolution of the company, as well as its liquidation.

A shareholders' general meeting of Egenor may be validly held, on first call, with the presence of shareholders representing more than 50% of our subscribed shares with a right to vote and, on second call, with the presence of shareholders representing any portion of our subscribed shares with a right to vote. A partners' general meeting of Aguaytía may be held, both on first and on second call, with the presence or representation of partners representing more than 50% of the subscribed quota with a right to vote.

Pursuant to the by-laws of each of Egenor and Aguaytía, in order to take the actions listed below, a shareholders' general meeting may be validly held, on first call, with the presence of shareholders representing two-thirds of the applicable company's subscribed shares with a right to vote and, on second call, with the presence of shareholders representing three-fifths of the applicable company's subscribed shares with a right to vote:

- amend our by-laws;
- approve an increase or decrease in our capital stock;
- issue bonds or bonds convertible into common or preferred shares;
- approve the transfer, in a single act, of assets with a book value that exceeds 50% of our capital stock; and
- approve our transformation, merger, spin-off, reorganization or dissolution, as well as our liquidation.

Dividends and Capital Distributions

Pursuant to the by-laws of Egenor, the dividend policy is to pay final or interim dividends only on account of profits earned or for free reserves, after (i) deducting applicable tax payments and (ii) contributing 10% of our net income to a legal reserve fund, until this reserve has reached an amount equal to 1/5 of the company's total capital stock.

Pursuant to the by-laws of Aguaytía, the general manager has the obligation to prepare a dividend distribution proposal within the first trimester of each year. Such proposal is subject to approval by the partners.

Related Party Transactions

Egenor and Aguaytía engage in a variety of transactions in the ordinary course of business with their respective affiliates, shareholders, their affiliates and related entities, on an arm's-length basis and in accordance with the usual market practices. Egenor and Aguaytía engage in a broad range of transactions with related parties, including operation and maintenance agreements, consulting agreements, services agreements and other type of arrangements in the ordinary course of our business.

Peruvian law sets forth certain restrictions and limitations on transactions with certain related parties. We believe that we have complied and are in compliance in all material respects with the requirements of the relevant provisions of our by-laws and the Peruvian laws governing related party transactions with respect to all of our transactions with related parties.

Additionally, below is a description of our principal transactions with certain parties as of December 31, 2016:

- On December 20, 2016, all shares issued by Egenor, as well as all quotas (i.e., participation interests) issued by Etenorte, Aguaytía, Eteselva and Termoselva were pledged in favor of Banco de Crédito del Perú, as onshore collateral agent in Peru, to secure the payment obligations assumed by their indirect shareholder, Orazul Energía Perú S.A.C., under the Orazul Loan Agreement executed on December 14, 2016 by Orazul Energía Perú S.A.C., as borrower, the lenders from time to time party thereto, Banco de Crédito del Perú, as administrative agent, and Citibank, N.A., as offshore collateral agent, pursuant to which Orazul Energía Perú S.A.C. incurred senior secured terms loan in the aggregate principal amount of U.S.$450,000,000. In addition, each of Egenor, Etenorte, Aguaytía, Eteselva and Termoselva are guarantors of the payment obligations of Orazul Energía Perú S.A.C. under the Orazul Loan Agreement.
- On December 20, 2016, Egenor made two loans in the amounts of U.S.$12,900,000 and U.S.$30,331,000 to its indirect parent Orazul Energía Perú S.A.C. The term of each loan is ten years and the applicable interest rate is 5% per annum. As of December 31, 2016, the outstanding amount of this loan is S/.144,910 thousand.
- On December 20, 2016, Etenorte made a U.S.$3,000,000 loan to its indirect parent Orazul Energía Perú S.A.C. The term of the loan is 10 years and the applicable interest rate is 5% per annum. As of December 31, 2016, the outstanding amount of this loan is S/.10,000 thousand.
- On November 28, 2016, Egenor made three loans in the amounts of U.S.$11,000,000, U.S.$1,000,000 and U.S.$4,000,000 to Aguaytía, Eteselva and Termoselva, respectively. The term of each loan is six months and the applicable interest rate is 2.20% per annum. As of December 31, 2016, the outstanding amount of these loans are S/.36,872 thousand, S/.3,352 thousand and S/.13,408 thousand, respectively.
- On January 4, 2016, Egenor entered into management services agreements and operation and maintenance agreements with each of Etenorte, Aguaytía, Eteselva and Termoselva, pursuant to which Egenor renders management, operations and maintenance services to each of Etenorte,

Aguaytía, Eteselva and Termoselva. Each agreement has a term of one year, which term is automatically renewed unless either party gives notice of an intention to terminate the agreement with at least one calendar month's notice. The aggregate amounts Egenor recognized as other income under such agreements was U.S.$11,201 thousand in 2016.

- On May 1, 2001, Aguaytía and Termoselva entered into a natural gas supply agreement (the "Natural Gas Supply Agreement") pursuant to which Aguaytía has agreed to be the exclusive supplier of natural gas to Termoselva for a term of 23 years from the Initial Date (as such term is defined in the Natural Gas Supply Agreement). The contract price is U.S.$2.61/mmBtu. The amounts Aguaytía recognized as revenues under the Natural Gas Supply Agreement were U.S.$11,165 thousand, U.S.$15,241 thousand and U.S.$13,340 thousand for 2016, 2015 and 2014, respectively. Such intercompany revenues are eliminated from the Aguaytía Financial Statements as a result of the consolidation of the financial statements of Aguaytía and its consolidated subsidiaries.

In connection with the consummation of the Acquisition, our Peruvian Holding Company entered into two shareholder loan agreements with its direct shareholder, Orazul Energía Partners LLC, each dated as of December 20, 2016, as described below:

- Loan agreement between Orazul Energía Partners LLC (as "Lender") and our Peruvian Holding Company (as "Borrower") in an aggregate principal amount of up U.S.$255,900,000 to be drawn upon in one or several drawdowns by the Borrower. As of the date of this offering memorandum, the Borrower has drawn down the total amount of the commitment of the shareholder loan. Interest accrues at a rate of 12% per annum or such interest rate as may be agreed upon in writing by the parties thereto from time to time to better reflect market conditions. The current interest rate as agreed upon between the parties is 11% per annum. Accrued interest on the loan is payable at the time of repayment of the loan by the Borrower, which shall be no later than December 20, 2026, which date can be extended on a yearly basis for additional one year terms by either the Lender or the Borrower for up to three years.
- Loan agreement between the Lender and the Borrower in an aggregate principal amount of up U.S.$82,950,000 to be drawn upon in one or several drawdowns by the Borrower. As of the date of this offering memorandum, the Borrower has drawn down the total amount of the commitment of the shareholder loan. Interest accrues at a rate of 0% per annum or such interest rate as may be agreed upon in writing by the parties thereto from time to time to better reflect market conditions. The current interest rate as agreed upon between the parties is 11% per annum. Accrued interest on the loan is payable at the time of repayment of the loan by the Borrower, which shall be no later than December 20, 2017, which date can be extended on a yearly basis for additional one year terms by either the Lender or the Borrower for up to three years.

Pursuant to a Pledge and Subordination Agreement dated December 20, 2016 among the Lender, the Borrower and Citibank, N.A. as offshore collateral agent on behalf of and for the benefit of the senior secured parties named therein, each shareholder loan is currently pledged for the benefit for the lenders from time to time party to the Orazul Loan Agreement, and the administrative agent, offshore collateral agent, joint lead arrangers, mandated lead arrangers and sole book running manager party thereto. Therefore, the shareholder loans described above are subordinated in right of payment to the Orazul Loan Agreement.

Upon consummation of the Corporate Reorganization, the Issuer of the Notes will become the borrower under the shareholder loans described above. We also expect that prior to the consummation of the Corporate Reorganization, Orazul Energía Partners LLC and our Peruvian Holding Company will enter into amendments to the Pledge and Subordination Agreement in order to subordinate such shareholder loan in right of payment to the Notes offered herein.

DESCRIPTION OF THE NOTES

The following is a description of the material terms and conditions of the Notes. For purposes of this "Description of the Notes," the term "Company" means Orazul Energy Egenor S. en C. por A. (f/k/a Duke Energy Egenor S. en C. por A.) and its successors under the Indenture, in each case excluding its Subsidiaries. Certain terms are defined as set forth below under "Certain Definitions." 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. If any discrepancy and/or inconsistency between the Indenture and this "Description of the Notes," the Indenture shall prevail. Copies of the Indenture and specimens of the Notes will be available free of charge for inspection at the offices of the Company upon request. See "Available Information." We also will make copies of the Indenture available to the holders of the Notes, at the corporate trust office of the Trustee located at 388 Greenwich Street, New York, NY 10013, at no cost.

General Overview

The notes (the "*Notes*") will be issued pursuant to the Indenture. The Notes will be issued by the Company, and the Company will be liable therefor and obligated to perform all covenants and agreements to be performed by the Company pursuant to the Notes and the Indenture, including the obligations to pay principal, premium, interest and Additional Amounts (as defined below), if any. Initially, the Trustee will act as Registrar, Transfer Agent and Paying Agent.

Basic Terms of the Notes

The Notes will:

- provide that interest will be payable semi-annually on each April 28 and October 28 thereafter, to the person in whose name a Note is registered at the close of business on the preceding April 13 and October 13, respectively (each, a "*Record Date*");
- provide that interest on the outstanding principal amount will accrue beginning on the date of issuance, at a rate per annum equal to 5.625% per year from April 28, 2017;
- provide that interest on overdue interest will be payable at a rate of 2.00% per annum over the otherwise applicable rate per annum;
- provide that interest will be computed on the basis of a 360-day year of twelve 30-day months; and
- mature on April 28, 2027, at a price of 100% of the outstanding principal amount of the Notes, unless the Company redeems the Notes prior to that date.

The Note Guarantees

The Notes will be guaranteed by Aguaytía (the "*Principal Guarantor*"), the Company's existing Subsidiary Etenorte, Aguaytía's existing Subsidiaries Eteselva and Termoselva (such existing Subsidiaries being the "*Initial Subsidiary Guarantors*") and each of the Company's and the Principal Guarantor's future Restricted Subsidiaries that are Significant Subsidiaries (collectively with the Initial Subsidiary Guarantors and the Principal Guarantor, the "*Guarantors*"). The obligations of the Guarantors under their respective Note Guarantees will be limited as necessary to prevent the Note Guarantees from constituting a fraudulent conveyance under applicable law. See "Risk Factors—A court may use fraudulent conveyance considerations to avoid or subordinate the Note Guarantees."

The Note Guarantee of a Guarantor will terminate upon:

(1) a sale, exchange, transfer or other disposition (including by way of consolidation, merger, amalgamation or otherwise) of the Capital Stock of such Guarantor or the sale or disposition of all or substantially all the assets of the Guarantor to a Person other than to the Company, the Principal Guarantor or a Restricted Subsidiary and as otherwise permitted by the Indenture;

(2) the designation in accordance with the Indenture of the Guarantor as an Unrestricted Subsidiary or the occurrence of any event after which the Guarantor is no longer a Restricted Subsidiary;

(3) defeasance or discharge of the Notes, as provided in "—Defeasance" and "—Satisfaction and Discharge;" or

(4) to the extent that such Guarantor is not an Immaterial Subsidiary solely due to the operation of clause (i) of the definition of "Immaterial Subsidiary," upon the release of the guarantee referred to in such clause.

The Company must notify the Trustee of the release of any Note Guarantee. The Trustee shall execute and deliver an appropriate instrument confirming the release of the applicable Guarantor upon the request of the Company and upon being provided an Officer's Certificate and an opinion of counsel to the Trustee stating that all conditions precedent under the Indenture to the execution and delivery of such instrument have been complied with as provided in the Indenture.

Additional Notes

The Company may from time to time, without the consent of the Holders of the Notes, and subject to the limitations described under "—Restrictive Covenants—Limitation on Indebtedness" below and other applicable provisions of the Indenture, create and issue additional notes having terms and conditions the same as those of the Notes (the "*Additional Notes*"), except for the payment of interest accruing prior to the issue date of such Additional Notes and, in some cases, except for the first payment of interest following the issue date of such Additional Notes, which Additional Notes may be consolidated and form a single series with the outstanding Notes. To the extent that any Additional Notes are part of the same series as the Notes that the Company is currently offering, such Additional Notes will be entitled to vote on all matters on which the Holders of the Notes are entitled to vote. Such Additional Notes will not necessarily be fungible with the Notes for U.S. federal income tax purposes and will only be issued with the same CUSIP number as existing Notes if the Additional Notes are so fungible.

Ranking

The Notes are considered part of the Company's senior unsecured obligations ranking *pari passu* with all of the Company's other senior unsecured and unsubordinated obligations (except those obligations preferred by operation of law). The Note Guarantee of each Guarantor will be an unsecured obligation of such Guarantor, ranking equally in right of payment with all of such Guarantor's existing and future debt that is not subordinated in right of payment to its Note Guarantee (except those obligations preferred by operation of law) and senior in right of payment to all of such Guarantor's future debt that is subordinated in right of payment to its Note Guarantee. The Notes and the Note Guarantees will be effectively junior to all secured debt of the Company or the Guarantors, respectively, to the extent of any collateral securing such debt.

As of December 31, 2016, on a *pro forma* basis, as adjusted to give effect to the offering of the Notes and the application of net proceeds therefrom as described in "Use of Proceeds," the Company would have had approximately U.S.$550.0 million of senior unsecured Indebtedness and no senior secured Indebtedness, in each case on a consolidated basis, and Aguaytía would have had no senior unsecured Indebtedness and no senior secured Indebtedness, in each case on a consolidated basis.

Paying Agent and Registrar for the Notes

The Company will maintain a paying agent and registrar for the Notes in the United States. The Trustee will initially act as the paying agent and registrar for the Notes. The Company may change either the paying agent or registrar under the Indenture without prior notice to the holders of the Notes, and the Company, the Principal Guarantor or any of their respective Restricted Subsidiaries may act as paying agent or registrar.

Upon written request from the Company, the registrar shall provide the Company with a copy of the register to enable the Company to maintain a register of the Notes at its registered offices. In the event of a conflict between any register maintained by the Company and the register maintained by the registrar, the register maintained by the registrar shall prevail.

Notices

All notices to Holders will be deemed to have been duly given upon the mailing of such notices to each such Holder at its address as it appears in the Register. Any notice so mailed shall be deemed to have been given on the date of its postage. In case, by reason of the suspension of or irregularities in regular mail service or by reason of any other cause, it shall be impracticable to mail notice of any event to Holders of Notes when such notice is required to be given pursuant to the Indenture, then any manner of giving such notice as shall be satisfactory to the Trustee shall be deemed sufficient giving of such notice for every purpose hereunder. For so long as any Notes are represented by global notes, all notices to Holders will be delivered to DTC in accordance with the applicable procedures of DTC, delivery of which shall be deemed to satisfy the requirements of this paragraph, which will give such notices to the Holders of book-entry interests. In addition, notices from the Company to Holders of the Notes will be published by the Company as follows: (1) in a leading newspaper having general circulation in the City of Lima; (2) in a leading newspaper of general circulation in the City of New York, published in the English language; (3) as long as any Notes are listed on any stock exchange, as required by the Rules of such Stock Exchange; and (4) as long as any Notes are listed on the Singapore Stock Exchange, announcements will be made through the Singapore Stock Exchange. Notice to be given by any Holder shall be in writing and given by forwarding the same, to the Trustee or any Paying Agent. While any Notes are represented by a Global Note, such notice may be given by any Holder of an interest in such Global Note to the Trustee or any such Paying Agent via DTC, Euroclear and/or Clearstream, Luxembourg in such manner as the Trustee or Paying Agent, as the case may be, and DTC, Euroclear and/or Clearstream, Luxembourg may approve for such purpose. The Trustee, the Registrar, any Paying Agent, any Transfer Agent or any agent of any of such entities may conclusively rely on the records of DTC, Euroclear or Clearstream, Luxembourg, as applicable, as to the identity of owners of beneficial interests in each Global Note and the nominal amounts beneficially owned. Failure to electronically deliver or mail a notice or communication to a Holder or any defect in it shall not affect its sufficiency with respect to other Holders. If a notice or communication is electronically delivered or mailed in the manner provided above, it is duly given, whether or not the addressee receives it.

Repurchases at the Option of the Holders of the Notes Upon Change of Control that Results in a Ratings Event

Upon the occurrence of a Change of Control that results in a Ratings Event, each Holder of Notes will have the right to require the Company to repurchase all or any part (equal to U.S.$200,000 or integral multiples of U.S.$1,000) of that Holder's Notes pursuant to a Change of Control Offer (as defined below) on the terms set forth in the Indenture. In the Change of Control Offer, the Company will offer a "Change of Control Payment" in U.S. dollars equal to 101% of the aggregate principal amount of Notes repurchased plus accrued and unpaid interest, if any, and Additional Amounts, if any, on the Notes repurchased, to, but not including, the date of purchase (subject to the right of the Holders of record on the relevant Record Date to receive interest and Additional Amounts, if any, on the relevant interest payment date).

Within 30 days following the date upon which both any Change of Control and related Ratings Event has occurred, the Company will deliver a "Change of Control Offer" notice to each Holder of Notes (with a copy to the Trustee) in accordance with the provision set out under "—Notices" below, describing the transaction or transactions that constitute the Change of Control and offering to repurchase Notes on the date specified in the notice (the "Change of Control Payment Date"), which date will be no earlier than 30 days and no later than 60 days from the date such notice is delivered, pursuant to the procedures required by the Indenture and described in such notice.

To the extent that the provisions of any securities laws, rules or regulations, including Rule 14e-1 under the Exchange Act, conflict with the provisions of the Indenture, the Company will comply with the applicable securities laws and regulations and shall not be deemed to have breached its obligations described in the Indenture by virtue thereof. The Company may rely on any no-action letters issued by the SEC indicating that the staff of the SEC will not recommend enforcement action in the event a tender offer satisfies certain conditions.

On the business day immediately preceding the Change of Control Payment Date, the Company will, to the extent lawful, deposit with the Paying Agent or tender agent appointed for such purpose an amount equal to the Change of Control Payment in respect of all Notes or portions of Notes so tendered. On the Change of Control Payment Date, the Company will, to the extent lawful:

(1) accept for payment all Notes or portions of Notes properly tendered pursuant to the Change of Control Offer; and

(2) deliver or cause to be delivered to the Trustee the Notes properly accepted together with an Officers' Certificate stating the aggregate principal amount of Notes or portions of Notes being purchased by the Company.

The Paying Agent or tender agent appointed for such purpose will promptly mail to each Holder of Notes properly tendered the Change of Control Payment for such Notes, and the Trustee will promptly authenticate and mail (or cause to be transferred by book entry) to each Holder a new Note equal in principal amount to any unpurchased portion of the Notes surrendered, if any; provided that each new note will be in a principal amount of U.S.$200,000 or an integral multiple of U.S.$1,000 in excess thereof.

The Company will publicly announce the results of the Change of Control Offer on or as soon as practicable after the Change of Control Payment Date. The provisions described above that require the Company to make a Change of Control Offer following a Change of Control and a Ratings Event will be applicable whether or not any other provisions of the Indenture are applicable. Except as described above with respect to a Change of Control and a Ratings Event, the Indenture does not contain provisions that permit the Holders of the Notes to require that the Company repurchase or redeem the Notes in the event of a takeover, recapitalization or similar transaction.

If a Change of Control Offer occurs, there can be no assurance that the Company will have available funds sufficient to make the Change of Control Payment for all the Notes that might be delivered by Holders seeking to accept the Change of Control Offer. In the event that the Company is required to purchase outstanding Notes pursuant to a Change of Control Offer, the Company may seek third party financing to the extent the Company does not have available funds to meet its purchase obligations and any other obligations it may have. There can be no assurance, however, that that the

Company will be able to obtain necessary financing or that such third party financing will be permitted under the terms of the Indenture and its other Indebtedness.

The Company is only required to make a Change of Control Offer in the event that both a Change of Control and resulting Ratings Event occurs. Consequently, if a Change of Control were to occur which does not result in a Ratings Event, the Company would not be required to offer to repurchase the Notes. In addition, the Company 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 Company 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.

At any time, the Company or a third party will have the right to redeem the Notes at 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to (but not including) the date of purchase (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date falling prior to or on the purchase date) following the consummation of a Change of Control if at least 90% of the Notes outstanding prior to such date of purchase are purchased pursuant to a Change of Control Offer (as defined below) with respect to such Change of Control that results in a Rating Event.

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 Event, 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 Company may contain prohibitions on the occurrence of events that would constitute a Change of Control or require that Indebtedness be purchased upon a Change of Control. Moreover, the exercise by the Holders of their rights to require the Company to repurchase the Notes upon a Change of Control may cause a default under such Indebtedness even if the Change of Control itself does not.

Mandatory Redemption

The Company will not be required to make any mandatory redemption or sinking fund payments with respect to the Notes.

Optional Redemption

Optional Redemption. Prior to April 28, 2022, the Company will have the right, at its option, to redeem any of the Notes, in whole or in part, at any time and from time to time at a redemption price equal to the greater of (1) 101% of the principal amount of such Notes and (2) the present value to be calculated by an Independent Investment Banker at such redemption date of (i) the redemption price of such Notes at April 28, 2022 (such redemption price being set forth in the table below) *plus* (ii) all required interest payments through April 28, 2022 on such Notes (excluding accrued but unpaid interest to the redemption date), in each case, discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate *plus* 50 basis points, *plus* in each case any accrued and unpaid interest on the principal amount of such Notes to, but excluding, the date of redemption.

"*Treasury Rate*" means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield to maturity or interpolated maturity (on a day count basis) of the

Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

"*Comparable Treasury Issue*" means the U.S. Treasury security or securities selected by an Independent Investment Banker as having an actual or interpolated maturity that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities with a maturity of April 28, 2022.

"*Independent Investment Banker*" means one of the Reference Treasury Dealers appointed by the Company.

"*Comparable Treasury Price*" means, with respect to any redemption date, (1) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotation or (2) if the Company obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

"*Reference Treasury Dealers*" mean Deutsche Bank Securities Inc, Citigroup Global Markets Inc. and Morgan Stanley & Co. LLC or their respective affiliates which are primary U.S. government securities dealers and not less than two other leading primary U.S. government securities dealers in New York City reasonably designated by the Company; *provided*, *however*, that if any of the foregoing shall cease to be a primary U.S. government securities dealer in New York City (a "*Primary Treasury Dealer*"), the Company 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 Company, of the bid and asked price for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Company by such Reference Treasury Dealer at 3:30 p.m. New York time on the third business day preceding such redemption date.

The Company may redeem the Notes, at any time on or after April 28, 2022, at its option, in whole or in part, at the following redemption prices, expressed as percentages of the principal amount of the Notes outstanding, if redeemed during the twelve-month period beginning April 28 of the year set forth below (subject to the right of Holders of record on the relevant Record Date to received interest due on the relevant interest payment date), *plus*, in each case, any accrued and unpaid interest, and Additional Amounts, if any. Notice of such redemption to each Holder of Notes must be mailed 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.

Year	Percentage
2022	102.8125%
2023	101.8750%
2024	100.9375%
2025 and thereafter	100.0000%

Optional Redemption upon Equity Event. In addition, as any time, or from time to time, on or prior to April 28, 2022, the Company may, at its option, use the net cash proceeds of one or more Equity Events to redeem in the aggregate up to 35% of the aggregate principal amount of the Notes originally issued (calculated after giving effect to the original issuance of Additional Notes, if any) at a redemption price equal to 105.625% of the principal amount thereof, *plus* accrued and unpaid interest to, but excluding, the date of redemption (subject to the right of the Holders of record on the relevant record date to received interest due on the relevant interest payment date); *provided*, *however*, that at least 65% of the original aggregate principal amount of the Notes (calculated after giving effect to the issuance of Additional Notes, if any) must remain outstanding immediately after giving effect to each such redemption (excluding any Notes held by the Company, and direct or indirect parent company of the Company or any of the Company's Subsidiaries). Notice of any such redemption must be given within 120 days after the date of the closing of the relevant Equity Event.

"*Equity Event*" means a public or private offering of Qualified Capital Stock of the Company.

Optional Redemption Procedures. Notes called for redemption will become due on the date fixed for redemption. On and after the redemption date, interest will cease to accrue on the Notes as long as the Company has deposited with the Paying Agent funds in satisfaction of the applicable redemption price *plus* accrued and unpaid interest and Additional Amounts, if any, pursuant to the Indenture. Upon redemption by the Company, the redeemed Notes will be cancelled. If less than all of the Notes are to be redeemed, the Notes to be redeemed will be selected *pro rata*, by lot or in accordance with DTC's applicable procedures.

Optional Tax Redemption

The Notes may be redeemed at the Company's election, in whole, but not in part, by the giving of notice as provided in the Indenture, at a price in U.S. dollars equal to the outstanding principal amount thereof, together with any Additional Amounts and accrued and unpaid interest to the redemption date, if, as a result of any change in, or amendment to, the laws (or any regulations or rulings promulgated thereunder) or treaties of Peru or any political subdivision or taxing authority thereof or therein, or any change in the official application, administration or interpretation of such laws, regulations, rulings or treaties in Peru, the Company has or will become obligated to pay Additional Amounts on the Notes in excess of those attributable to a Peruvian withholding tax rate of 4.99% of the scheduled payments of interest due on the Notes, if such change or amendment is announced on or after the Issue Date and such obligation cannot be avoided by the Company taking commercially reasonable measures available to it; *provided*, *however*, that no such notice of redemption shall be given earlier than 60 days prior to the earliest date on which the Company would be obligated to pay such Additional Amounts, were a payment in respect of the Notes then due.

Notice of any redemption will be mailed at least 30 days but not more than 60 days before the redemption date to each Holder of Notes to be redeemed (with a copy to the Trustee).

Prior to the giving of notice of redemption of such Notes pursuant to the Indenture, the Company will deliver to the Trustee an Officers' Certificate and a written opinion of recognized Peruvian counsel, independent of the Company, to the effect that all approvals necessary for the Company to effect such redemption have been or at the time of redemption will be obtained and in full force and effect and that the Company is 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.

Unless the Company defaults in the payment of the redemption price, on and after the redemption date, interest will cease to accrue on the Notes.

Restrictive Covenants

Limitation on Restricted Payments

(1) Neither the Company nor the Principal Guarantor will, nor will the Company or the Principal Guarantor permit any of their respective Restricted Subsidiaries to, directly or indirectly:

    (a) declare or pay any dividend or make any distribution on or in respect of its Capital Stock (including any payment in connection with any merger or consolidation involving the Company, the Principal Guarantor or any Restricted Subsidiary of the Company or the Principal Guarantor) except (i) dividends or distributions by the Company payable solely in the form of its Capital Stock (other than Disqualified Stock) or (ii) dividends or distributions by the Principal Guarantor or any Restricted Subsidiary payable to the Company, the Principal

Guarantor or any Restricted Subsidiary thereof (and, if such Restricted Subsidiary has shareholders other than the Company, the Principal Guarantor or any other Restricted Subsidiary, to its other shareholders on a *pro rata* basis);

(b) purchase, redeem, retire or otherwise acquire for value any Capital Stock of the Company or the Principal Guarantor held by Persons other than the Company, the Principal Guarantor or a Restricted Subsidiary thereof (other than a purchase, redemption, retirement or other acquisition for value that would constitute a Permitted Investment) or any Capital Stock of a Parent Entity;

(c) make any principal payment on, purchase, repurchase, redeem, defease or otherwise acquire or retire for value, prior to scheduled maturity, scheduled repayment or scheduled sinking fund payment or any Subordinated Obligations of the Company or any Guarantor (other than (x) a scheduled payment of interest (*provided* no Default or Event of Default shall have occurred and be continuing), (y) the purchase, repurchase, redemption, defeasance or other acquisition of Subordinated Obligations made in anticipation of satisfying a sinking fund obligation, a principal installment or a final maturity, in each case, due within one year of the date of such purchase, repurchase, redemption, defeasance or other acquisition or (z) any intercompany Indebtedness between or among the Company, the Principal Guarantor and any of the Restricted Subsidiaries); or

(d) make any Restricted Investment;

(the actions described in clauses (a) through (d) above being herein referred to as "*Restricted Payments*" and each, a "*Restricted Payment*"), if at the time the Company, the Principal Guarantor or any of their respective Restricted Subsidiaries makes such Restricted Payment:

(i) a Default or an Event of Default has occurred and is continuing;

(ii) after giving *pro forma* effect to the Restricted Payment, the Company or the Principal Guarantor is not able to Incur at least U.S.$1.00 of additional Indebtedness pursuant to either ratio in clause (a) of paragraph (1) under "—Limitation on Indebtedness" below; or

(iii) the aggregate amount of such Restricted Payment and all other Restricted Payments, excluding Permitted Payments contemplated by clauses (a) through (d) and (f) through (m) of paragraph (2) below, declared or made subsequent to the Issue Date would exceed the sum of, without duplication:

(A) 100% of the Combined Consolidated Net Income accrued during the period (treated as one accounting period) from July 1, 2016 to the end of the most recent fiscal quarter for which internal financial statements are available prior to the date of such Restricted Payment (or, in case such Combined Consolidated Net Income will be a deficit, *minus* 100% of such deficit); *plus*

(B) 100% of the aggregate Net Cash Proceeds, and the Fair Market Value of any property, received by the Company or the Principal Guarantor, as the case may be, from the issue or sale of its Capital Stock (other than Disqualified Stock) or other capital contributions subsequent to the Issue Date (other than net cash proceeds received from an issuance or sale of such Capital Stock to any Restricted Subsidiary of the Company or the Principal Guarantor or an employee stock ownership plan, option plan or similar trust to the extent such sale to an employee stock ownership plan or similar trust is financed by loans from or Guaranteed by the Company, the Principal Guarantor or any Restricted Subsidiary thereof of the Company or the

Principal Guarantor, as applicable, except to the extent such loans have been repaid with cash on or prior to the date of determination); *plus*

(C) the amount of a Guarantee of the Company, the Principal Guarantor or any Restricted Subsidiary thereof upon the unconditional release in full of the Company, the Principal Guarantor or such Restricted Subsidiary from such Guarantee if such Guarantee was previously treated as a Restricted Payment; and in the event that the Company, the Principal Guarantor or any Restricted Subsidiary thereof makes an Investment in a Person that, as a result of or in connection with such Investment, becomes a Restricted Subsidiary, an amount equal to the Company's, the Principal Guarantor's or such Restricted Subsidiary's existing Investment in such Person; *provided* that any amount added pursuant to this clause (C) shall not exceed the amount of such Guarantee or Investment, respectively, previously made and treated as a Restricted Payment and not previously added pursuant to this clause (C); and *provided*, *however*, that no amount will be included under this clause (C) to the extent it is already included in determining Combined Consolidated Net Income included in clause (A) above; *plus*

(D) to the extent that any Unrestricted Subsidiary of the Company or the Principal Guarantor, as the case may be, is redesignated as a Restricted Subsidiary, the Fair Market Value of the direct or indirect Investment of the Company or the Principal Guarantor, as applicable, in such Subsidiary as of the date of such redesignation; *provided* that any amount added to this clause (D) shall not exceed the amount of such Investments previously made in such Subsidiary; *plus*

(E) 100% of the proceeds of any sale of stock (other than to the Company, the Principal Guarantor or any Restricted Subsidiary thereof) or dividends or distributions received by the Company, the Principal Guarantor or any Restricted Subsidiary thereof from an Unrestricted Subsidiary, to the extent such amounts were not otherwise included in determining the Combined Consolidated Net Income included in clause (A) above; *plus*

(F) the issuance and sale subsequent to the Issue Date (and, in the case of Indebtedness of a Restricted Subsidiary, at such time as it was a Restricted Subsidiary) of any Indebtedness of the Company, the Principal Guarantor or any Restricted Subsidiary thereof that has been converted into or exchanged for Capital Stock (other than Disqualified Stock) of the Company or the Principal Guarantor; *plus*

(G) to the extent that any Investment (other than a Permitted Investment) that was made after the date of the Issue Date is sold for cash or otherwise liquidated or repaid for cash, the lesser of (i) the cash return of capital with respect to such Investment (less the cost of disposition, if any) and (ii) the initial amount of such Investment, to the extent such amount was not otherwise included in determining the Combined Consolidated Net Income included in clause (A) above; *plus*

(H) The aggregate amount of Excess Net Cash Proceeds since the Issue Date following the consummation or expiration of any Asset Sale Offer related thereto to the extent not used pursuant to clause (d)(ii) of paragraph (2) below; *plus*

(I) U.S.$20.0 million.

(2) The provisions of paragraph (1) above will not prohibit the following (collectively, "*Permitted Payments*"):

(a) any purchase, repurchase, redemption, defeasance or other acquisition or retirement for value or reduction of Capital Stock or Subordinated Obligations of the Company or the Principal Guarantor, or any dividend, distribution or other payment, or the making of any Investment, in each case made or paid by exchange for, or out of the proceeds of the substantially concurrent sale of, Capital Stock of the Company or the Principal Guarantor (other than Disqualified Stock and other than Capital Stock issued or sold by the Company to a Restricted Subsidiary of the Company or by the Principal Guarantor to a Restricted Subsidiary of the Principal Guarantor or an employee stock ownership plan or other trust established by the Company, the Principal Guarantor or any of their respective Restricted Subsidiaries to the extent that such sale to an employee stock ownership plan or other trust was financed by loans from or Guaranteed by the Company, the Principal Guarantor or a Restricted Subsidiary thereof, as applicable, unless such loans have been repaid with cash on or prior to the date of determination); *provided*, *however*, that (x) such purchase, repurchase, redemption, defeasance, acquisition or retirement or reduction, or such dividend, distribution or other payment, or such Investment, will be excluded in subsequent calculations of the amount of Restricted Payments and (y) the net cash proceeds from such sale of Capital Stock, to the extent such net cash proceeds are used for such purchase, repurchase, redemption, defeasance, acquisition or retirement or reduction, or such dividend, distribution or other payment, or such Investment, will be excluded from clause (iii)(B) of paragraph (1) of this covenant;

(b) repurchases by (A) the Company of Capital Stock of the Company or options exercisable or convertible into Capital Stock of the Company and (B) the Principal Guarantor of Capital Stock of the Principal Guarantor or options exercisable or convertible into Capital Stock of the Principal Guarantor, in each case, from any current or former employees, officers, directors or consultants of the Company or any of its Subsidiaries to the extent such securities or options were issued pursuant to the employee stock ownership plan of the Company or the Principal Guarantor, as applicable, and such securities or options were outstanding on the Issue Date (or in the case of securities issued after the Issue Date pursuant to such options, such options were outstanding on the Issue Date); and other repurchases by the Company or the Principal Guarantor, as applicable, of Capital Stock of the Company or the Principal Guarantor, as applicable, or options, warrants or other securities exercisable or convertible into Capital Stock of the Company or the Principal Guarantor, as applicable, from any current or former employees, officers, directors or consultants of the Company or any of its Subsidiaries or the Principal Guarantor or any of its Subsidiaries, as applicable, or their authorized representatives upon the death, disability or termination of employment or directorship of such employees, officers or directors, or the termination of retention of any such consultants, in an amount not to exceed U.S.$2.0 million in any calendar year; *provided* that such amount in any calendar year may be increased by an amount not to exceed:

(i) the cash proceeds from the sale of Capital Stock (other than Disqualified Stock) of the Company and, to the extent contributed to the capital of the Company or the Principal Guarantor (other than through the issuance of Disqualified Stock), Capital Stock of any Parent Entity, in each case to members of management, directors or consultants of the Company, the Principal Guarantor or any of their respective Subsidiaries or any Parent Entity that occurred after the Issue Date (so long as not also included in determining the amount of clause (iii)(B) of paragraph (1) of this covenant); *less*

(ii) the amount of any Restricted Payments made in previous calendar years pursuant to clause (i) preceding;

and, *provided*, *further*, that cancellation of Indebtedness owing to the Company, the Principal Guarantor or any Restricted Subsidiary from any future, present or former members of management, directors, employees, contractors or consultants of the Company or Restricted Subsidiaries or any Parent Entity in connection with a repurchase of Capital Stock of the Company or any Parent Entity will not be deemed to constitute a Restricted Payment for purposes of this covenant or any other provision of the Indenture so long as no cash payment is made in connection with such cancellation of Indebtedness;

(c) the repurchase of Capital Stock deemed to occur upon the exercise of stock options or warrants to the extent such Capital Stock represents a portion of the exercise price of those stock options or warrants;

(d) any purchase, repurchase, redemption, defeasance or other acquisition or retirement of Subordinated Obligations or Disqualified Stock or Preferred Stock of a Restricted Subsidiary:

(i) so long as no Default or Event of Default has occurred and is continuing, any purchase or redemption of Subordinated Obligations at a purchase price of up to 101% of the principal amount thereof (together with accrued and unpaid interest) in the event of the occurrence of a Change of Control; *provided*, *however*, that prior to such purchase or redemption, the Company (or a third party to the extent permitted by the Indenture) has made the Change of Control Offer described under "—Repurchases at the Option of the Holders of the Notes Upon Change of Control" and has purchased all Notes validly tendered and not withdrawn pursuant thereto; or

(ii) so long as no Default or Event of Default has occurred and is continuing, from Net Cash Proceeds from an Asset Disposition to the extent permitted under "—Limitation on Sales of Assets" below;

(e) dividends paid in accordance with applicable law within 60 days after the date of declaration thereof if at such date of declaration such dividend would have complied with this covenant;

(f) dividends, loans, advances, distributions or any other Investments made to any Parent Entity or other payments by the Company, the Principal Guarantor or any of their respective Restricted Subsidiaries in amounts equal to (without duplication):

(i) the amounts required for any Parent Entity to pay any Parent Entity Expenses or any Related Taxes;

(ii) amounts constituting or to be used for purposes of making payments to the extent specified in clauses (a), (e) and (g) of the second paragraph under "—Limitations on Transactions with Affiliates;" and

(iii) the Special Dividend and the Proceeds Loan.

(g) payments by the Company or the Principal Guarantor, or loans, advances, dividends or distributions to any Parent Entity to make payments, to holders of Capital Stock of the Company, the Principal Guarantor or any Parent Entity in lieu of the issuance of fractional shares of such Capital Stock;

(h) distributions, by dividends or otherwise, or other transfer or disposition of shares of Capital Stock of, of equity interests in, or Indebtedness owed to the Company, the Principal Guarantor or any of their respective Restricted Subsidiaries by, Unrestricted Subsidiaries (other than Unrestricted Subsidiaries, substantially all of the assets of which are cash and Cash Equivalents);

(i) the making of any Permitted Investment;

(j) Restricted Payments to a Parent Entity to finance Investments that would otherwise be permitted to be made pursuant to this covenant if made by the Company; *provided* that (A) such Restricted Payment shall be made substantially concurrently with the closing of such Investment, (B) such Parent Entity shall, immediately following the closing thereof, cause (1) all property acquired (whether assets or Capital Stock) to be contributed to the capital of the Company, the Principal Guarantor or one of their respective Restricted Subsidiaries or (2) the merger, consolidation or amalgamation of the Person formed or acquired into the Company, the Principal Guarantor or one of their respective Restricted Subsidiaries (to the extent not prohibited by the covenant described under the caption "—Consolidation, Merger, Conveyance, Sale or Lease" above) in order to consummate such Investment, (C) such Parent Entity and its Affiliates (other than the Company, the Principal Guarantor or a Restricted Subsidiary) receives no consideration or other payment in connection with such transaction except to the extent the Company, the Principal Guarantor or a Restricted Subsidiary could have given such consideration or made such payment in compliance with the Indenture and such consideration or other payment is included as a Restricted Payment under the Indenture, (D) any property received by the Company shall not increase amounts available for Restricted Payments pursuant to clause (iii) of paragraph (1) of this covenant and (E) such Investment shall be deemed to be made by the Company, the Principal Guarantor or such Restricted Subsidiary pursuant to another provision of this covenant or pursuant to the definition of "Permitted Investments."

(k) mandatory redemptions of Disqualified Stock issued as a Restricted Payment or as consideration for a Permitted Investment; *provided* that (A) the aggregate amount paid for such redemptions with respect to any such issuance is no greater than the corresponding amount that constituted a Restricted Payment or Permitted Investment upon issuance thereof and (B) at the time of and after giving effect to such mandatory redemption, the Company or the Principal Guarantor would be entitled to Incur an additional U.S.$1.00 of Indebtedness pursuant to each ratio in clause (a) of paragraph (1) under "—Limitation on Indebtedness" below;

(l) the declaration and payment of dividends on Disqualified Stock or Preferred Stock of a Restricted Subsidiary that in each case were Incurred in accordance with the terms of the covenant described under "—Limitation on Indebtedness" below; and

(m) if no Default or Event of Default shall have occurred and be continuing, other Restricted Payments in an aggregate amount not to exceed the greater of U.S.$25.0 million and 15.0% of Combined Consolidated Adjusted EBITDA.

The amount of all Restricted Payments (other than cash) shall be the Fair Market Value on the date of such Restricted Payment of the asset(s) or securities proposed to be paid, transferred, issued, purchased, repurchased, redeemed, retired, defeased or otherwise acquired by the Company, the Principal Guarantor or any Restricted Subsidiary thereof, as the case may be, pursuant to such Restricted Payment. The Fair Market Value of any cash Restricted Payment shall be its face amount. The Fair Market Value of any non-cash Restricted Payment shall be determined by the senior management of the Company or the Principal Guarantor, as applicable, in good faith.

Notwithstanding any other provision of this covenant, the maximum amount of any Restricted Payment or other Investment by the Company, the Principal Guarantor or any Restricted Subsidiary thereof will not be deemed to be in violation of this covenant solely as a result of fluctuations in the exchange rates or currency values.

For purposes of determining compliance with this covenant, in the event that a Restricted Payment (or portion thereof) meets the criteria of more than one of the categories of Permitted Payments described in clauses (a) through (m) above, or is permitted pursuant to the first paragraph of this covenant and/or one or more of the clauses contained in the definition of "Permitted Investments," the Company will be entitled to classify such Restricted Payment or Investment (or portion thereof) on the date of its payment or later reclassify (based on circumstances existing on the date of such reclassification) such Restricted Payment or Investment (or portion thereof) in any manner that complies with this covenant, including as an Investment pursuant to one or more of the clauses contained in the definition of "Permitted Investments."

Limitation on Indebtedness

(1) Neither the Company nor the Principal Guarantor will, nor will the Company or the Principal Guarantor permit any of their respective Restricted Subsidiaries to, directly or indirectly, Incur any Indebtedness; *provided*, *however*, that the Company, the Principal Guarantor and their respective Restricted Subsidiaries may Incur Indebtedness if:

(a) on the date of such Incurrence and immediately after giving effect thereto and the application of the proceeds therefrom, the Combined Interest Coverage Ratio would be no less than 2.00 to 1.00 and the Combined Total Net Debt to EBITDA Ratio would be no greater than 3.75 to 1.00, in each case determined on a *pro forma* basis (including the application of proceeds) as if such Indebtedness had been Incurred at the beginning of the applicable four-quarter period; and

(b) No Event of Default shall have occurred and be continuing at the time of such Incurrence.

(2) Notwithstanding clause (1) above, the Company, the Principal Guarantor or any of their respective Restricted Subsidiaries may Incur the following Indebtedness:

(a) intercompany Indebtedness between or among the Company, the Principal Guarantor and any Restricted Subsidiary; *provided*, *however*, that (i) (A) such Indebtedness must be unsecured and (B) if the Company or the Principal Guarantor is the obligor and the obligee is a non-Guarantor Restricted Subsidiary, such Indebtedness is subordinated to the prior payment in full of all obligations under the Notes and the Indenture, and (ii) any subsequent issuance or transfer of Capital Stock or any other event that results in any such Indebtedness being held by a Person other than the Company, the Principal Guarantor or the respective Restricted Subsidiary of the Company or the Principal Guarantor, as applicable, and any sale or other transfer of any such Indebtedness to a Person that is neither the Company, the Principal Guarantor nor the respective Restricted Subsidiary thereof will be deemed, in each case, to constitute an incurrence of such Indebtedness by the Company, the Principal Guarantor or such relevant Restricted Subsidiary, as the case may be, on the date of such issuance or transfer that was not permitted by this clause (a) at the time such event occurs;

(b) (i) Indebtedness represented by the Notes (other than any Additional Notes) and the Note Guarantees; and

(ii) Indebtedness existing on the Issue Date; *provided* that, within (x) five business days following the Issue Date, the Company shall have prepaid in full the aggregate outstanding principal amount and accrued interest and premium, if any, of the Existing Bonds and (y) within 30 business days following the Issue Date, there shall have been prepaid in full with the Proceeds Loan the aggregate outstanding amounts in respect of the senior secured credit facility of Orazul;

(c) Acquired Indebtedness; *provided* that such Indebtedness and Acquired Indebtedness is in an aggregate principal amount not to exceed (i) the greater of $40.0 million and 35.0% of Combined Consolidated Adjusted EBITDA at the time of Incurrence *plus* (ii) unlimited additional Indebtedness if after giving effect to such acquisition, merger or consolidation and such Acquired Indebtedness and additional Indebtedness, either

(i) the Company or Principal Guarantor would be permitted to Incur at least $1.00 of additional Indebtedness pursuant to each ratio in paragraph (1) of this covenant, or

(ii) the Combined Total Net Debt to EBITDA Ratio would not be higher than it was immediately prior to such acquisition, merger or consolidation

and, in each case, without duplication, any Refinancing Indebtedness thereof.

(d) Indebtedness represented by Capitalized Lease Obligations or Purchase Money Obligations in an aggregate outstanding principal amount which, when taken together with the principal amount of all other Indebtedness Incurred pursuant to this clause and then outstanding, does not exceed the greater of (i) U.S.$15.0 million and (ii) 10.0% of Combined Consolidated Adjusted EBITDA at the time of Incurrence and any Refinancing Indebtedness in respect thereof;

(e) Indebtedness created in connection with any Sale and Lease Back Transaction incurred in compliance with "—Limitation on Sale and Lease Back Transactions" below;

(f) current accounts payable arising, accrued expenses incurred, and financing of insurance premiums, in the ordinary course of business which are payable in accordance with customary practices that are not overdue by more than 90 days;

(g) Indebtedness arising from Guarantees or letters of credit securing the performance of the Company, the Principal Guarantor or any Restricted Subsidiary thereof pursuant to any Material Agreement entered into in the ordinary course of business of such the Company, the Principal Guarantor or such Restricted Subsidiary, as applicable, or permitted dispositions of any business assets in accordance with the terms of the Indenture, and, to the extent constituting Indebtedness, obligations in respect of performance bonds, bid bonds, appeal bonds, workers' compensation claims, surety bonds, indemnification obligations, obligations to pay insurance premiums, take-or-pay obligations contained in supply agreements, any customary treasury, depositary, cash management, automatic clearinghouse arrangements, overdraft protections, credit or debit card, purchase card, electronic funds transfer, cash pooling or netting or setting off arrangements and similar obligations incurred in the ordinary course of business of the Company, the Principal Guarantor or any Restricted Subsidiary thereof;

(h) customary contingent liabilities incurred in the ordinary course of business in respect of the acquisition or sale of goods, services, supplies or merchandise in the ordinary course of business, the endorsements in the ordinary course of business of negotiable instruments received in the ordinary course of business and customary indemnities provided under the Indenture or any Material Agreements;

(i) to the extent constituting Indebtedness, Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument drawn against insufficient funds in the ordinary course of business or other cash management services in the ordinary course of business of the Company, the Principal Guarantor or any Restricted Subsidiary thereof; *provided*, *however*, that such Indebtedness is extinguished within 10 business days of its Incurrence;

(j) Indebtedness in respect of any bankers' acceptance, warehouse receipt or similar facilities entered into in the ordinary course of business of the Company, the Principal Guarantor or any Restricted Subsidiary thereof;

(k) ordinary course obligations in respect of deposit accounts permitted hereunder and opened and maintained in the ordinary course of business of the Company, the Principal Guarantor or any Restricted Subsidiary thereof;

(l) employee benefit plan obligations and liabilities arising by operation of law and in the ordinary course of business of the Company, the Principal Guarantor or any Restricted Subsidiary thereof, to the extent they are permitted to remain unfunded under applicable law;

(m) Indebtedness for taxes, assessments or governmental charges which are not yet due, or (i) which are adequately bonded or for which adequate reserves in accordance with IFRS have been made and (ii) which are being contested in good faith;

(n) Indebtedness consisting of Refinancing Indebtedness Incurred in respect of any Indebtedness (including Refinancing Indebtedness) Incurred by the Company, the Principal Guarantor or any Restricted Subsidiary thereof pursuant to clauses (b) (excluding the Existing Bonds), (g), (o) and (p) of this paragraph (2), this clause (n) or paragraph (1) above;

(o) Hedging Obligations of the Company, the Principal Guarantor or any Restricted Subsidiary thereof in the ordinary course of business or directly related to the Notes or other Indebtedness permitted to be Incurred by the Company, the Principal Guarantor or any Restricted Subsidiary thereof pursuant to the Indenture for the purpose of fixing or hedging interest rate risk or currency fluctuations, and, in each case, not for speculative purposes; provided that to the extent such Hedging Obligations increase the Indebtedness of the Company, the Principal Guarantor or any Restricted Subsidiary thereof outstanding at any time other than as a result of fluctuations in foreign currency exchange rates or interest rates such increased amount of Indebtedness shall be Indebtedness which is not permitted to be incurred pursuant to this clause (o); *provided*, *further*, that the amount of Indebtedness in respect of any Hedge Agreement shall be at any time the unrealized net loss position, if any, of the Company, the Principal Guarantor and/or the Restricted Subsidiaries thereof thereunder on a marked-to-market basis determined no more than one month prior to such date;

(p) (i) Guarantees by the Company, the Principal Guarantor or any of their respective Restricted Subsidiaries of Indebtedness or other obligations of the Company, the Principal Guarantor or any of their respective Restricted Subsidiaries so long as the Incurrence of such Indebtedness or other obligations is not prohibited by the terms of the Indenture and (ii) Guarantees by Non-Guarantors of Indebtedness of other Non-Guarantors so long as the incurrence of such underlying Indebtedness being Guaranteed is permitted under the terms of the Indenture;

(q) Indebtedness Incurred or Disqualified Stock issued by the Company, the Principal Guarantor or any Restricted Subsidiary thereof or Preferred Stock issued by any of their respective Restricted Subsidiaries to the extent that the net proceeds thereof are promptly deposited with the Trustee to satisfy and discharge the Notes in accordance with the Indenture;

(r) Indebtedness of Non-Guarantors in an aggregate amount not to exceed U.S.$5.0 million and, without duplication, any Refinancing Indebtedness thereof;

(s) Indebtedness consisting of promissory notes issued by the Company, the Principal Guarantor or any of their respective Restricted Subsidiaries to any future, present or former employee, director, contractor or consultant of the Company, the Principal Guarantor, any of their respective Restricted Subsidiaries or any Parent Entity (or permitted transferees, assigns, estates, or heirs of such employee, director, contractor or consultant), to finance the purchase or redemption of Capital Stock of the Company or any Parent Entity that is permitted by the covenant described below under "—Limitation on Restricted Payments;"

(t) Indebtedness Incurred by the Company, the Principal Guarantor or any Restricted Subsidiary thereof in the ordinary course of business pursuant to any working capital credit facility; *provided* that the aggregate amount of all such Indebtedness pursuant to this clause (t) shall not exceed the greater of U.S.$30.0 million and 25% of Combined Consolidated Adjusted EBITDA at any time outstanding and any Refinancing Indebtedness thereof; and

(u) Indebtedness of the Company, the Principal Guarantor or any of their respective Restricted Subsidiaries in an aggregate principal amount incurred pursuant to this clause not to exceed the greater of U.S.$30.0 million and 25.0% of Combined Consolidated Adjusted EBITDA at any time outstanding and, without duplication, any Refinancing Indebtedness in respect thereof.

(3) For purposes of determining compliance with this covenant:

(a) in the event that an item of Indebtedness meets the criteria of more than one of the types of Indebtedness described above, including clause (1) above, the Company, in its sole discretion, may classify, and from time to time may reclassify, such item of Indebtedness in one or more of the above clauses;

(b) the Company will be entitled to divide and classify, and from time to time may reclassify, an item of Indebtedness in more than one of the types of Indebtedness described above, including paragraph (1) above; and

(c) with respect to any U.S. dollar-denominated restriction on the incurrence of Indebtedness, the U.S. dollar-equivalent principal amount of Indebtedness denominated in a foreign currency shall be calculated based on the relevant currency exchange rate in effect on the date such Indebtedness was incurred, in the case of term Indebtedness, or first committed, in the case of revolving credit Indebtedness. The principal amount of any Indebtedness incurred to Refinance other Indebtedness, if incurred in a different currency from the Indebtedness being Refinanced, shall be calculated based on the currency exchange rate applicable to the currencies in which such Refinancing Indebtedness is denominated that is in effect on the date of such Refinancing.

Accrual of interest, accrual of dividends, the accretion or amortization of accreted value or original issue discount, the capitalization of interest or the payment of interest in the form of additional Indebtedness and the payment of dividends in the form of additional shares of Disqualified Stock, as the case may be, will not be deemed to be an Incurrence of Indebtedness for purposes of this covenant.

Notwithstanding any other provision of this covenant, neither the Company, the Principal Guarantor nor any Restricted Subsidiary thereof shall, with respect to any outstanding Indebtedness Incurred, be deemed to be in violation of this covenant solely as a result of fluctuations in the exchange rates of currencies.

If at any time an Unrestricted Subsidiary becomes a Restricted Subsidiary, any Indebtedness of such Subsidiary shall be deemed to be Incurred as of such date (and, if such Indebtedness is not permitted to be Incurred as of such date under this covenant, the Company shall be in Default of this covenant as of such date).

Limitation on Liens

Each of the Company and the Principal Guarantor covenants and agrees that neither it nor any of its respective Restricted Subsidiaries will incur, issue, assume (or permit to exist) or Guarantee any Indebtedness secured by a Lien upon any property or assets of the Company, the Principal Guarantor or any Restricted Subsidiary thereof without effectively providing that the Notes (together with, if the Company or the Principal Guarantor, as applicable, so determines, any other Indebtedness or obligation then existing or thereafter created) shall be secured equally and ratably with (or prior to) such Indebtedness so long as such Indebtedness shall be so secured, except that the foregoing provisions shall not apply to, without duplication (collectively, "*Permitted Liens*"):

(1) Liens on any property or assets acquired from a Person which is merged acquired, amalgamated, consolidated or otherwise combined with or into the Company, the Principal Guarantor or any Restricted Subsidiary thereof, or any Liens on the property or assets of any Person or other entity existing at the time such Person or other entity becomes a Restricted Subsidiary and, in either such case, is not created as a result of or in connection with or in anticipation of any such transaction; *provided* that such Liens may not extend to any other property (plus improvements, accessions, distributions or replacement of any thereof) owned by the Company, the Principal Guarantor or any Restricted Subsidiary thereof;

(2) any Lien on any property or assets existing at the time of acquisition thereof and which is not created as a result of or in connection with or in anticipation of such acquisition; *provided* that such Liens may not extend to any other property owned by the Company, the Principal Guarantor or any Restricted Subsidiary thereof;

(3) pledges, deposits or Liens under workers' compensation laws, payroll taxes, unemployment insurance laws, social security laws or similar legislation, or insurance related obligations (including pledges or deposits securing liability to insurance carriers under insurance or self-insurance arrangements), or in connection with bids, tenders, completion guarantees, contracts (other than for borrowed money) or leases, or to secure utilities, licenses, public or statutory obligations, or to secure the performance of bids, trade contracts, government contracts and leases, statutory obligations, surety, stay, indemnity, judgment, customs, appeal or performance bonds, guarantees of government contracts, return-of-money bonds, bankers' acceptance facilities (or other similar bonds, instruments or obligations), obligations in respect of letters of credit, bank guarantees or similar instruments that have been posted to support the same, or as security for contested taxes or import or customs duties or for the payment of rent, or other obligations of like nature, in each case Incurred in the ordinary course of business and consistent with past practice;

(4) Liens, deposits or pledges incurred or created in the ordinary course of business or under applicable governmental rules in connection with or to secure the performance of bids, tenders, contracts, leases, statutory obligations, surety bonds or appeal bonds;

(5) mechanics', materialmen's, workers', repairmens', employees', warehousemen's, carriers' or other like Liens arising in the ordinary course of business or under governmental rules securing obligations incurred in connection with the business and operations of the Company (including Liens on property or assets under construction (and related rights) in favor of a contractor or developer arising from progress or partial payments by a third party relating to such property or assets), the Principal Guarantor or any of their respective Restricted Subsidiaries which are (a) not yet overdue after a period of more than 60 days, or which are adequately bonded and for which adequate reserves in accordance with IFRS have been made and (b) which are being contested in good faith;

(6) Liens for taxes, assessments or governmental charges which are not yet due, or (a) which are adequately bonded or for which adequate reserves in accordance with IFRS have been made and (b) which are being contested in good faith;

(7) Liens on assets securing Attributable Debt under any Sale and Lease-Back Transaction permitted to be incurred or assumed pursuant to such covenant; *provided* that any such Lien does not encumber any property other than the assets that are the subject of any such transaction; and Liens on assets securing Indebtedness represented by Capitalized Lease

Obligations or Purchase Money Obligations and permitted to be incurred or assumed under the covenant "—Limitation on Indebtedness" above (including any interest or title of a lessor under any lease the obligations under which are Capitalized Lease Obligations and covering only the assets acquired with such Indebtedness);

(8) encumbrances, charges, ground leases, easements (including reciprocal easement agreements), survey exceptions, restrictions, encroachments, protrusions, by-law, regulation, zoning restrictions or reservations of, or rights of others for, licenses, rights of way, sewers, electric lines, telegraph and telephone lines and other similar purposes, or zoning, building codes or other restrictions (including minor defects or irregularities in title and similar encumbrances) as to the use of real properties or Liens incidental to the conduct of the business of the Company, the Principal Guarantor and their respective Restricted Subsidiaries or to the ownership of their properties, including servicing agreements, development agreements, site plan agreements, subdivision agreements, facilities sharing agreements, cost sharing agreements and other agreements, which do not in the aggregate materially adversely affect the value of said properties or materially impair their use in the operation of the business of the Company, the Principal Guarantor and their respective Restricted Subsidiaries, and so long as not Incurred in connection with Indebtedness;

(9) Liens in favor of customs and revenue authorities arising as a matter of law to secure payment of customs duties in connection with the importation of goods in the ordinary course of business of the Company, the Principal Guarantor or any Restricted Subsidiary thereof;

(10) Liens securing or otherwise arising out of judgments, decrees, attachments, orders or awards not giving rise to an Event of Default so long as (a) any appropriate legal proceedings which may have been duly initiated for the review of such judgment, decree, order or award have not been finally terminated, (b) the period within which such proceedings may be initiated has not expired or (c) no more than 60 days have passed after (i) such judgment, decree, order or award has become final or (ii) such period within which such proceedings may be initiated has expired;

(11) Liens on assets or property of a Restricted Subsidiary that is not a Guarantor securing Indebtedness of any Restricted Subsidiary that is not a Guarantor permitted by clause (r) of paragraph (2) of the covenant described under "—Limitation on Indebtedness" above;

(12) leases, licenses, subleases and sublicenses of assets (including real property and intellectual property rights), in each case entered into in the ordinary course of business;

(13) customary and applicable non-consensual statutory Liens and rights of setoff of financial institutions over deposit accounts held at such financial institutions arising in the ordinary course of business of the Company and its Restricted Subsidiaries or the Principal Guarantor and its Restricted Subsidiaries, as applicable, to the extent such Liens or rights of setoff secure or allow setoff (to the extent permitted hereunder) against amounts owing for fees and expenses relating to the applicable deposit account;

(14) Liens to secure Obligations in respect of Indebtedness permitted to be Incurred pursuant to clauses (c) and (d) of paragraph (2) of the covenant described under "—Limitation on Indebtedness" above;

(15) Liens existing on the Issue Date; *provided* that any Liens securing the senior secured credit facility of Orazul to be repaid with the Proceeds Loan shall be terminated within 30 business days following the Issue Date and any Liens existing on the concession agreement of Eteselva shall be terminated within 45 Business Days following the Issuer Date;

(16) Liens securing Refinancing Indebtedness Incurred to refinance Indebtedness that was previously so secured, and permitted to be secured under the Indenture; provided that any such Lien is limited to all or part of the same property or assets (plus improvements, accessions, proceeds or dividends or distributions in respect thereof) that secured (or, under the written arrangements under which the original Lien arose, could secure) the Indebtedness being refinanced or is in respect of property that is or could be the security for or subject to a Permitted Lien hereunder;

(17) Liens on Capital Stock or other securities or assets of any Unrestricted Subsidiary that secure Indebtedness of such Unrestricted Subsidiary;

(18) Liens then existing with respect to assets of an Unrestricted Subsidiary on the day such Unrestricted Subsidiary is redesignated as a Restricted Subsidiary as described under the caption "—Limitation on Designation of Restricted and Unrestricted Subsidiaries," so long as such Liens are not Incurred as a result of, in connection with, or in contemplation of such redesignation;

(19) any encumbrance or restriction (including put and call arrangements) with respect to Capital Stock of any joint venture or similar arrangement pursuant to any joint venture or similar arrangement;

(20) Liens arising by operation of law or contract on insurance policies and the proceeds thereof to secure premiums thereunder, and Liens, pledges and deposits in the ordinary course of business securing liability for premiums or reimbursement or indemnification obligations of (including obligations in respect of letters of credit or bank guarantees for the benefits of) insurance carriers;

(21) Liens (i) on cash advances in favor of the seller of any property to be acquired in an Investment permitted pursuant to Permitted Investments to be applied against the purchase price for such Investment, and (ii) consisting of an agreement to sell any property in an asset sale permitted under the covenant described under "—Limitation on Sales of Assets," in each case, solely to the extent such Investment or asset sale, as the case may be, would have been permitted on the date of the creation of such Lien; and

(22) any other Lien; *provided* that, on the date of creation or assumption of such Lien, the Indebtedness secured thereby, together with all of the other Indebtedness of the Company, the Principal Guarantor and the Restricted Subsidiaries thereof then secured by any Lien in reliance on this clause (22), has an aggregate outstanding amount not in excess of the greater of U.S.$30.0 million and 5.0% of Combined Consolidated Net Tangible Assets.

In the event that a Permitted Lien meets the criteria of more than one of the types of Permitted Liens (at the time of incurrence or at a later date), the Company in its sole discretion may divide, classify or from time to time reclassify all or any portion of such Permitted Lien in any manner that complies with the Indenture and such Permitted Lien shall be treated as having been made pursuant only to the clause or clauses of the definition of Permitted Lien to which such Permitted Lien has been classified or reclassified.

With respect to any Lien securing Indebtedness that was permitted to secure such Indebtedness at the time of the Incurrence of such Indebtedness, such Lien shall also be permitted to secure any Increased Amount of such Indebtedness. The "*Increased Amount*" of any Indebtedness shall mean any increase in the amount of such Indebtedness in connection with any accrual of interest, the accretion of accreted value, the amortization of original issue discount, the payment of interest in the form of additional Indebtedness with the same terms, accretion of original issue discount or liquidation preference and increases in the amount of Indebtedness outstanding solely as a result of fluctuations in the exchange rate of currencies or increases in the value of property securing Indebtedness.

Limitation on Sales of Assets

(1) Neither the Company nor the Principal Guarantor will, nor will the Company or the Principal Guarantor permit any of their respective Restricted Subsidiaries to, make any Asset Sale unless:

(a) the Company, the Principal Guarantor or such Restricted Subsidiary receives consideration (including by way of relief from, or by any other Person assuming sole responsibility for, any liabilities, contingent or otherwise) at the time of such Asset Sale at least equal to the Fair Market Value of the shares and/or assets subject to such Asset Sale; and

(b) at least 75% of the consideration thereof received by the Company, the Principal Guarantor or such Restricted Subsidiary is in the form of cash or Cash Equivalents; *provided* that the following will be deemed to be cash for purposes of this clause (b):

(i) the amount of any liabilities (contingent or otherwise) (as shown on the Company's, the Principal Guarantor's or such Restricted Subsidiary's, most recent balance sheet or in the notes thereto) of the Company, the Principal Guarantor or the relevant Restricted Subsidiary (other than liabilities that are by their terms subordinated to the Notes) that are assumed by the transferee of any such assets and are otherwise cancelled or terminated in connection with such transactions;

(ii) the amount of any securities received by the Company, the Principal Guarantor or such Restricted Subsidiary from such transferee that is converted by the Company, the Principal Guarantor or such Restricted Subsidiary into cash (to the extent of the cash received) within 180 days following the closing of such Asset Sale;

(iii) the Fair Market Value of any Capital Stock of a Person engaged in a Permitted Business that will become, upon purchase, a Restricted Subsidiary or assets (other than current assets as determined in accordance with IFRS or Capital Stock) to be used by the Company, the Principal Guarantor or any Restricted Subsidiary thereof in a Permitted Business; and

(iv) Indebtedness of any Restricted Subsidiary that is no longer a Restricted Subsidiary as a result of such Asset Sale, to the extent that the Company and each other Restricted Subsidiary are released from any Guarantee of payment of such Indebtedness in connection with such Asset Sale;

provided that amounts received pursuant to clauses (i), (iii) and (iv) shall not be deemed to constitute Net Cash Proceeds for purposes of making an Asset Sale Offer; and the amounts received pursuant to clause (ii) shall be deemed to constitute Net Cash Proceeds only to the extent of the Net Cash Proceeds actually received by the Company, the Principal Guarantor or a Restricted Subsidiary upon the conversion of such securities by the Company, the Principal Guarantor or such Restricted Subsidiary.

(2) The Company, the Principal Guarantor or such Restricted Subsidiary, as the case may be, may apply the Net Cash Proceeds of any such Asset Sale within 365 days thereof:

(a) purchase any Notes in the market or to repay any other Senior Indebtedness for borrowed money or Indebtedness of a Non-Guarantor or Senior Indebtedness secured by a Lien (including, through optional or mandatory prepayments, redemptions, buy backs and market purchases);

(b) make capital expenditures in a Permitted Business;

(c) reinvest in or purchase Additional Assets; or

(d) any combination of items (a), (b) or (c) above.

The Company shall be deemed to have complied with sub-clauses (b) and (c) above if, within 365 days of the Asset Sale that generates such Net Cash Proceeds, the Company, the Principal Guarantor or such Restricted Subsidiary enters into a binding commitment with a Person, other than the Company, the Principal Guarantor or any of their respective Restricted Subsidiaries, to apply such Net Cash Proceeds to such capital expenditures or such Additional Assets within 180 days following the expiration of the aforementioned 365-day period.

(3) To the extent all or a portion of the Net Cash Proceeds of any Asset Sale are not applied within the 365 days of the Asset Sale (or in the case of clauses (b) and (c) in which case such period may be extended a further 180 days) resulting in Excess Net Cash Proceeds (as defined below), as described in clauses (a) through (d) of paragraph (2) above, the Company will make an offer to purchase Notes (an "*Asset Sale Offer*"), at a purchase price equal to 100% of the principal amount of the Notes to be purchased, *plus* accrued and unpaid interest, if any, thereon and any Additional Amounts, if any, to (but not including) the date of purchase (the "*Asset Sale Offer Amount*"). The Company will purchase the Notes pursuant to an Asset Sale Offer from all tendering Holders on a *pro rata* basis, and, at the Company's option, on a *pro rata* basis with the holders of any other Senior Indebtedness with similar provisions requiring the Company to offer to purchase the other Senior Indebtedness with the proceeds of Asset Sales, that principal amount (or accreted value in the case of Indebtedness issued with original issue discount) of Notes and the other Senior Indebtedness to be purchased equal to such unapplied Excess Net Cash Proceeds. The Company may satisfy its obligations under this covenant with respect to the Excess Net Cash Proceeds of an Asset Sale by making an Asset Sale Offer prior to the expiration of the relevant 365-day (or in the case of clauses (b) and (c) in which case such period may be extended a further 180 days) period.

(4) The purchase of Notes pursuant to an Asset Sale Offer will occur not less than 30 business days, or any longer period as may be required by law, nor more than 90 days following the 365th day following the Asset Sale (except in the case of clause (b) and (c) of paragraph (2) above, in which case such period shall be extended for 180 days). The Company may, however, defer an Asset Sale Offer until there is an aggregate amount of unapplied Net Cash Proceeds from one or more Asset Sales in excess of U.S.$30.0 million. At that time, the amount of unapplied Net Cash Proceeds ("*Excess Net Cash Proceeds*") will be applied as required pursuant to this covenant. Pending application in accordance with this covenant, such amount of unapplied Excess Net Cash Proceeds may be applied to temporarily reduce revolving credit borrowings or invested in Cash Equivalents.

(5) Each notice of an Asset Sale Offer will be delivered to the record Holders as shown on the register of Holders within 30 days following such 365th day (except in the case of clauses (b) and (c) in which case such period may be extended for 180 days), with a copy to the Trustee offering to purchase the Notes as described above. Each notice of an Asset Sale Offer will 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 delivered, other than as may be required by law (the "*Asset Sale Offer Payment Date*"). Upon receiving notice of an Asset Sale Offer, Holders may elect to tender their Notes in whole or in part in amounts of U.S.$200,000 or in integral multiples of U.S.$1,000 in excess thereof in exchange for cash.

(6) On the Asset Sale Offer Payment Date, the Company will, to the extent lawful:

    (a) accept for payment all Notes or portions thereof properly tendered and not withdrawn pursuant to the Asset Sale Offer;

    (b) deposit with the Paying Agent funds in an amount equal to the Asset Sale Offer Amount in respect of all Notes or portions thereof so tendered; and

(c) deliver or cause to be delivered to the Trustee the Notes so accepted together with an Officers' Certificate stating the aggregate principal amount of Notes or portions thereof being purchased by the Company.

(7) To the extent Holders of Notes and holders of other Senior Indebtedness, if any, which are the subject of an Asset Sale Offer properly tender and do not withdraw Notes or the other Senior Indebtedness in an aggregate amount exceeding the amount of unapplied Net Cash Proceeds, the Company will purchase the Notes and the other Senior Indebtedness on a *pro rata* basis (based on amounts tendered) and in accordance with applicable DTC procedures. If only a portion of a Note is purchased pursuant to an Asset Sale 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). Notes (or portions thereof) purchased pursuant to an Asset Sale Offer will be cancelled and cannot be reissued.

(8) The Company will comply with the requirements of Rule 14e-1 under the Exchange Act and any other applicable securities laws in connection with the purchase of Notes pursuant to an Asset Sale Offer. To the extent that the provisions of any applicable securities laws or regulations conflict with the "Asset Sale" provisions of the Indenture, the Company will comply with these laws and regulations and will not be deemed to have breached its obligations under the "Asset Sale" provisions of the Indenture by doing so.

(9) Following the consummation or expiration of any Asset Sale Offer pursuant to the above, the amount of Excess Net Cash Proceeds shall be reset at zero and the Company shall be entitled to use any remaining cash for any corporate purposes to the extent not prohibited under the Indenture.

The provisions of the Indenture relative to the Company's obligation to make an offer to repurchase the Notes as a result of an Asset Sale may be waived or modified with the written consent of the Holders of a majority in aggregate principal amount of the outstanding Notes.

Limitation on Transactions with Affiliates

(1) Neither the Company nor the Principal Guarantor will, nor will the Company or the Principal Guarantor permit any of their respective Restricted Subsidiaries to, make any payment to, or sell, lease, transfer or otherwise dispose of any of its properties or assets to, or purchase any property or assets from, or enter into or make or amend any transaction, contract, agreement, understanding, loan, advance or guarantee with, or for the benefit of, any Affiliate (each, an "*Affiliate Transaction*"), involving aggregate value in excess of U.S.$5.0 million unless:

(a) the Affiliate Transaction is on terms that are no less favorable to the Company, the Principal Guarantor or the relevant Restricted Subsidiary, taken as a whole, than those that reasonably would have been obtained in a comparable arm's-length transaction by the Company, the Principal Guarantor or such Restricted Subsidiary with a Person that is not an Affiliate or, if such transaction is not one that by its nature could reasonably be obtained from a Person that is not an Affiliate, is on fair and reasonable terms and was negotiated in good faith; and

(b) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of U.S.$15.0 million (or the equivalent in other currencies), an Officers' Certificate, stating that such Affiliate Transaction complies with this covenant and has been duly approved by the Shareholders of the Company or the Principal Guarantor, as applicable; and

(c) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of U.S.$25.0 million (or the equivalent in other currencies), an opinion as to the fairness to the Company, the Principal Guarantor or the relevant Restricted Subsidiary, taken as a whole, of such Affiliate Transaction from a financial point of view issued by an independent investment banking firm with members of its senior staff having at least three years of experience in international investment banking or financial advisory service firms.

(2) The following items will not be deemed to be Affiliate Transactions and, therefore, will not be subject to the provisions of paragraph (1) above:

(a) Affiliate Transactions undertaken pursuant to (i) any contractual obligations or rights including any equity holder agreements in existence on the Issue Date and in each case as described under "Our Principal Shareholders and Related Party Transactions—Related Party Transactions," and (ii) any amendment or replacement agreement to the obligations and rights described in clause (i), so long as such amendment or replacement agreement is not more disadvantageous to the Holders in any material respect, taken as a whole, than the original agreement; and

(b) Restricted Payments that are permitted by the provisions of the covenant described under "—Limitation on Restricted Payments" above or any Permitted Investment;

(c) any issuance or sale of Capital Stock, options, other equity-related interests or other securities, or other payments, awards or grants in cash, securities or otherwise pursuant to, or the funding of, or entering into, or maintenance of, any employment, consulting, collective bargaining or benefit plan, program, agreement or arrangement, related trust or other similar agreement and other compensation arrangements, options, warrants or other rights to purchase Capital Stock of the Company, the Principal Guarantor, any Restricted Subsidiary thereof or any Parent Entity, restricted stock plans, long-term incentive plans, stock appreciation rights plans, participation plans or similar employee benefits or consultants' plans (including valuation, health, insurance, deferred compensation, severance, retirement, savings or similar plans, programs or arrangements) or indemnities provided on behalf of officers, employees, directors, contractors or consultants, in each case (i) approved by the Shareholders of the Company or the Principal Guarantor, as applicable, and (ii) in each case in the ordinary course of business or consistent with past practice;

(d) any transaction between or among the Company, the Principal Guarantor and any Restricted Subsidiary thereof (or entity that merges, consolidates or amalgamates with the Company or Principal Guarantor that becomes a Restricted Subsidiary as a result of such transaction), or between or among Restricted Subsidiaries;

(e) the entry into and performance of obligations by the Company, the Principal Guarantor or any of their respective Restricted Subsidiaries with any Affiliates under the terms of any transaction arising out of, and any payments pursuant to or for purposes of funding, any agreement or instrument in effect as of or on the Issue Date (or any future assignment or assumption thereunder), as such agreements and instruments may be amended, modified, supplemented, extended or renewed from time to time in accordance with the other terms of this covenant or to the extent not more disadvantageous to the Holders in any material respect than the original transaction as in effect on the Issue Date;

(f) issuances or sales of Capital Stock (other than Disqualified Stock) of the Company or options, warrants or other rights to acquire such Capital Stock and the granting of other customary rights in connection therewith or any contribution to capital of the Company, the Principal Guarantor or any Restricted Subsidiary thereof;

(g) payments by the Company, the Principal Guarantor or any Restricted Subsidiary thereof to any Parent Entity (whether directly or indirectly), including to its Affiliates or designees, of annual management fees in an aggregate amount not to exceed U.S.$3.0 million;

(h) payments by the Company (and any Parent Entity), the Principal Guarantor, and any of their Restricted Subsidiaries for purposes of any Parent Entity Expenses or pursuant to any tax sharing agreements or other equity agreements in respect of "Related Taxes" among the Company (and any such Parent Entity), the Principal Guarantor and their respective Restricted Subsidiaries;

(i) transactions entered into by an Unrestricted Subsidiary with an Affiliate prior to the day such Unrestricted Subsidiary is redesignated as a Restricted Subsidiary as described under the caption "—Limitation on Designation of Restricted and Unrestricted Subsidiaries" and pledges of Capital Stock of Unrestricted Subsidiaries, so long as such transactions are not entered into as a result of, in connection with, or in contemplation of, such redesignation;

(j) transactions with Affiliates solely in their capacities as holders of Indebtedness or Equity Interests of the Company, the Principal Guarantor or their respective Subsidiaries, so long as such transaction is with all holders of such and such class includes non-Affiliates of the Company, the Guarantor or their respective Subsidiaries;

(k) payments to or from, and transactions with, any joint venture in the ordinary course of business, on market terms and consistent with past practice or industry norms (including any cash management activities related thereto);

(l) the Corporate Reorganization;

(m) the Proceeds Loan; and

(n) the Special Dividend.

Limitation on Sale and Lease-Back Transactions

Each of the Company and the Principal Guarantor covenants and agrees that none of the Company, the Principal Guarantor nor any of their respective Restricted Subsidiaries will enter into any Sale and Lease-Back Transaction unless the Company, the Principal Guarantor or such Restricted Subsidiary would be entitled: (1) pursuant to the provisions of the covenant described under "—Limitation on Indebtedness" above to Incur Indebtedness in a principal amount equal to or exceeding the Attributable Debt of such Sale and Lease-Back Transaction; and (2) pursuant to the provisions of the covenant described under "—Limitation on Liens" above to Incur a Lien to secure such Indebtedness.

Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries

(1) Neither the Company nor the Principal Guarantor will, nor will the Company or the Principal Guarantor permit any of their respective Restricted Subsidiaries to, directly or indirectly, create or permit to exist or become effective any consensual encumbrance or restriction on the ability of any Restricted Subsidiary to:

  (a) pay dividends or make any other distributions on its Capital Stock to the Company or the Principal Guarantor, as applicable;

  (b) make loans or advances to the Company or the Principal Guarantor; or

  (c) transfer any of its properties or assets to the Company or the Principal Guarantor;

provided the subordination of (including the application of any standstill requirements to) loans or advances made to the Company, the Principal Guarantor or any Restricted Subsidiary thereof to other Indebtedness Incurred by the Company, the Principal Guarantor or any Restricted Subsidiary shall not be deemed to constitute such an encumbrance or restriction.

(2) However, the preceding restrictions will not apply to encumbrances or restrictions:

(a) existing under the Indenture, the Notes or the Note Guarantees;

(b) existing under or by reason of applicable law or governmental rule, regulation or order;

(c) the terms of any Indebtedness outstanding on the Issue Date, and any amendment, modification, restatement, renewal, restructuring, replacement or refinancing thereof; *provided*, *however*, that any amendment, modification, restatement, renewal, restructuring, replacement or refinancing is not materially more restrictive, taken as a whole, with respect to such encumbrances or restrictions than those in existence on the Issue Date;

(d) customary non-assignment provisions of any contract and customary provisions restricting assignment or subletting in any lease governing a leasehold interest of any Restricted Subsidiary, or any customary restriction on the ability of any Restricted Subsidiary to dividend, distribute or otherwise transfer any asset which secures Indebtedness secured by a Lien, in each case permitted to be Incurred under the Indenture;

(e) by reason of Liens that secure Indebtedness otherwise permitted to be incurred under the provisions of the covenant described under "—Limitation on Liens" above and that limit the right of the debtor to dispose of the assets subject to such Liens;

(f) imposed with respect to a Restricted Subsidiary pursuant to an agreement entered into for the sale or disposition of all or substantially all the Capital Stock or assets of such Restricted Subsidiary pending the closing of such sale or disposition;

(g) resulting from restrictions on cash or other deposits or other customary requirements imposed by customers or suppliers under contracts entered into in the ordinary course of business;

(h) pursuant to an agreement or instrument of a Person or relating to any Capital Stock or Indebtedness of a Person, entered into on or before the date on which such Person was acquired by or merged, consolidated or otherwise combined with or into the Company, the Principal Guarantor or any Restricted Subsidiary, or was designated as a Restricted Subsidiary or on which such agreement or instrument is assumed by the Company, the Principal Guarantor or any Restricted Subsidiary in connection with an acquisition of assets (other than Capital Stock or Indebtedness Incurred as consideration in, or to provide all or any portion of the funds utilized to consummate, the transaction or series of related transactions pursuant to which such Person became a Restricted Subsidiary or was acquired by the Company or was merged, consolidated or otherwise combined with or into the Company, the Principal Guarantor or any Restricted Subsidiary or entered into in contemplation of or in connection with such transaction) and outstanding on such date; provided that, for the purposes of this clause, if another Person is the Successor Company, any agreement or instrument of such Person or any Subsidiary shall be deemed acquired or assumed by the Company, the Principal Guarantor or any Restricted Subsidiary when such Person becomes the Successor Company;

(i) (i) that restricts in a customary manner the subletting, assignment or transfer of any property or asset that is subject to a lease, license or similar contract or agreement, or the assignment or transfer of any lease, license or other contract or agreement; (ii) contained in mortgages, pledges, charges or other security agreements permitted under the Indenture or securing Indebtedness of the Company, the Principal Guarantor or a Restricted Subsidiary permitted under the Indenture to the extent such encumbrances or restrictions restrict the transfer or encumbrance of the property or assets subject to such mortgages, pledges, charges or other security agreements; (iii) contained in any trading, netting, operating, construction, service, supply, purchase, sale or other agreement to which the Company, the Principal Guarantor or any of their respective Restricted Subsidiaries is a party entered into in the ordinary course of business or consistent with past practice; provided that such agreement prohibits the encumbrance of solely the property or assets of the Company, the Principal Guarantor or such Restricted Subsidiary that are the subject of such agreement, the payment rights arising thereunder or the proceeds thereof and does not extend to any other asset or property of the Company, the Principal Guarantor or such Restricted Subsidiary or the assets or property of another Restricted Subsidiary; or (iv) pursuant to customary provisions restricting dispositions of real property interests set forth in any reciprocal easement agreements of the Company, the Principal Guarantor or any Restricted Subsidiary;

(j) pursuant to Purchase Money Obligations and Capitalized Lease Obligations permitted under the Indenture, in each case, that impose encumbrances or restrictions on the property so acquired;

(k) constituting customary provisions in Liens permitted to be incurred under "—Limitation on Liens," leases, licenses, shareholder agreements, joint venture agreements and other similar agreements, organizational documents and instruments;

(l) arising or existing by reason of applicable law or any applicable rule, regulation or order, or required by any regulatory authority;

(m) pursuant to Hedging Obligations;

(n) arising pursuant to an agreement or instrument relating to any Indebtedness permitted to be Incurred subsequent to the Issue Date pursuant to the provisions of the covenant described under "—Limitation on Indebtedness" if the encumbrances and restrictions contained in any such agreement or instrument taken as a whole are not materially less favorable to the Holders than in comparable financings (as determined in good faith by the Company or the Principal Guarantor, as applicable);

(o) under an agreement effecting a Refinancing of Indebtedness otherwise permitted by the Indenture and Incurred pursuant to an agreement referred to in this clause (o) or contained in any amendment to an agreement referred to in clauses (a) through (n); *provided*, *however*, that the restrictions with respect to such Restricted Subsidiary contained in any such Refinancing agreement or amendment shall be no less favorable, taken as a whole, to the Company, the Principal Guarantor or such Restricted Subsidiary, as applicable, than the restrictions contained in the agreement being Refinanced or amended.

Consolidation, Merger, Conveyance, Sale or Lease

Neither the Company nor any Guarantor will enter into any merger or consolidation with any Person or convey, transfer or lease the Company's or Guarantor's properties and assets substantially as an entirety to any Person, whether by one transaction or a series of related transactions, unless:

(1) either the Company or the Guarantor, as applicable, is the surviving entity or the Person formed by such consolidation or into which the Company or the Guarantor, as the case may be, is merged or the Person which acquires by conveyance or transfer, or which leases, the Company's or the Guarantor's properties and assets substantially as an entirety is a Person (the "*Successor Company*") organized and existing under the laws of Peru or the United States, any state thereof or the District of Columbia, and expressly assumes, all obligations under the Notes and the Indenture, by an indenture supplemental to the Indenture, executed and delivered to the Trustee, in form reasonably satisfactory to the Trustee;

(2) immediately after giving effect to such transaction or series of transaction on a *pro forma* basis, (a) no Default or Event of Default shall have occurred and be continuing and (b) (i) (A) the Combined Interest Coverage Ratio will be equal to or higher than the Combined Interest Coverage Ratio immediately prior to such transaction and (B) the Combined Total Net Debt to EBITDA Ratio will be equal to or lower than the Combined Total Net Debt to EBITDA Ratio immediately prior to such transaction or (ii) the Successor Company (if other than the Company or any Guarantor) could Incur at least an additional U.S.$1.00 of Indebtedness under each of the ratios set forth in paragraph (1) of the covenant described under "—Limitation on Indebtedness" above;

(3) the Company or such Guarantor, as applicable, or the Successor Company has delivered to the Trustee an Officers' Certificate and an opinion of counsel, each stating that such consolidation, merger, conveyance, transfer or lease and, if a supplemental indenture is required in connection with such transaction, such supplemental indenture comply with the Indenture and that all conditions precedent therein relating to such transaction have been complied with and that such supplemental indenture is the legal, valid and binding obligation of the Company, such Guarantor or such Successor Company, as applicable; and

(4) the Company or such Principal Guarantor, as applicable, or the Successor Company shall have delivered to the Trustee an opinion of counsel to the effect that the Holders of the Notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such transaction 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 transaction had not occurred.

Notwithstanding the preceding clause (2) (which shall not apply to transactions referred to in this sentence), (a) any Restricted Subsidiary of the Company or the Principal Guarantor, as the case may be, may consolidate or otherwise combine with, merge into or transfer all or part of its properties and assets to the Company or the Principal Guarantor, as the case may be, (b) any Restricted Subsidiary may consolidate or otherwise combine with, merge into or transfer all or part of its properties and assets to any other Restricted Subsidiary; *provided* that if any such Restricted Subsidiary is a Guarantor, the Person surviving such consolidation, merger or transfer shall be a Guarantor, (c) the Company and its Restricted Subsidiaries may complete any Permitted Tax Restructuring, (d) any sale of a Guarantor or all or substantially all of the assets of a Guarantor in accordance with the covenant described under "—Limitations on Sales of Assets" described above or not constituting an Asset Sale is permitted (provided, that any such sale to an Affiliate shall only be permitted if the conditions set forth in clause (2) above shall have been satisfied immediately prior to and immediately after giving effect to such sale) and (e) the Corporate Reorganization is permitted. Notwithstanding the preceding clause (2) (which does not apply to the transactions referred to in this sentence), the Company may consolidate or otherwise combine with or merge into an Affiliate incorporated or organized for the purpose of changing the legal domicile of the Company, reincorporating the Company in another jurisdiction, or changing the legal form of the Company.

For the avoidance of doubt, the Transactions will be permitted without compliance with clause (2) of this section entitled "Consolidation, Merger, Conveyance, Sale or Lease."

The Successor Company will succeed to, and be substituted for, the Company under the Indenture or the applicable Guarantor under its Note Guarantee, as the case may be, and thereupon the Company will automatically be released and discharged from its obligations under the Indenture and the Notes or such Guarantor will automatically be released and discharged from its obligations under its Note Guarantee, as applicable.

There is no precise established definition of the phrase "substantially all" under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve "all or substantially all" of the property or assets of a Person.

The foregoing provisions (other than the requirements of clause (2)(A) of this section) shall not apply to the creation of a new Subsidiary as a Restricted Subsidiary of the Company or the Principal Guarantor.

Limitation on Designation of Restricted and Unrestricted Subsidiaries

The Company or the Principal Guarantor, as the case may be, may designate any Restricted Subsidiary to be an Unrestricted Subsidiary if that designation would not cause a Default. If a Restricted Subsidiary is designated as an Unrestricted Subsidiary, the aggregate Fair Market Value of all outstanding Investments owned by the Company, the Principal Guarantor and their respective Restricted Subsidiaries in the Subsidiary designated as an Unrestricted Subsidiary will be deemed to be an Investment made as of the time of the designation and will reduce the amount available for Restricted Payments under the covenant described above under the caption "—Restrictive Covenants—Limitation on Restricted Payments" or under one or more clauses of the definition of Permitted Investments, as determined by the Company. That designation will only be permitted if the Investment would be permitted at that time and if the Restricted Subsidiary otherwise meets the definition of an Unrestricted Subsidiary. The Company may redesignate any Unrestricted Subsidiary to be a Restricted Subsidiary if that redesignation would not cause a Default or an Event of Default.

Any designation of a Subsidiary of the Company or the Principal Guarantor, as the case may be, as an Unrestricted Subsidiary will be evidenced to the Trustee by an Officers' Certificate certifying that such designation complies with the preceding conditions and was permitted by the covenant described above under the caption "—Restrictive Covenants—Limitation on Restricted Payments." If, at any time, any Unrestricted Subsidiary would fail to meet the preceding requirements as an Unrestricted Subsidiary, it will thereafter cease to be an Unrestricted Subsidiary for purposes of the Indenture and any Indebtedness of such Subsidiary will be deemed to be incurred by a Restricted Subsidiary as of such date and, if such Indebtedness is not permitted to be incurred as of such date under the covenant described under the caption "—Restrictive Covenants—Limitation on Indebtedness," the Company will be in default of such covenant.

The Company or the Principal Guarantor, as the case may be, may at any time designate any Unrestricted Subsidiary to be a Restricted Subsidiary; *provided* that such designation will be deemed to be an incurrence of Indebtedness by a Restricted Subsidiary of any outstanding Indebtedness of such Unrestricted Subsidiary, and such designation will only be permitted if (1) such Indebtedness is permitted under the covenant described under the caption "—Restrictive Covenants—Limitation on Indebtedness" (including pursuant to clause (c) of paragraph (2) thereof treating such redesignation as an acquisition for the purpose of such clause) calculated on a *pro forma* basis as if such designation had occurred at the beginning of the applicable reference period; and (2) no Default or Event of Default would be in existence following such designation. Any such designation by the Company shall be evidenced to the Trustee by an Officers' Certificate certifying that such designation complies with the preceding conditions.

Notwithstanding anything to the contrary in the foregoing, for so long as each of Etenorte, Eteselva and Termoselva are Subsidiaries of the Company or the Principal Guarantor each shall remain a Restricted Subsidiary of the Company or the Principal Guarantor, as applicable (or any successor thereto in accordance with the Corporate Reorganization).

Additional Note Guarantees

The Company and Aguaytía must each cause any new Significant Subsidiaries thereof that are formed or acquired after the Issue Date (including any Subsidiary that becomes a Significant Subsidiary after formation or acquisition) to execute and deliver to the Trustee a supplemental indenture pursuant to which each such Significant Subsidiary will guarantee payment of the Notes on the same terms and conditions as those applicable to the Principal Guarantor under the Indenture. Thereafter, such Significant Subsidiary will be a Guarantor with respect to the Notes until such the Note Guarantee of such Significant Subsidiary is released in accordance with the Indenture.

Other Covenants

Payment

The Company will pay when due any principal, interest and any other amounts payable under any Notes in accordance with their terms. Each Guarantor will pay when due any amounts payable pursuant to the terms of its Note Guarantee.

Notification

The Company will give prompt notice to the Trustee of the occurrence of any Default or Event of Default, accompanied by a certificate specifying the nature of such Default or Event of Default, the period of existence thereof and the action the Company has taken or proposes to take with respect thereto. Each notice given pursuant to this paragraph will be accompanied by and Officers' Certificate setting forth the details of the occurrence referred to therein and stating what action the Company proposes to take with respect thereto.

Maintenance of Existence

Each of the Company and the Principal Guarantor will, and will cause each of its respective Restricted Subsidiaries to, (1) maintain in effect its corporate existence and all registrations necessary therefor, (2) take all reasonable actions to maintain all rights, privileges, titles to property, franchises and the like necessary in the normal conduct of its business, activities or operations and (3) keep all of its property in good working order or condition; *provided*, *however*, that this covenant shall not require the Company or the Principal Guarantor, as the case may be, to maintain any such right, privilege, title to property or franchise or to preserve the corporate existence of any Subsidiary, if the senior management of the Company or the Principal Guarantor, as applicable, shall determine in good faith that the maintenance or preservation thereof is no longer desirable in the conduct of the business of the Company or the Principal Guarantor, and that the loss thereof is not, and will not be, adverse in any material respect to the Company or the Principal Guarantor, as applicable, or to the Holders of the Notes. Notwithstanding the foregoing, the Company shall be permitted to take all actions necessary to consummate the Corporate Reorganization.

Compliance with Laws

Each of the Company and the Principal Guarantor will, and will cause each of its respective Restricted Subsidiaries to, comply with all applicable laws, rules, regulations, orders and directions of any Governmental Agency having jurisdiction over it or its business or property (including any rules and regulations of the SMV), if applicable except where failure to do so, individually or in the aggregate, would not reasonably be expected to result in a Material Adverse Change. As used herein, the term "*Governmental Agency*" means any public legal entity or public agency, whether created by federal, state or local government, or any other legal entity now existing or hereafter created, or now or hereafter owned or controlled, directly or indirectly, by any public legal entity or public agency.

Maintenance of Books and Records

Each of the Company and the Principal Guarantor will, and will cause each of its respective Restricted Subsidiaries to, maintain books, accounts and records in accordance with IFRS.

Pari Passu Ranking

The Company will ensure, at all times, that the Notes constitute unsubordinated obligations ranking at least *pari passu* in all respects with all other unsubordinated Indebtedness (other than Indebtedness ranking senior thereto by statute or operation of law) of the Company.

Each of the Guarantors will ensure, at all times, that its Note Guarantee constitutes an unsubordinated obligation ranking at least *pari passu* in all respects with all other unsubordinated Indebtedness (other than Indebtedness ranking senior thereto by statute or operation of law) of such Guarantor.

Insurance

Each of the Company, the Principal Guarantor and each Restricted Subsidiary thereof will maintain insurance with financially sound, responsible and reputable insurance companies in such amounts and covering such risks as the relevant senior management thereof determines, in its reasonable discretion, is usually carried by companies engaged in similar businesses and owning and/or operating properties similar to those owned and/or operated by it, in the same general areas in which it owns and/or operates its properties, or will provide for self-insurance and related reserves as it determines, in its reasonable discretion, in lieu of such third party insurance covering such amounts and risks, in whole or in part.

Further Assurances

The Company and the Guarantors will, at their own cost and expense, execute and deliver to the Trustee all such other documents, instruments and agreements and do all such other acts and things as may be reasonably required, in the opinion of the Trustee, to enable the Trustee to exercise and enforce its rights under the Indenture and under the documents, instruments and agreements required under the Indenture and to carry out the intent of the Indenture.

Conduct of Business

The Company, the Principal Guarantor and their respective Restricted Subsidiaries will not engage in any business other than a Permitted Business.

Release of Covenants

If on any date following the Issue Date:

(1) the Notes have been assigned an Investment Grade Rating by any two Rating Agencies; and

(2) no Default or Event of Default shall have occurred and be continuing on that day,

then, beginning on that day and subject to the provisions of the following two paragraphs, the covenants specifically listed under the following captions will automatically, without any notice of any kind, be suspended (and the Company, the Principal Guarantor and their respective Restricted Subsidiaries will have no obligation or liability whatsoever with respect to such covenants):

(a) "—Limitation on Restricted Payments;"

(b) "—Limitation on Indebtedness;"

(c) "—Limitation on Sales of Assets;"

(d) "—Limitation on Transactions with Affiliates;"

(e) "—Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries;"

(f) "—Limitation on the Sale or Issuance of Capital Stock of Restricted Subsidiaries;" and

(g) the provisions of clause (2) of the first paragraph under "—Restrictive Covenants—Consolidation, Merger, Conveyance, Sale or Lease."

Clauses (a) through (g) above are collectively referred to as the "*Suspended Covenants*."

During any period in which the Suspended Covenants are suspended, the senior management of the Company or the Principal Guarantor, as the case may be, may not designate any of its respective Subsidiaries as Unrestricted Subsidiaries pursuant to the second paragraph of the definition of "*Unrestricted Subsidiary*" unless such designation would have complied with the covenant described under "—Limitation on Restricted Payments" as if such covenant would have been in effect during such period.

If at any time the Notes cease to have such Investment Grade Status, then the Suspended Covenants will thereafter be reinstated as if such covenants had never been suspended (the "*Reversion Date*") and be applicable pursuant to the terms of the Indenture (including in connection with performing any calculation or assessment to determine compliance with the terms of the Indenture), unless and until the Notes subsequently attain Investment Grade Status and no Default or Event of Default is in existence (in which event the Suspended Covenants shall no longer be in effect for such time that the Notes maintain an Investment Grade Status); provided, however, that no Default, Event of Default or breach of any kind shall be deemed to exist under the Indenture, the Notes or the Note Guarantees with respect to the Suspended Covenants (whether during the period when the Suspended Covenants were suspended or thereafter) based on, and none of the Company or any of its Restricted Subsidiaries nor the Principal Guarantor or any of its Restricted Subsidiaries shall bear any liability (whether during the period when the Suspended Covenants were suspended or thereafter) for, any actions taken or events occurring during the Suspension Period, or any actions taken at any time (whether during the period when the Suspended Covenants were suspended or thereafter) pursuant to any legal or contractual obligation arising prior to the Reversion Date, regardless of whether such actions or events would have been permitted if the applicable Suspended Covenants remained in effect during such period. The period of time between the date of suspension of the covenants and the Reversion Date is referred to as the "*Suspension Period*." Notwithstanding that the Suspended Covenants may be reinstated, no Default or Event of Default will be deemed to have occurred as a result of a failure to comply with any of the Suspended Covenants during the Suspension Period (or upon or after that time based solely on events that occurred during the Suspension Period).

On the Reversion Date, all Indebtedness Incurred during the Suspension Period will be deemed to have been outstanding on the Issue Date, so that it is classified as permitted under clause (b) of the second paragraph of "—Limitation on Indebtedness." Calculations made after the Reversion Date of the amount available to be made as Restricted Payments under "—Limitation on Restricted Payments" will be made as though the covenants described under "—Limitation on Restricted Payments" had been in effect since the Issue Date and prior to, but not during, the Suspension Period. Accordingly, Restricted Payments made during the Suspension Period will not reduce the amount available to be made as Restricted Payments under the first paragraph of "—Limitation on Restricted Payments." On the Reversion Date, the amount of Excess Net Cash Proceeds shall be reset at zero. Any Affiliate Transaction entered into after the Reversion Date pursuant to an agreement entered into during any Suspension Period will be deemed to have been outstanding on the Issue Date, so that it is classified as permitted under clause (a) of the second paragraph under "—Limitation on Affiliate Transactions." Any encumbrance or restriction on the ability of any Restricted Subsidiary to take any action described in clauses (a) through (d) of the first paragraph of "—Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries" that becomes effective during the Suspension Period will be deemed to have existed on the Issue Date, so that it is classified as permitted under clause (a) of the second paragraph under "—Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries." In addition, any future obligation to grant further Note Guarantees shall be released. All such further obligation to grant Guarantees shall be reinstated upon the Reversion Date. No default or Event of Default will be deemed to have occurred on the Reversion Date as a result of any actions taken by the Company or its Restricted Subsidiaries during the Suspension Period. Notwithstanding that the Suspended Covenants may be reinstated, no Default or Event of Default will be deemed to have occurred as a result of a failure to comply with any of the Suspended Covenants during the Suspension Period (or upon or after that time based solely on events that occurred during the Suspension Period).

On and after each Reversion Date, the Company, the Principal Guarantor and their respective Subsidiaries will be permitted to consummate the transactions contemplated by any contract entered into during the Suspension Period, so long as such contract and such consummation would have been permitted during such Suspension Period.

We cannot assure you that the Notes will achieve or maintain Investment Grade Ratings.

The Company shall send written notice to the Trustee upon the commencement of any Suspension Period or the occurrence of any Reversion Date; provided that the failure to so notify the Trustee shall not be a default under the Indenture. The Trustee shall have no duty to monitor the ratings of the Notes, shall not be deemed to have any knowledge of the ratings of the Notes and shall have no duty to notify Holders if the Notes achieve Investment Grade Status.

Events of Default

An "*Event of Default*" with respect to the Notes is defined in the Indenture as being any of the following events:

(1) default for 30 days in payment of any interest or Additional Amounts on the Notes when the same becomes due and payable;

(2) default in payment of principal of or premium, if any, on the Notes when the same becomes due and payable, upon optional redemption, upon required purchase, upon declaration of acceleration or otherwise;

(3) any failure to comply with the provisions of "—Certain Covenants—Consolidation, Merger, Conveyance, Sale or Lease;"

(4) default in the performance, or breach, of any other covenant or obligation of the Company, the Guarantors or any Restricted Subsidiary thereof in the Indenture (other than those referred to in clause (1) through (3) above) and continuance of such default or breach for a period of 60 consecutive days after written notice specifying such default or breach is given to the Company by the Trustee or to the Company and the Trustee by the Holders of at least 25% in aggregate principal amount of the Notes;

(5) (a) any Note Guarantee in respect of the Notes by any Guarantor thereof ceases to be in full force and effect, other than in accordance with the terms of the Indenture or (b) any Guarantor denies or disaffirms its obligations under its Note Guarantee, other than in accordance with the terms thereof or upon release of such Note Guarantee in accordance with the Indenture;

(6) default under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness by the Company, the Guarantors

or any Significant Subsidiary of any of the foregoing (or the payment of which is Guaranteed by the Company, the Principal Guarantor, any Initial Subsidiary Guarantor or any Significant Subsidiary of any of the foregoing) other than Indebtedness owed to the Company, the Principal Guarantor or any of their respective Restricted Subsidiaries whether such Indebtedness or Guarantee now exists, or is created after the Issue Date, if that default is caused by a failure to pay principal of, or interest or premium, if any, on, such Indebtedness within any applicable grace period as set forth in the documentation governing such Indebtedness (a "*Payment Default*"); or results in the acceleration of such Indebtedness prior to its Stated Maturity, and, in each case, the principal amount of any such Indebtedness, together with the principal amount of any other such Indebtedness under which there has been a Payment Default or the maturity of which has been so accelerated, aggregates U.S.$25.0 million or more in the case of a default by the Company, the Principal Guarantor, any Initial Subsidiary Guarantor or any Significant Subsidiary of any of the foregoing;

(7) failure by the Company, the Guarantors or any Significant Subsidiary of any of the foregoing to pay final non-appealable judgments aggregating in excess of U.S.$25.0 million (or equivalent in other currencies) other than any judgments covered by indemnities provided by, or insurance policies issued by, reputable and creditworthy companies, which final judgments remain unpaid, undischarged and unstayed for a period of more than 60 days after such judgment becomes final, and in the event such judgment is covered by insurance, an enforcement proceeding has been commenced by any creditor upon such judgment or decree which is not promptly stayed (the "*judgment default provision*"); or

(8) certain events of bankruptcy, insolvency or reorganization of the Company, the Guarantors or any Significant Subsidiary or any group of Restricted Subsidiaries that would be a Significant Subsidiary thereof.

The Company will deliver to the Trustee, within 30 days after a Responsible Officer of the Company obtains actual knowledge thereof, written notice of any Default or Event of Default that has occurred and is still continuing, its status and what action the Company is taking or proposing to take in respect thereof. The Indenture provides that the Trustee may withhold notice to the Holders of the Notes of any Default or Event of Default (except in each case in payment of principal of, or interest or premium (and Additional Amounts), if any, on the Notes) if the Trustee in good faith determines that it is in the interest of the Holders of the Notes to do so. The Indenture provides that, if an Event of Default (other than an Event of Default involving a bankruptcy, insolvency or similar event in respect of the Company) with respect to the Notes specified therein shall have occurred and be continuing, either the Trustee or the Holders of at least 25% in aggregate principal amount of the Notes may declare the principal amount of (and interest on) all the Notes to be due and payable immediately. The Indenture provides that if an Event of Default involving a bankruptcy, insolvency or other similar event in respect of the Company shall have occurred, the principal amount of all the Notes will be immediately due and payable without notice or any other act on the part of the Trustee or any Holder of the Notes. However, if all Defaults (except the nonpayment of principal of and accrued interest or premium, if any (and Additional Amounts, if any), on the Notes at maturity or which shall have become due solely by acceleration) have been cured or waived, such declaration may be rescinded by the Holders of not less than a majority in aggregate principal amount of the Notes. In addition, past Defaults and Events of Default with respect to the Notes may be waived by the Holders of not less than a majority in aggregate principal amount of the Notes except (i) a Default in the payment of principal of (or premium, if any) or interest (and Additional Amounts), if any, on any Note or (ii) in respect of a covenant or provision of the Indenture which by its terms cannot be modified or amended without the consent of the Holder of each outstanding Note.

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 of the Notes, unless such Holders shall have offered to the Trustee security or indemnity satisfactory to it. Subject to such provision for indemnification, the Holders of a majority in principal amount of the 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 with respect to the Notes; *provided* that the Trustee shall have the right to decline to follow any such direction if the Trustee shall determine that the action so directed conflicts with any law or the provisions of the Indenture if the Trustee shall determine that such action would be prejudicial to Holders of the Notes not taking part in such direction.

No Holder of any Note shall have any right to institute any proceeding, judicial or otherwise, with respect to the Indenture, or for the appointment of a receiver or trustee, or for any other remedy thereunder, unless:

(1) such Holder has previously given written notice to the Trustee of a continuing Event of Default with respect to the Notes;

(2) the Holders of not less than 25% in principal amount of the outstanding Notes shall have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee thereunder;

(3) such Holder or Holders have offered to the Trustee indemnity satisfactory to it against the costs, expenses and liabilities to be incurred in compliance with such request;

(4) the Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding; and

(5) no direction inconsistent with such written 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,

it being understood and intended that no one or more of such Holders shall have any right in any manner whatever by virtue of, or by availing of, any provision of the Indenture to affect, disturb or prejudice the rights of any other of such Holders, or to obtain or to seek to obtain priority or preference over any other of such Holders or to enforce any right under the Indenture, except in the manner therein provided and for the equal and ratable benefit of all such Holders.

Notwithstanding any other provision of the Indenture, the Holder of any Note shall have the right, which is absolute and unconditional, to receive payment of the principal of (and premium, if any) and interest (and Additional Amounts), if any, on such Note and to institute suit for the enforcement of any such payment, and such rights shall not be impaired without the consent of such Holder.

Additional Amounts

All payments by the Company of principal and interest in respect of the Notes shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within Peru or by or within any political subdivision thereof or any authority therein or thereof having power to tax ("*Local Taxes*"), unless such withholding or deduction is required or compelled by law. In the event of any such withholding or deduction, the Company shall pay to Holders of the Notes in U.S. dollars such additional amounts ("*Additional Amounts*") as will result in the payment to such Holders of the U.S. dollar amount that would otherwise have been receivable by such Holders in the absence of such withholding or deduction, except that no such Additional Amounts shall be payable:

(1) in respect of any Local Taxes that would not have been so withheld or deducted but for the existence of any present or former connection, including a permanent establishment, between the Holder or beneficial owner of the Note or any payment in respect of such Note (or, if the Holder 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 or beneficial owner) and Peru, other than the mere receipt of such payment or the mere holding or ownership of such Note or beneficial interest;

(2) in respect of any Local Taxes that would not have been so withheld or deducted if the Note had been presented for payment within 30 days after the Relevant Date (as defined below);

(3) in respect of any Local Taxes that would not have been so withheld or deducted but for the failure by the Holder, the beneficial owner of the Note to (a) make a declaration of non-residence, or any other claim or filing for exemption, to which it is entitled or (b) comply with any certification, identification, information, documentation or other reporting requirement concerning its nationality, residence, identity or any reasonable connection with Peru, including without limitation, pursuant to any applicable law, statute, treaty or regulation of Peru;

(4) in respect of any estate, inheritance, gift, value added, sales, use, excise, transfer, personal property or similar taxes, duties, assessments or other governmental charges;

(5) in respect of any Local Taxes payable other than by withholding or deduction;

(6) in respect of any payment to a Holder of a Note that is a fiduciary or partnership or any Person other than the sole beneficial owner of such payment or Note, 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 Note would not have been entitled to the Additional Amounts had such beneficiary, settlor, member or beneficial owner been the actual Holder of such Note;

(7) in respect of any tax imposed pursuant to Sections 1471 through 1474 of the Code, any current or future regulations or official interpretations thereof, any agreements entered into pursuant to Section 1471(b) of the Code and any intergovernmental agreements (and related legislation or official administrative guidance) implementing the foregoing; or

(8) in respect of any combination of (1) through (7) above.

"*Relevant Date*" means, with respect to any payment due from the Company, whichever is the later of (1) the date on which such payment first becomes due and (2) if the full amount payable has not been received in New York City, 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 shall have been given to the Holders of the Notes in accordance with the Indenture.

All references to principal and interest in respect of the Notes shall be deemed also to refer to any Additional Amounts which may be payable as set forth in the Indenture or in the Notes.

The Company will pay and indemnify the Holders against any Peruvian value added tax that is imposed on a payment of interest on the Notes or any other payments under the Indenture.

The Company shall promptly pay when due any present or future stamp, court or documentary taxes or any other excise or property taxes, charges or similar levies that arise in any jurisdiction from the execution, delivery or registration of each Note or any other document or instrument referred to herein or therein, excluding any such taxes, charges or similar levies imposed by any jurisdiction outside of Peru and except, in certain cases, for taxes, charges or similar levies resulting from certain registration of transfer or exchange of Notes.

The Company intends to withhold Peruvian taxes from payment on the Notes at a rate of 4.99% and to pay Additional Amounts, subject to the conditions set forth herein, for so long as the Notes are held through DTC or its nominee.

Purchase of Notes by the Company

The Company or any of its Affiliates may, to the extent permitted by applicable law, at any time or from time to time purchase Notes in the open market, on an exchange, or by tender or by private agreement at any price. Any purchase of the Notes by tender shall be made available to all Holders of the Notes alike. Any Note so purchased may be held by, or for the account of, the Company or any of its Affiliates and may be surrendered to the Trustee for cancellation; *provided*, *however*, that for purposes of determining whether the Holders of the requisite percentage of the outstanding principal amount of Notes are present at a meeting of Holders for quorum purposes or have consented to or voted in favor of any request, demand, authorization, direction, notice, consent, waiver, amendment or modification under the Indenture, Notes owned by the Company or any of its Affiliates shall be disregarded and deemed not to be outstanding.

Satisfaction and Discharge

The Indenture will be discharged and will cease to be of further effect as to all Notes issued thereunder, when:

(1) either:

(a) all Notes that have been authenticated, except lost, stolen or destroyed Notes that have been replaced or paid and Notes for whose payment money has been deposited in trust and thereafter repaid to the Company, have been delivered to the Trustee for cancellation; or

(b) (i) all Notes that have not been delivered to the Trustee for cancellation have become due and payable (ii) will become due and payable at their Stated Maturity within one year or (iii) are to be called for redemption within one year under arrangements satisfactory to the Trustee for the giving of notice of redemption by the Trustee in the name, and at the expense, of the Company; and the Company, the Principal Guarantor or any Restricted Subsidiary thereof has irrevocably deposited or caused to be deposited with the Trustee as funds in trust solely for the benefit of the Holders, cash in U.S. dollars, in amounts as will be sufficient without consideration of any reinvestment of interest, to pay and discharge the entire Indebtedness on the Notes not delivered to the Trustee for cancellation for principal, premium and Additional Amounts, if any, and accrued interest to the date of maturity or redemption;

(2) the Company, the Principal Guarantor and any Restricted Subsidiary thereof has paid or caused to be paid all sums payable by it under the Indenture;

(3) if applicable, the Company has delivered irrevocable instructions to the Trustee under the Indenture to apply the deposited money toward the payment of the Notes at maturity or the redemption date, as the case may be; and

(4) the Company has delivered an Officers' Certificate and an opinion of counsel to the Trustee stating that all conditions precedent to satisfaction and discharge have been satisfied.

Defeasance

The Company at any time may terminate all obligations of the Company and the Guarantors under the Notes, the Note Guarantees and the Indenture ("*legal defeasance*") and cure all then existing Defaults and Events of Default, except for certain obligations, including those respecting the defeasance trust (as defined below), the rights, powers, trusts, duties, immunities and indemnities of the Trustee and the obligations of the Company in connection therewith and obligations concerning issuing temporary Notes, registrations of Notes, mutilated, destroyed, lost or stolen Notes and the maintenance of an office or agency for payment and money for security payments held in trust.

The Company at any time may terminate the obligations of the Company and the Guarantors under the covenants described under "—Restrictive Covenants" (other than clauses (1) and (2) of the first paragraph under "—Consolidation, Merger, Conveyance, Sale or Lease") and "—Repurchases at the Option of the Holders of the Notes Upon Change of Control that Results in a Ratings Event" and the default provisions relating to such covenants described under "—Events of Default" above, the operation of the cross-default upon a payment default, the cross—acceleration provision, the judgment default provision and the guarantee provision described under "—Events of Default" above ("*covenant defeasance*").

The Company at its option at any time may exercise its legal defeasance option notwithstanding its prior exercise of its covenant defeasance option. If the Company exercises its legal defeasance option, payment of the Notes may not be accelerated because of an Event of Default with respect to the Notes. If the Company exercises its covenant defeasance option with respect to the Notes, payment of the Notes may not be accelerated because of an Event of Default specified in clause (5) or (7) under "—Events of Default" above or because of the failure of the Company to comply with clause (2) of the first paragraph under "—Restrictive Covenants—Consolidation, Merger, Conveyance, Sale or Lease" above.

In order to exercise either defeasance option, the Company must irrevocably deposit in trust (the "*defeasance trust*") with the Trustee cash in dollars or U.S. Government Obligations or a combination thereof sufficient (without consideration of any reinvestment of interest), in the opinion of an Independent Financial Advisor delivered to the Trustee, for the payment of principal, premium, if any, and interest on the Notes to redemption or maturity, as the case may be, and must comply with certain other conditions, including, without limitation, delivery to the Trustee of:

(1) an Opinion of Counsel in the United States stating that Holders of the Notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such deposit and defeasance and will be subject to U.S. federal income tax on the same amounts and in the same manner and at the same times as would have been the case if such deposit and defeasance had not occurred (and in the case of legal defeasance only, such Opinion of Counsel in the United States must be based on a ruling of the U.S. Internal Revenue Service or change in applicable U.S. federal income tax law since the issuance of the Notes);

(2) an Officers' Certificate stating that the deposit was not made by the Company with the intent of defeating, hindering, delaying, defrauding or preferring any creditors of the Company; and

(3) an Officers' Certificate and an Opinion of Counsel (which opinion of counsel may be subject to customary assumptions and exclusions), each stating that all conditions precedent provided for or relating to legal defeasance or covenant defeasance, as the case may be, have been complied with.

Reports to Holders and the Trustee

(1) The Company shall provide the Trustee and, upon request, the Holders of the Notes:

(a) Within 20 business days of the earlier of (i) the date on which audited financial statements are required to be delivered to the SMV, and (ii) the date on which such audited financial statements are delivered to the SMV and, in case the Company is no longer obligated to deliver such audited financial statements to the SMV, within 135 days following the end of the fiscal year of the Company, the annual consolidated financial statements (including the notes thereto) of the Company and its Subsidiaries, and within 135 days following the end of the fiscal year of the Principal Guarantor, the annual consolidated financial statement (including the notes thereto) of the Principal Guarantor and its Subsidiaries, in each case prepared in accordance with IFRS and presented in the English language and a report thereon by its respective certified independent accountants *provided* that after the consummation of the Corporate Reorganization, the Company will provide the annual consolidated financial statements (including the notes thereto) of Orazul and its Subsidiaries in accordance with the dates set forth herein; and

(b) Within 20 business days of the earlier of (i) the date on which quarterly consolidated financial statements are required to be delivered to the SMV, and (ii) the date on which such quarterly consolidated financial statements are delivered to the SMV and, in case the Company is no longer obligated to deliver such quarterly consolidated financial statements to the SMV, within 75 days following the end of the first three fiscal quarters in each fiscal year of the Company, all quarterly consolidated financial statements (including the notes thereto) of the Company and its Subsidiaries, and within 75 days following the end of each of the first three fiscal quarters in each fiscal year of the Principal Guarantor, all quarterly consolidated financial statements (including notes thereto) of the Principal Guarantor and its Subsidiaries, in each case prepared in accordance with IFRS and presented in the English language *provided* that after the consummation of the Corporate Reorganization, the Company will provide all quarterly consolidated financial statements (including the notes thereto) of Orazul and its Subsidiaries in accordance with the dates set forth herein.

(c) Concurrently with the delivery of the financial statements referred to in clause (a) above, a joint certificate of the general manager or the chief financial officer of each of the Company and the Principal Guarantor stating whether, to the best of each such officer's knowledge, anything came to his or her attention to cause him or her to believe that there existed on the date of such statements a Default or an Event of Default, and if so, specifying the nature and period of existence thereof.

All of the financial statements referred to in clauses (a) and (b) above are to be complete and correct in all material respects, to be prepared in reasonable detail and in accordance with IFRS applied consistently throughout the periods reflected therein and to be delivered in both the English and Spanish languages.

(2) In addition, the Company and the Principal Guarantor will furnish to the Holders of the Notes and to prospective investors, upon request of such Holders or investors, any information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act so long as the Notes are not freely tradable under the Securities Act.

(3) For so long as any of the Notes are outstanding, the above information will be made available at the specified offices of each paying agent. For so long as the Notes are listed on the Singapore Stock Exchange, the above information will also be made available in Singapore through the Singapore Stock Exchange.

Delivery of such reports, information and documents to the Trustee pursuant to this the provisions of the Indenture described under this section "Reports to Holders and the Trustee" is for informational purposes only, and the Trustee's receipt thereof will not constitute actual or constructive notice of any information contained therein or determinable from information contained therein, including the Company's compliance with any of its covenants under the Indenture (as to which the Trustee is entitled to an Officers' Certificate confirming such matters).

Modifications, Waivers and Amendments

The Indenture, the Notes and Guarantees may be amended, supplemented or otherwise modified with the consent of at least a majority in aggregate principal amount of the then outstanding Notes (including any consents obtained in any tender offer or exchange offer for such Notes); *provided*, *however*, without the consent of all Holders of the outstanding Notes affected thereby, an amendment, supplement or waiver may not:

(1) reduce the principal amount of such Notes whose Holders must consent to an amendment;

(2) reduce the stated rate of or extend the stated time for payment of interest on any such Note (other than provisions relating to Change of Control and Asset Sales);

(3) reduce the principal of or extend the Stated Maturity of any such Note (other than provisions relating to Change of Control and Asset Sales);

(4) reduce the premium payable upon the redemption of any such Note or change the time at which any such Note may be redeemed, in each case as described above under "—Optional Redemption;"

(5) make any such Note payable in currency other than that stated in such Note or altering the place of payment of any Note (other than the addition of a place of payment);

(6) impair the right of any Holder to institute suit for the enforcement of any payment of principal of and interest on such Holder's Notes on or after the due dates therefor;

(7) waive a Default or Event of Default with respect to the nonpayment of principal, premium, if any, Additional Amounts or interest (except pursuant to a rescission of acceleration of the Notes by the Holders of at least a majority in aggregate principal amount of such Notes and a waiver of the payment default that resulted from such acceleration);

(8) change any obligation to pay Additional Amounts in respect of any Note;

(9) make any change to the provisions of the Indenture, the Notes or the Note Guarantees that adversely affects the ranking of the Notes or the Note Guarantees; *provided* that a change to the covenant described under "Restrictive Covenants—Limitation on Liens" will not alone affect the ranking of the Notes;

(10) release any Guarantor from any of its obligations under its Note Guarantee or the Indenture, except in accordance with the terms of the Indenture; or

(11) make any change in the amendment or waiver provisions which require the Holders' consent described in this sentence.

For purposes of the foregoing, Notes actually known to a Responsible Officer of the Trustee to be held for the Company's account, or the account of any Affiliate of the Company, shall not be considered outstanding and such Holder(s) will not participate in taking any actions under the terms of the Notes.

Notwithstanding the foregoing, without the consent of any Holder, the Company, the Trustee and the other parties thereto, as applicable, may amend or supplement the Notes, Guarantee or Indenture:

(1) to cure any ambiguity, omission, mistake, defect, error or inconsistency or reduce the minimum denomination of the Notes;

(2) to provide for the assumption by a successor Person of the obligations of the Company or a Guarantor under any Note Document;

(3) to provide for global Notes in addition to or in place of certificated Notes;

(4) to add to the covenants or provide for a Note Guarantee for the benefit of the Holders or surrender any right or power conferred upon the Company or any Restricted Subsidiary;

(5) to make any change that does not adversely affect the rights of any Holder in any material respect;

(6) to secure the Notes;

(7) to provide for the acceptance of appointment by a successor Trustee, Registrar, Paying Agent or Transfer Agent and to add or change any of the provisions of the Indenture as shall be necessary to provide for or facilitate the administration of the trusts thereunder by more than one Trustee;

(8) to provide for assumption of the obligations of the Company or any Guarantor to Holders of Notes and the Note Guarantees in the case of a merger or consolidation or sale of all or substantially all of the assets of the Company or such Guarantor, as applicable;

(9) to conform the text of the Indenture, the Notes and the Note Guarantees to any provision of this "Description of the Notes;"

(10) to make such provisions as necessary (as determined in good faith by the Company) to facilitate the issuance of Additional Notes;

(11) to provide for any Restricted Subsidiary to provide a Note Guarantee in accordance with the covenant described under "—Certain Covenants—Limitation on Indebtedness," to add Guarantees with respect to the Notes, to add security to or for the benefit of the Notes, or to confirm and evidence the release, termination, discharge or retaking of any Guarantee or Lien with respect to or securing the Notes when such release, termination, discharge or retaking is provided for under the Indenture;

(12) to evidence and provide for the acceptance and appointment under the Indenture of a successor Trustee pursuant to the requirements thereof or to provide for the accession by the Trustee to any Note Document; or

(13) to make any amendment to the provisions of the Indenture relating to the transfer and legending of Notes as permitted by the Indenture, including, without limitation, to facilitate the issuance and administration of Notes; *provided*, *however*, that (a) compliance with the Indenture as so amended would not result in Notes being transferred in violation of the Securities Act or any other applicable securities law and (b) such amendment does not adversely affect the rights of Holders to transfer Notes in any material respect.

In connection with any such amendment, the Trustee shall be entitled to receive an Officers' Certificate and an opinion of counsel, each stating that the conditions precedent to the amendment have been satisfied, that the amendment is authorized or permitted by the Indenture, and that the amendment constitutes the legal, valid, and binding obligation of the Company.

The consent of the Holders is not necessary under the Indenture to approve the particular form of any proposed amendment of any Note Document. It is sufficient if such consent approves the substance of the proposed amendment. A consent to any amendment or waiver under the Indenture by any Holder of Notes given in connection with a tender of such Holder's Notes will not be rendered invalid by such tender. After an amendment, supplement or waiver under the Indenture becomes effective, the Company will be required to give notices to the Holders as provided under "Notices" briefly describing such amendment, supplement or waiver. The failure to give such notice to all Holders, or any defect therein, will not impair or affect the validity of such amendment or waiver.

Replacement of Notes

If any Note shall become mutilated or defaced or be destroyed, lost or stolen, the Company may execute and the Trustee may, upon the Holder of such Note agreeing to provide such indemnity as shall be required in the next paragraph and in the absence of notice to us or the Trustee that such Note has been acquired by a protected purchaser (as defined in Section 8-303 of the New York Uniform Commercial Code, as amended), authenticate and deliver a new Note on such terms as the Company and the Trustee may require, in exchange and substitution for the mutilated or defaced Note or in lieu of and in substitution for the destroyed, lost or stolen Note. Each Note authenticated and delivered for, or in lieu of, any such Note shall carry all the rights to interest accrued and unpaid and to accrue which were carried by such Note before such mutilation or defacement, or destruction, loss or theft.

In the case of a mutilated, defaced, destroyed, lost or stolen Note, an indemnity in favor of the Trustee and the Company, satisfactory to the Trustee and the Company will be required of the owner of such Note and evidence to the satisfaction of the Trustee and the Company of the destruction, loss or theft of such Note and of the ownership thereof before a replacement Note will be issued. In the case of mutilation or defacement of a Note, the Holder shall surrender to the Trustee the Note so mutilated or defaced. In addition, prior to the issuance of any Note in substitution for the mutilated, defaced, destroyed, lost or stolen Note, the Company may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the reasonable fees and expenses of the Trustee and its counsel and the Company's counsel) connected therewith. If any Note that has matured or will mature within 30 days shall become mutilated or defaced or be apparently destroyed, lost or stolen, the Company may pay, in its sole discretion, or authorize payment of the same without issuing a substitute Note.

Governing Law; Waiver of Jury Trial

The Indenture, the Notes and the Note Guarantees are governed by, and shall be construed in accordance with, the law of the State of New York, United States, without regard to the conflicts of law provisions thereof. Pursuant to the Indenture and the Note Guarantees, the Company, the Guarantors and the Trustee will waive, to the fullest extent permitted by applicable law, any and all right to trial by jury in any legal proceeding arising out of or relating to the Indenture, the Notes, the Note Guarantees or the transactions contemplated thereby.

Prescription

All claims for payment of principal of or interests (including Additional Amounts, if any) on or in respect of the Notes will be prescribed unless made within six years from the date on which such payment first became due, unless a different period applies under applicable law. Claims filed in the courts of the State of New York will be subject to the applicable statute of limitations for such claims, which currently is six years.

Descriptive Headings

The descriptive headings appearing in this "Description of the Notes" are for convenience of reference only and shall not alter, limit or define the provisions hereof.

No Personal Liability of Directors, Officers, Employees and Shareholders

No director, officer, employee, incorporator or shareholder of the Company, the Principal Guarantor or any of their respective Subsidiaries or Affiliates, as such, shall have any liability for any obligations of the Company under the Note Documents or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Notes. Such waiver may not be effective to waive liabilities under the U.S. federal securities laws and it is the view of the SEC that such a waiver is against public policy.

Consent to Service of Process; Jurisdiction

Each of the Company and the Guarantors will submit to the non-exclusive jurisdiction of the courts of the State of New York and the United States courts located in the Borough of Manhattan, New York City, New York with respect to any action that may be brought in connection with the Indenture, the Notes or the Note Guarantees and has appointed CSC Corporation as agent for service of process.

Form, Denomination and Title

Notes sold in reliance on Rule 144A ("*Rule 144A*") under the United States Securities Act of 1933, as amended (the "*Securities Act*") to qualified institutional buyers (as defined in Rule 144A under the Securities Act) ("*qualified institutional buyers*" or "*QIBs*") will be represented by a permanent restricted global note in fully registered form without interest coupons attached (each, a "*Rule 144A Global Note*"), which will be deposited with a custodian for and registered in the name of Cede & Co. ("*Cede*"), as nominee of The Depository Trust Company ("*DTC*") and its direct and indirect participants, including depositaries for Euroclear and Clearstream, Luxembourg. Notes sold in offshore transactions in reliance on Regulation S under the Securities Act ("*Regulation S*") will be represented by a global note in fully registered form without interest coupons attached (such global note is referred to herein as a "*Regulation S Global Note*" and together with the Rule 144A Global Note the "*Global Notes*") which will be deposited with a custodian for, and registered in the name of Cede, as nominee of DTC, for the accounts of Euroclear Bank S.A./N.V., as operator of the Euroclear System ("*Euroclear*"), and Clearstream, Luxembourg. Purchasers of beneficial interests in a Regulation S Global Note will be required to certify that such beneficial owner is not a U.S. Person within the meaning of Rule 902 of the Securities Act or is a U.S. Person who purchased its interest in a transaction that did not require registration under the Securities Act. Beneficial interests in Global Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants, including depositaries for Euroclear and Clearstream, Luxembourg.

The Notes have been accepted for clearance and settlement through DTC and its direct and indirect participants, including depositaries for Euroclear and Clearstream, Luxembourg. With respect to the Notes represented by the Rule 144A Global Note, the CUSIP number is 68559B AA5 and the ISIN is US68559BAA52. With respect to the Notes represented by the Regulation S Global Note, the CUSIP number is P7372B AA1 and the ISIN is USP7372BAA19.

Any reference herein to DTC, Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearance system approved by the Company, the relevant initial purchaser(s) and the Trustee.

Each Note will be numbered serially with an identifying number that will be recorded in the register (the "*Register*") to be kept by the Registrar. Title to Notes will pass only by registration of transfer in the Register. In this "Description of the Notes," "*Holder*" means, with respect to a Note, the person in whose name a Note is registered in the Register. The Holder of any Note will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not such Note is overdue and regardless of any notice of ownership, trust or any interest in it, any writing on it, or its theft or loss), and no person will be liable for so treating the Holder.

The Notes will be issued in the following specified denominations: (i) subject to applicable law, Notes resold pursuant to Rule 144A will be in denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof; and (ii) subject to applicable law, Notes sold pursuant to Regulation S will be in denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof; subject, in each case, to the fulfillment of all legal and regulatory requirements (the "*Specified Denominations*").

Global Notes

The statements set forth herein include summaries of certain rules and operating procedures of DTC, Euroclear and Clearstream, Luxembourg, which affect transfers of interests in the Global Notes.

Except as set forth below, a Global Note may be transferred, in whole or part, only to DTC, another nominee of DTC or a successor of DTC or its nominee.

Beneficial interests in the Global Notes will be represented, and transfers of such beneficial interests will be effected, through accounts of financial institutions acting on behalf of beneficial owners as direct and indirect participants in DTC. Subject to the minimum denominations described above, such beneficial interests will be in denominations of U.S.$1,000 and integral multiples thereof. Investors may hold Notes directly through DTC, Euroclear or Clearstream, Luxembourg, if they are participants in such systems, or indirectly through organizations that are participants in such systems. Euroclear and Clearstream, Luxembourg hold securities on behalf of their participants through customers' securities accounts in their respective names on the books of their respective depositaries, which in turn hold such securities in customers' securities accounts in the depositaries' names on the books of DTC.

A beneficial interest in Regulation S Global Note may be transferred to a person who takes delivery in the form of an interest in a Rule 144A Global Note only upon receipt by the Trustee of a written certification from the transferor (in the applicable form provided in the Indenture) to the effect that such transfer is being made to a person whom the transferor reasonably believes is a QIB 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. Beneficial interests in a Rule 144A Global Note may be transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note, only upon receipt by the Trustee of a written certification from the transferor (in the applicable form provided in the Indenture) to the effect that such transfer is being made in accordance with Regulation S or that the Note being transferred is not a "restricted security" within the meaning of Rule 144 under the Securities Act. 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 such 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.

DTC has advised the Company that it is a limited-purpose trust company organized under the laws of the State of New York, 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 was created to hold securities of its participants (each, a "*DTC Participant*") and to facilitate the clearance and settlement of securities transactions among the DTC Participants in such securities through electronic book-entry changes in accounts of the DTC Participants, thereby eliminating the need for physical movement of securities certificates. DTC Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations, some of which and/or their representatives own DTC. Access to DTC's book-entry system is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly. Persons who are not DTC Participants may beneficially own securities held by DTC only through DTC Participants.

Upon the issuance of the Global Notes, DTC will credit, on its book-entry registration and transfer system, the respective nominal amounts of the Notes represented by such Global Notes to the accounts of the DTC Participants designated by the relevant initial purchaser(s).

Persons who are not DTC Participants may beneficially own Notes held by DTC only through direct or indirect DTC Participants (including Euroclear and Clearstream, Luxembourg). So long as Cede, as the nominee of DTC, is registered owner of the Global Notes, Cede for all purposes will be considered the sole Holder represented by the Global Notes under the Indenture and the Notes. Except as provided below, owners of beneficial interests in the Global Notes will not be entitled to have Notes represented thereby registered in their names, will not receive or be entitled to receive physical delivery of such Notes in definitive form and will not be considered the Holders thereof under the Indenture or the Notes. Accordingly, any person owning a beneficial interest in either of the Global Notes must rely on the procedures of DTC and, to the extent relevant, Euroclear or Clearstream, Luxembourg, and, if such person is not a participant, on the procedures of the participant through which such person owns its interest, to exercise any rights of a Holder represented thereby. The Company understands that, under existing industry practice, in the event that any owner of a beneficial interest in a Global Note desires to take any action that Cede, as the Holder of such Global Note, is entitled to take, Cede would authorize the DTC Participants to take such action, and the DTC Participants would authorize beneficial owners owning through such DTC Participants to take such action or would otherwise act upon the instructions of beneficial owners owning through them.

Payments in respect of the principal of and premium and interest on a Global Note registered in the name of DTC or its nominee will be payable to DTC in its capacity as the registered Holder under the indenture governing the Notes. Under the terms of the Indenture governing the Notes, the Company and the Trustee will treat the Persons in whose names Notes, including Global Notes, are registered as the owners of such notes for the purpose of receiving payments and for all other purposes. Consequently, none of the Company, the Trustee or any agent of the Company or the Trustee has or will have any responsibility or liability for:

(1) any aspect of DTC's records or any participant's or indirect participant's records relating to or payments made on account of beneficial ownership interests in Global Notes or for maintaining, supervising or reviewing any of DTC's records or any participant's or indirect participant's records relating to the beneficial ownership interests in Global Notes; or

(2) any other matter relating to the actions and practices of DTC or any of its participants or indirect participants.

DTC may grant proxies or otherwise authorize DTC Participants (or persons holding beneficial interests in the Notes through such DTC Participants) to exercise any rights of a Holder or take any other actions which a Holder is entitled to take under the Indenture or the Notes. Under its usual procedures, DTC would mail an omnibus proxy to the Company assigning Cede's consenting or voting rights to those DTC Participants to whose accounts the Notes are credited on a record date as soon as possible after such record date. Euroclear or Clearstream, Luxembourg, as the case may be, will take any action permitted to be taken by a Holder under the Indenture or the Notes on behalf of a Euroclear participant or Clearstream, Luxembourg participant only in accordance with its relevant rules and procedures and subject to its depositary's ability to effect such actions on its behalf through DTC.

The Global Notes will not be exchangeable for Definitive Notes, except as provided below.

Transfer of Notes and Issuance and Transfer of Definitive Notes

The transfer of Notes and issuance and transfer of Definitive Notes shall be as follows:

A Note may be transferred in whole or in part in a Specified Denomination. Transferees of interests in one Note may take delivery in the form of interests in another Note, subject to the certification requirements set forth in the Indenture.

The Holder of Notes in certificated, fully registered form without interest coupons attached ("*Definitive Notes*") may transfer such Notes by surrendering them at the office or agency maintained by the Company for such purpose in the Borough of Manhattan, the City of New York, which initially will be the office of the Trustee, or at the office of any Transfer Agent. Upon the transfer, exchange or replacement of Definitive Notes bearing a restrictive legend, or upon specific request for removal of such legend, the Company will deliver only Definitive Notes that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Company and the Trustee such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Company and the Trustee that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

If DTC or any successor depositary is at any time unwilling or unable to continue as a depositary for a Global Note or ceases to be a "clearing agency" registered under the Exchange Act and a successor depositary is not appointed by us within 90 days after the Company receives notice from such depositary or the Trustee to that effect, or after the Company becomes aware that DTC is no longer so registered, or the Trustee has instituted or has been directed to institute any judicial proceedings in a court to enforce the rights of noteholders under the Notes and the Trustee has been advised by an opinion of counsel in connection with such proceedings that it is necessary or appropriate for the Trustee to obtain possession of the Notes or an Event of Default has occurred and is continuing with respect to the Notes, the Trustee will complete, authenticate and deliver Notes in certificated registered form duly executed by the Company and deposited with the Trustee on the Issue Date in exchange for such Global Note. The Company may also determine that any Global Note will be exchanged for Definitive Notes. In the case of Definitive Notes issued in exchange for a Rule 144A Global Note, such certificates will bear, and be subject to, the legend referred to under "Transfer Restrictions; Notice to Investors."

The Holder of Definitive Notes may transfer such Notes by surrendering them, together with any relevant information required for the transfer, at the office or agency maintained by the Company for such purpose in the Borough of Manhattan, The City of New York, which initially will be the office of the Trustee, or at the office of any Transfer Agent. Upon the transfer, exchange or replacement of Definitive Notes bearing a restrictive legend, or upon specific request for removal of such legend, the Company will deliver only Definitive Notes that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Company and the Trustee such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Company and the Trustee, 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 Registrar nor any Transfer Agent shall register the transfer of, or exchange of, a Definitive Note during the period commencing on the 15th day prior to the due date for any payment of principal of or interest on such Note and ending on such due date for any payment of principal of or interest on such Note or register the transfer or exchange of any Notes previously called for redemption.

Currency Indemnity

The Company and the Guarantors will pay all sums payable under the Indenture, the Notes or the Note Guarantees solely in U.S. dollars. Any amount that you receive or recover in a currency other than U.S. dollars in respect of any sum expressed to be due to you from the Company or any Guarantor will only constitute a discharge to us to the extent of the U.S. dollar amount which you are able to purchase with the amount received or recovered in that other currency on the date of the receipt or recovery or, if it is not practicable to make the purchase on that date, on the first date on which you are able to do so. If the U.S. dollar amount is less than the U.S. dollar amount expressed to be due to you under any Note or the Note Guarantees, the Company and the Guarantors, as applicable, will indemnify you against any loss you sustain as a result. In any event, the Company and the Guarantors, as applicable, will indemnify you against the cost of making any purchase of U.S.

dollars. For the purposes of this paragraph, it will be sufficient for you to certify in a satisfactory manner that you would have suffered a loss had an actual purchase of U.S. dollars been made with the amount received in that other currency on the date of receipt or recovery or, if it was not practicable to make the purchase on that date, on the first date on which you were able to do so. In addition, you will also be required to certify in a satisfactory manner the need for a change of the purchase date.

The indemnities described above:

- constitute a separate and independent obligation from the other obligations of the Company and the Guarantors;
- will give rise to a separate and independent cause of action;
- will apply irrespective of any indulgence granted by any Holder; and
- will continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note.

Certain Definitions

Set out below is a summary of certain of the defined terms used in the Indenture. Reference is made to the Indenture for the full definition of all such terms as well as any other capitalized terms used herein for which no definition is provided. Unless the context otherwise requires, an accounting term not otherwise defined has the meaning assigned to it under and in accordance with IFRS.

"*Acquired Indebtedness*" means with respect to any Person (x) Indebtedness on the balance sheet of any other Person or any of its Subsidiaries existing at the time such other Person becomes a Restricted Subsidiary or merges or amalgamates with or into or consolidates or otherwise combines with the Company, Principal Guarantor or any Restricted Subsidiary and (y) Indebtedness secured by a Lien encumbering any asset acquired by such Person. Acquired Indebtedness shall be deemed to have been Incurred, with respect to clause (x) of the preceding sentence, on the date such Person becomes a Restricted Subsidiary or on the date of the relevant merger, amalgamation, consolidation, acquisition or other combination.

"*Additional Amounts*" has the meaning given to it under "—Additional Amounts."

"*Additional Assets*" means:

(1) any property or assets (other than Capital Stock) used or to be used or otherwise useful by the Company, the Principal Guarantor or a Restricted Subsidiary in a Permitted Business (it being understood that capital expenditures on property or assets already used in a Permitted Business or to replace any property or assets that are the subject of such Asset Sale shall be deemed an Investment in Additional Assets);

(2) the Capital Stock of a Person that becomes a Restricted Subsidiary as a result of the acquisition of such Capital Stock by the Company, the Principal Guarantor or another Restricted Subsidiary thereof; or

(3) Capital Stock constituting a minority interest in any Person that at such time is a Restricted Subsidiary of the Company or the Principal Guarantor;

provided, *however*, that any such Restricted Subsidiary described in clause (2) or (3) above is primarily engaged in a Permitted Business.

"*Additional Notes*" has the meaning given to it under "—Additional Notes."

"*Affiliate*" of any specified Person means any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "*control*" when used with respect to any 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; and the terms "*controlling*" and "*controlled*" have meanings correlative to the foregoing. A Person shall be deemed to control another Person if such Person possesses, directly or indirectly, the power (i) to vote 10% or more of the securities having ordinary voting power for the election of directors (or equivalent governing body) of such Person or (ii) to direct or cause the direction of the management and policies of such other Person, whether through the ownership of voting securities, by contract or otherwise.

"*Affiliate Transaction*" has the meaning given to it under "—Restrictive Covenants—Limitation on Transactions with Affiliates."

"*Aguaytía*" means Aguaytía Energy del Peru S.R.L., a limited liability partnership (*sociedad de responsibilidad limitada*) organized and existing under the laws of Peru.

"*Asset Disposition*" means any Asset Sales or other disposition of assets.

"*Asset Sale*" means any sale, lease, transfer or other disposition (or series of related sales, leases, transfers or dispositions) by the Company, the Principal Guarantor or any Restricted Subsidiary thereof, including any disposition by means of a merger, consolidation, or similar transaction (each referred to for the purposes of this definition as a "*disposition*"), of:

(1) any shares of Capital Stock (other than Preferred Stock or Disqualified Stock of Restricted Subsidiaries issued in compliance with the covenant described under "—Restrictive Covenants—Limitation on Indebtedness" or directors' qualifying shares or shares required by applicable law to be held by a Person other than the Company, the Principal Guarantor or a Restricted Subsidiary thereof);

(2) all or substantially all the assets of any division or line of business of the Company, the Principal Guarantor or any Restricted Subsidiary thereof; or

(3) any other assets of the Company, the Principal Guarantor or any Restricted Subsidiary thereof outside of the ordinary course of business of the Company, the Principal Guarantor or such Restricted Subsidiary;

provided, *however*, that Asset Sale will not include:

(a) a disposition by a Restricted Subsidiary of the Company or the Principal Guarantor to the Company or to the Company or the Principal Guarantor, respectively, or to any other Restricted Subsidiary of the Company or the Principal Guarantor, as applicable, including to a Person that is or will become a Restricted Subsidiary immediately after the disposition;

(b) for purposes of the provisions described under "—Restrictive Covenants—Limitation on Sales of Assets" only, a Restricted Payment or any Permitted Investment;

(c) a disposition of assets with a Fair Market Value of less than U.S.$7.0 million;

(d) (i) an expenditure of cash or liquidation of Cash Equivalents or other marketable securities disposed of in the open market or (ii) goods held for sale and assets sold in the ordinary course of business;

(e) a disposition of obsolete, worn out, uneconomic, damaged or surplus property, equipment or other assets or property, equipment or other assets that are no longer economically practical to maintain or used or useful in the business of the Company, the Principal Guarantor and their respective Restricted Subsidiaries whether now or hereafter owned or leased or acquired in connection with an acquisition or used or useful in the conduct of the business of the Company, the Principal Guarantor and their respective Restricted Subsidiaries (including by ceasing to enforce, allowing the lapse, abandonment or invalidation of or discontinuing the use or maintenance of or putting into the public domain any intellectual property that is, in the reasonable judgment of the Company, the Principal Guarantor or their respective Restricted Subsidiaries, as applicable, is no longer used or useful, or economically practicable to maintain);

(f) a disposition of assets that are exchanged for or are otherwise replaced by Additional Assets;

(g) the disposition of all or substantially all of the assets of the Company in a manner permitted under the covenant described under "—Consolidation, Merger, Conveyance, Sale or Lease;"

(h) the disposition of assets in a Sale and Lease Back Transaction if permitted by the covenant described under "—Restrictive Covenants—Limitation on Sale and Lease Back Transaction;"

(i) the lease, assignment or sublease of any real or personal property in the ordinary course of business;

(j) dispositions of receivables in connection with the compromise, settlement or collection thereof in the ordinary course of business or consistent with past practice or in bankruptcy or similar proceedings and exclusive of factoring or similar arrangements;

(k) foreclosure, condemnation or any similar action with respect to any property or other assets;

(l) any issuance or sale of Capital Stock in, or Indebtedness or other securities of, an Unrestricted Subsidiary or any other disposition of Capital Stock, Indebtedness or other securities of an Unrestricted Subsidiary or an Immaterial Subsidiary;

(m) dispositions of Investments in joint ventures or similar entities to the extent required by, or made pursuant to customary buy/sell arrangements between, the parties to such joint venture set forth in joint venture arrangements and similar binding arrangements;

(n) the unwinding of any Cash Management Services or Hedging Obligations;

(o) any dispositions in connection with the Corporate Reorganization; and

(p) the Incurrence or disposition of any Lien permitted by the covenant described under "—Restrictive Covenants—Limitation on Liens."

"*Asset Sale Offer*" has the meaning given to it under "Restrictive Covenants—Limitation on Sales of Assets."

"*Asset Sale Offer Amount*" has the meaning given to it under "—Restrictive Covenants—Limitation on Sales of Assets."

"*Asset Sale Offer Payment Date*" has the meaning given to it under "—Restrictive Covenants—Limitation on Sales of Assets."

"*Attributable Debt*" in respect of a Sale and Lease-Back Transaction means, as at the time of determination, the present value (discounted at the interest rate borne by the Notes, compounded annually) of the total obligations of the lessee for rental payments during the remaining term of the lease included in such Sale and Lease-Back Transaction (including any period for which such lease has been extended).

"*Authorized Officer*" means any officer, Director or attorney-in-fact of the Company as may be duly authorized to take actions under the Indenture and notified to the Trustee in writing by the Company.

"*Average Life*" means, as of the date of determination, with respect to any Indebtedness or Preferred Stock, the quotient obtained by dividing:

(1) the sum of the products of the numbers of years (rounding to the nearest one-twelfth of one year) from the date of determination to the dates of each remaining scheduled principal payment (including the payment at final maturity) of such Indebtedness or redemption or similar payment with respect to such Preferred Stock multiplied by the amount of such payment, by

(2) the sum of all such payments.

"*Board of Directors*" means, with respect to any Person, the board of directors of such Person or any committee thereof duly authorized to act on behalf of the board of directors of such Person, or similar governing body of such Person, including any managing partner or similar entity of such Person.

"*Capital Stock*" of any Person means any and all shares, rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated) equity of such Person, including any Preferred Stock and partnership interests, but excluding any debt securities convertible into such equity.

"*Capitalized Lease Obligations*" means, with respect to any Person, all rental obligations of such Person which, under IFRS, are or will be required to be capitalized on the books of such Person, in each case taken at the amount thereof accounted for as indebtedness in accordance with such principles.

"*Cash Equivalents*" means, as to any Person:

(1) securities issued or directly and fully guaranteed or insured by the United States or any agency or instrumentality thereof (*provided* that the full faith and credit of the United States is pledged in support thereof);

(2) marketable direct obligations issued by any state of the United States or any political subdivision of any such state or any public instrumentality thereof maturing within six months from the date of acquisition thereof and, at the time of acquisition, having one of the two highest ratings obtainable from either S&P or Moody's;

(3) time deposits, deposit accounts, certificates of deposit and banker's acceptances of any member of the Federal Reserve System which is organized under the laws of the United States or any political subdivision thereof or any commercial bank organized under the laws of Canada, Japan, Switzerland or any country which is a member of the European Union, or any commercial bank organized under the laws of Peru, or which is the principal Peruvian banking subsidiary of a bank holding company, in each case, having a combined capital and surplus of at least $500,000,000 and having a long-term unsecured debt rating of at least "A" or the equivalent thereof from S&P or "A2" or the equivalent thereof from Moody's with maturities of not more than six months from the date of acquisition by such Person; *provided* that all time deposits, deposit accounts, certificates of deposit and banker's acceptances of deposit accounts of Banco de Crédito del Peru, BBVA Banco Continental, Scotiabank Peru S.A.A., Banco Internacional del Peru S.A.A. and Banco de la Nación, including any successors thereto, shall be considered as Cash Equivalents;

(4) a money market fund or a qualified investment fund given one of the two highest long term ratings by S&P, Moody's or Fitch;

(5) repurchase obligations with a term of not more than seven days for underlying securities of the types described in clause (a) above entered into with any bank meeting the qualifications specified in clause (3) above; *provided* that such repurchase obligations shall be fully secured

by obligations of the type described in clause (a) above, and the possession of such obligations shall be transferred to, and segregated from other obligations owned by, such bank;

(6) Eurodollar certificates of deposit issued by any other bank meeting the requirements of clause (3) above;

(7) deposits that are fully insured by the Federal Deposit Insurance Corporation and do not have an 'r' suffix attached to their rating;

(8) commercial paper issued by any Person incorporated in the United States rated at least "A-1" or the equivalent thereof by S&P or at least "P 1" or the equivalent thereof by Moody's and in each case maturing not more than 365 days after the date of acquisition by such Person;

(9) principal-only strips and interest-only strips of non-callable obligations issued by the U.S. Treasury, and REFCORP securities stripped by the Federal Reserve Bank of New York; and

(10) investments in money market funds substantially all of whose assets are comprised of securities of the types described in clauses (1) through (9) above.

"*Cash Management Services*" means any of the following to the extent not constituting a line of credit (other than an overnight draft facility that is not in default): automated clearing house transactions, treasury, depository, credit or debit card, purchasing card, stored value card, electronic fund transfer services and/or cash management services, including, without limitation, controlled disbursement services, overdraft facilities, foreign exchange facilities, deposit and other accounts and merchant services or other cash management arrangements in the ordinary course of business or consistent with past practice.

"*Cede*" has the meaning given to it under "—Form, Denomination and Title."

"*Change of Control*" means (a) at any time prior to the consummation of the Corporate Reorganization, Orazul Energy Peru Holdings S.R.L. (f/k/a Duke Energy Peru Holdings S.R.L.) at any time ceases to directly own at least a majority of the Equity Interests of the Company or cease to have the power to direct the management or policies of the Company, (b) the Sponsor and/or one or more Qualified Buyers at any time (i) cease to directly or indirectly collectively own at least a majority of the Equity Interests of the Company and the Principal Guarantor, in each case on a fully diluted basis, or (ii) cease to have the power to direct the management and policies of the Company or the Principal Guarantor or (c) the Sponsor and/or one or more Qualified Buyers fail to have the power to elect and do not elect the majority of the Board of Directors or other governing body of the Company or the Principal Guarantor.

Notwithstanding the foregoing, a transaction will not be deemed to involve a Change of Control solely as a result of the Company becoming a direct or indirect wholly-owned subsidiary of a holding company if the direct or indirect holders of the Voting Stock of such holding company immediately following that transaction are substantially the same as the holders of the Company's Voting Stock immediately prior to that transaction.

For the avoidance of doubt, no aspect of the Corporate Reorganization shall constitute a Change of Control.

"*Change of Control Offer*" has the meaning given to it under "—Repurchases at the Option of the Holders of the Notes Upon Change of Control that Results in a Ratings Event."

"*Change of Control Payment*" has the meaning given to it under "—Repurchases at the Option of the Holders of the Notes Upon Change of Control that Results in a Ratings Event."

"*Change of Control Payment Date*" has the meaning given to it under "—Repurchases at the Option of the Holders of the Notes Upon Change of Control that Results in a Ratings Event."

"*Code*" means the Internal Revenue Code of 1986, as amended.

"*Combined Consolidated Adjusted EBITDA*" means, for any period, without duplication, the Consolidated Adjusted EBITDA of the Company and its Restricted Subsidiaries *plus* the Consolidated Adjusted EBITDA of the Principal Guarantor and its Restricted Subsidiaries; *provided* that, following the consummation of the Corporate Reorganization, "Combined Consolidated Adjusted EBITDA" shall mean the Consolidated Adjusted EBITDA of Orazul and its Restricted Subsidiaries as the Successor Company on a *pro forma* basis as if the Corporate Reorganization had occurred on the first day of such applicable four-quarter period.

"*Combined Consolidated Interest Charges*" means, for any period, without duplication, the Consolidated Interest Charges of the Company and its Restricted Subsidiaries *plus* the Consolidated Interest Charges of the Principal Guarantor and its Restricted Subsidiaries; *provided* that, following the consummation of the Corporate Reorganization, "Combined Consolidated Interest Charges" shall mean the Consolidated Interest Charges of Orazul and its Restricted Subsidiaries as the Successor Company on a *pro forma* basis as if the Corporate Reorganization had occurred on the first day of such applicable four-quarter period.

"*Combined Consolidated Net Income*" means, for any period, without duplication, the Consolidated Net Income of the Company and its Restricted Subsidiaries *plus* the Consolidated Net Income of the Principal Guarantor and its Restricted Subsidiaries; *provided* that, following the consummation of the Corporate Reorganization, "Combined Consolidated Net Income" shall mean the Consolidated Net Income of Orazul and its Restricted Subsidiaries as the Successor Company on a *pro forma* basis as if the Corporate Reorganization had occurred on the first day of such applicable four-quarter period.

"*Combined Consolidated Net Tangible Assets*" means the Total Assets of the Company, the Principal Guarantor and their respective Restricted Subsidiaries *less* goodwill and intangibles, in each case calculated in accordance with IFRS, *less* current liabilities (other than current maturities of long-term debt and associated interest accruals) and in each case on a *Pro Forma* Basis; *provided* that, following the consummation of the Corporate Reorganization, "Combined Consolidated Net Tangible Assets" shall mean the Total Assets of Orazul and its Restricted Subsidiaries *less* goodwill and intangibles, in each case calculated in accordance with IFRS, *less* current liabilities (other than current maturities and long-term debt) and in each case on a *Pro Forma* Basis.

"*Combined Consolidated Total Net Indebtedness*" means, for any period, without duplication, the Consolidated Total Net Indebtedness of the Company and its Restricted Subsidiaries *plus* the Consolidated Total Net Indebtedness of the Principal Guarantor and its Restricted Subsidiaries calculated on a *Pro Forma* Basis; *provided* that, following the consummation of the Corporate Reorganization, "Combined Consolidated Total Net Indebtedness" shall mean the Consolidated Total Net Indebtedness of Orazul and its Restricted Subsidiaries as the Successor Company.

"*Combined Interest Coverage Ratio*" means the ratio of Combined Consolidated Adjusted EBITDA for the most recent four consecutive fiscal quarters ending on or most recently prior to any date of determination for which internal consolidated financial statements are available to Combined Consolidated Interest Charges, in each case calculated on a *Pro Forma* Basis.

"*Combined Total Net Debt to EBITDA Ratio*" means any date of determination the ratio of (a) Combined Consolidated Total Net Indebtedness calculated on a *Pro Forma* Basis to (b) Combined Consolidated Adjusted EBITDA for the period of four consecutive fiscal quarters ending on or most recently prior to such date for which combined consolidated internal financial statements are available calculated on a *Pro Forma* Basis.

"*Company*" has the meaning given to it in the first paragraph of this "Description of the Notes."

"*Comparable Treasury Issue*" has the meaning set forth under "—Optional Redemption."

"*Comparable Treasury Price*" has the meaning set forth under "—Optional Redemption."

"*Consolidated Adjusted EBITDA*" means, with respect to any Person for any period, Consolidated Net Income for such Person for such period (without giving effect to (x) any extraordinary gains or losses, (y) any non-cash income or expenses and (z) any gains or losses from sales of assets other than inventory sold in the ordinary course of business (without duplication to the calculation of Consolidated Net Income) adjusted by:

(1) adding thereto (in each case to the extent deducted in determining Consolidated Net Income for such period), without duplication, the amount of

(a) total interest expense (inclusive of amortization of deferred financing fees and other original issue discount and banking fees, charges and commissions (*e.g.*, letter of credit fees and commitment fees)) of such Person and its Restricted Subsidiaries determined on a consolidated basis for such period;

(b) provision for taxes based on income and foreign withholding taxes for such Person and its Restricted Subsidiaries determined on a consolidated basis for such period;

(c) all depreciation and amortization expense of such Person and its Restricted Subsidiaries determined on a consolidated basis for such period;

(d) if applicable to such Person, expenses for receivable write-offs and reserves in respect of invoices for sales to Maple rendered during such period;

(e) write-offs of receivables for ordinary course sales to third-party customers (other than as contemplated in clause (d) above) in connection with periods prior to the fiscal year 2016;

(f) any income, gain or loss from disposed of, abandoned, closed or discontinued operations or fixed assets for such period;

(g) any income or loss (less all fees and expenses or charges relating thereto) attributable to the early extinguishment or mark-to-market of Indebtedness, Hedging Agreements or other derivative instruments for such period will be excluded;

(h) effects of purchase accounting adjustments (including the effects of such adjustments pushed down to such Person and its Restricted Subsidiaries) required or permitted by IFRS, resulting from the application of purchase accounting or the amortization or write-off of any amounts thereof, net of taxes for such period; provided that such effects are non-cash and any such acquisition is both permitted under and consummated in accordance with the terms of the Indenture will be excluded;

(i) any impairment charges taken pursuant to IFRS for such period will be excluded;

(j) any non-cash compensation charge or expenses realized or resulting from employee benefit plans for such period will be excluded;

(k) expenses and charges incurred in connection with the mandatory Peruvian social benefit for such period requiring the employer to pay the profit sharing to employees if profits have been obtained in each year;

(l) any non-cash currency translation gains and losses related to currency remeasurements of cash and Indebtedness, and any non-cash net loss or gain resulting from Hedging Agreements for currency exchange risk for such period;

(m) insurance proceeds with respect to liability or casualty events or business interruption for such period to the extent recognized as an asset and not already included in Consolidated Net Income;

(n) any unusual and non-recurring charges or expenses attributable to legal and judgment settlements (including legal service costs) for such period; and

(o) all other non-cash charges of such Person and its Restricted Subsidiaries determined on a consolidated basis for such period;

(2) subtracting therefrom (to the extent not otherwise deducted in determining Consolidated Net Income for such period), without duplication, the amount of:

(a) the amount of all cash payments or cash charges made (or incurred) by such Person or any of its Restricted Subsidiaries for such period on account of any non-cash charges added back to Consolidated Adjusted EBITDA pursuant to preceding clause (1) in a previous year (but excluding sub-clause (i) thereof); and

(b) any gains or income contemplated by preceding clauses (1)(f), (g) and (l).

For the avoidance of doubt, it is understood and agreed that, to the extent any amounts are excluded from Consolidated Net Income by virtue of the proviso to the definition thereof contained herein, any add backs to Consolidated Net Income in determining Consolidated Adjusted EBITDA as provided above shall be limited (or denied) in a fashion consistent with the proviso to the definition of Consolidated Net Income contained herein.

"*Consolidated Interest Charges*" means with respect to any Person for any period, the amount equal to (without duplication) the total consolidated interest expense of such Person and its Restricted Subsidiaries for such period (including, without limitation, all premium payments, fees, commissions, discounts and other fees and charges (e.g., fees with respect to letters of credit) and any portion of rent expense with respect to such period under capital leases, in each case to the extent treated as interest (without duplication) in accordance with IFRS, and scheduled net payments under any Hedging Agreement), adjusted to exclude (to the extent the same would otherwise be included in the calculation above) the amortization of any deferred financing costs for such period determined in accordance with IFRS; *provided* that "Consolidated Interest Charges" shall not include any amounts expensed or paid during such period in respect of Permitted Parent Capital.

"*Consolidated Net Income*" means, for any period, the aggregate of the net income (loss) of such Person and its Restricted Subsidiaries for such period, determined on a consolidated basis, in accordance with IFRS; *provided* that:

(1) the net income (or loss) of any Person in which a Person or Persons other than the Company and any wholly-owned Restricted Subsidiaries of the Company or the Principal Guarantor and any wholly-owned Restricted Subsidiaries of the Principal Guarantor, as applicable, has an Equity Interest or Equity Interests to the extent of such Equity Interests held by such other Persons will be excluded;

(2) except for determinations expressly required to be made on a *pro forma* basis, the net income (or loss) of any Person accrued prior to the date it becomes a Restricted Subsidiary or all or substantially all of the property or assets of such Person are acquired by a Restricted Subsidiary will be excluded;

(3) any extraordinary gain or loss or any non-recurring expenses (including non-recurring personnel expenses and for the avoidance of doubt, any expense or premium related to the Transactions) together with any related provision for taxes on such extraordinary gain or loss or non-recurring expenses, will be excluded *provided*, *however*, that any fee paid to such Person in connection with the termination of any power purchase agreement will be included;

(4) any non-cash compensation expense, realized for grants of performance shares, stock options or other rights to officers, directors and employees of such Person will be excluded; *provided*

that such shares, options or other rights can be redeemed at the option of the older only for Capital Stock (other than Disqualified Stock) or the impact of capitalized, accrued or accreting or pay in kind interest or principal on Permitted Parent Capital;

(5) any exchange gain or loss from foreign exchange translation or any impairment charge or write-off will be excluded;

(6) the cumulative effect of a change in accounting principles will be excluded;

(7) the net income (or loss) of any Person that is not a Restricted Subsidiary or that is accounted for by the equity method of accounting will be excluded; *provided* that the income of such Person will be included to the extent of the amount of dividends or similar distributions paid in cash (or converted to cash) to the specified Person or a Restricted Subsidiary of the Person;

(8) solely for the purpose of the covenant described under "—Restrictive Covenants—Limitation on Restricted Payments," the net income (but not loss) of any Restricted Subsidiary (other than any Guarantor) will be excluded to the extent that the declaration or payment of dividends or similar distributions by that Restricted Subsidiary of that net income is not at the date of determination permitted without any prior governmental approval (that has not been obtained) or, directly or indirectly, by operation of the terms of its charter or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to that Restricted Subsidiary or its stockholders, unless such restrictions with respect to the payment of dividends or similar distributions have been legally waived; *provided* that the Consolidated Net Income of such Person will be increased by the amount of dividends or distributions or other payments actually paid in cash (or converted to cash) by any such Restricted Subsidiary to such Person in respect of such period, to the extent not already included therein;

(9) any non-cash charges or expense (other than depreciation, depletion or amortization) and non-cash gains will be excluded;

(10) any gain or loss (*less* all fees and expenses or charges relating thereto) attributable to the early extinguishment or mark-to-market of Hedging Agreements or other derivative instruments will be excluded;

(11) effects of purchase accounting adjustments (including the effects of such adjustments pushed down to such Person and its Restricted Subsidiaries) required or permitted by IFRS, resulting from the application of purchase accounting or the amortization or write-off of any amounts thereof, net of taxes for such period will be excluded; *provided* that such effects are non-cash and any such acquisition is both permitted under and consummated in accordance with the terms of the Indenture;

(12) non-cash charges in connection with any restructuring, refinancing or integration costs and any other charges incurred in connection with any changes in regulations mandated by the government of Peru will be excluded; and

(13) any net after-tax income or loss from disposed, abandoned or discontinued operations and any net after-tax gains or losses on disposed, abandoned or discontinued, transferred or closed operations will be excluded.

"*Consolidated Total Indebtedness*" means with respect to any Person, as of any date of determination, the sum of (without duplication):

(1) all Indebtedness of such Person and its Restricted Subsidiaries (on a consolidated basis) as would be required to be reflected as debt or Capitalized Lease Obligations on the liability side

of a consolidated balance sheet of such Person and its Restricted Subsidiaries in accordance with IFRS;

(2) all Indebtedness of such Person and its Restricted Subsidiaries of the type described in clauses (d), (g) and (h) of the definition of "Indebtedness;" and

(3) all Contingent Obligations of such Person and its Restricted Subsidiaries in respect of Indebtedness of any third Person of the type referred to in preceding clauses (1) and (2); *provided* that the amount of Indebtedness in respect of any Hedging Agreement will be at any time the unrealized net loss position, if any, of such Person and/or its Restricted Subsidiaries thereunder on a marked-to-market basis determined no more than one month prior to such date; provided, further that "*Total Consolidated Indebtedness*" shall not include any amounts outstanding, including any amounts accrued, accreted, or paid in kind as of such date in respect of Permitted Parent Capital.

"*Consolidated Total Net Indebtedness*" means, as of any date of determination with respect to any Person, the Total Consolidated Indebtedness of such Person minus all unrestricted cash and Cash Equivalents of such Person as of such date.

"*Contingent Obligation*" means, as to any Person, (a) any obligation of such Person as a result of such Person being a general partner of any other Person, unless the underlying obligation is expressly made non-recourse as to such general partner, and (b) any obligation of such Person guaranteeing or intended to guarantee any Indebtedness, leases, dividends or other obligations ("*primary obligations*") of any other Person (the "*primary obligor*") in any manner, whether directly or indirectly, including any obligation of such Person, whether or not contingent, (i) to purchase any such primary obligation or any property constituting direct or indirect security therefor, (ii) to advance or supply funds (A) for the purchase or payment of any such primary obligation or (B) to maintain working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency of the primary obligor, (iii) to purchase property, securities or services primarily for the purpose of assuring the owner of any such primary obligation of the ability of the primary obligor to make payment of such primary obligation or (iv) otherwise to assure or hold harmless the holder of such primary obligation against loss in respect thereof; *provided*, *however*, that the term Contingent Obligation shall not include endorsements of instruments for deposit or collection in the ordinary course of business. The amount of any Contingent Obligation at any time shall be deemed to be an amount equal to the stated or determinable amount of the primary obligation in respect of which such Contingent Obligation is made or, if not stated or determinable, the maximum reasonably anticipated liability in respect thereof (assuming such Person is required to perform thereunder) as determined by such Person in good faith.

"*Corporate Reorganization*" means by way of a sale or related transactions, the merger of the Company and Orazul (with Orazul being the surviving entity).

"*covenant defeasance*" has the meaning given to it under "—Defeasance."

"*Currency Agreement*" means, with respect to any Person, any foreign exchange contract, currency swap agreement or other similar agreement or arrangement to which such Person is a party or of which it is a beneficiary.

"*Default*" means any event that is an Event of Default or which, after notice or passage of time or both, would be an Event of Default.

"*Definitive Notes*" has the meaning given to it under "—Form, Denomination and Title—Transfer of Notes and Issuance and Transfer of Definitive Notes."

"*Designated Jurisdiction*" means any country or territory to the extent that such country or territory itself is the subject of Sanctions that broadly prohibit dealings with that country or territory (as of the Issue Date, Cuba, Crimea, Iran, North Korea and Syria).

"*Director*" means any duly elected member of the Board of Directors of the Company as certified in an Officers' Certificate of the Company and delivered to the Trustee.

"*Disqualified Stock*" means, with respect to any Person, any Capital Stock that by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable or exercisable) or upon the happening of certain events:

(1) matures or is mandatorily redeemable pursuant to a sinking fund obligation or otherwise;

(2) is convertible or exchangeable for Indebtedness or Disqualified Stock; or

(3) is redeemable at the option of the Holder thereof, in whole or in part,

in each case on or prior to the Stated Maturity of the Notes; *provided*, *however*, that (i) only the portion of Capital Stock which so matures or is mandatorily redeemable, is so convertible or exchangeable or is so redeemable at the option of the holder thereof prior to such date will be deemed to be Disqualified Stock and (ii) any Capital Stock that would constitute Disqualified Stock solely because the holders thereof have the right to require the Company to repurchase such Capital Stock upon the occurrence of a change of control or asset sale (howsoever defined or referred to) shall not constitute Disqualified Stock if any such redemption or repurchase obligation is subject to compliance by the relevant Person with the covenant described under "—Restrictive Covenants—Limitation on Restricted Payments."

"*DTC*" has the meaning given to it under "—Form, Denomination and Title."

"*DTC Participants*" has the meaning given to it under "—Form, Denomination and Title—Global Notes."

"*Equity Event*" has the meaning given to it under "—Optional Redemption."

"*Equity Interests*" of any Person mean any and all shares, interests, rights to purchase, warrants, options, participation or other equivalents of or interest in (however designated) equity of such Person, including any capital stock, common stock, shares, beneficiary shares, preferred stock or other securities, any convertible preferred equity certificates, any limited or general partnership interest and any limited liability company membership interest.

"*Etenorte*" means Etenorte S.R.L., a limited liability partnership (*sociedad comercial de responsibilidad limitada*) organized and existing under the laws of Peru.

"*Eteselva*" means Eteselva S.R.L., a limited liability partnership (*sociedad comercial de responsibilidad limitada*) organized and existing under the laws of Peru.

"*Euroclear*" has the meaning given to it under "—Form, Denomination and Title."

"*Event of Default*" has the meaning given to it under "—Events of Default."

"*Excess Net Cash Proceeds*" has the meaning given to it under "—Restrictive Covenants—Limitation on Sales of Assets."

"*Exchange Act*" means the United States Securities and Exchange Act of 1934, as amended.

"*Existing Bonds*" means the Company's bonds issued pursuant to its first and second bond issues under its second corporate bond program with maturities on November 11, 2026 and February 1, 2024, respectively, in an aggregate outstanding principal amount of $75.0 million.

"*Fair Market Value*" of any property, asset, share of Capital Stock, other security, Investment or other item means, on any date, the fair market value of such property, asset, share of Capital Stock, other security, Investment or other item on that date as determined in good faith by the senior management of the Company, the Principal Guarantor or any Restricted Subsidiary thereof, as applicable.

"*Fitch*" means Fitch Ratings Ltd. and its successors.

"*Global Notes*" has the meaning given to it under "—Form, Denomination and Title."

"*Governmental Agency*" has the meaning given to it under "—Other Covenants—Compliance with Laws."

"*Guarantee*" means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness or other obligation of any other Person and any obligation, direct or indirect, contingent or otherwise, of any Person:

(1) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation of such other Person (whether arising by virtue of partnership arrangements, or by agreement to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise); or

(2) entered into for purposes of assuring in any other manner the obligee of such Indebtedness or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part);

provided, *however*, that the term "Guarantee" shall not include (x) endorsements for collection or deposit in the ordinary course of business and (y) standard contractual indemnities or product warranties provided in the ordinary course of business; *provided*, *further*, that the amount of any Guarantee shall be deemed to be the lower of (i) an amount equal to the stated or determinable amount of the primary obligation in respect of which such Guarantee is made and (ii) the maximum amount for which such guaranteeing Person may be liable pursuant to the terms of the instrument embodying such Guarantee or, if such Guarantee is not an unconditional guarantee of the entire amount of the primary obligation and such maximum amount is not stated or determinable, the amount of such guaranteeing Person's maximum reasonably anticipated liability in respect thereof as determined by such Person in good faith. The term "Guarantee" used as a verb has a correlative meaning.

"*Guarantors*" has the meaning given to it under "—The Note Guarantees."

"*Hedging Agreement*" means any Interest Rate Agreement or Currency Agreement.

"*Hedging Obligations*" of any Person means the obligations of such Person under any Hedging Agreement.

"*Holder*" has the meaning given to it under "—Form, Denomination and Title."

"*IFRS*" means International Financial Reporting Standards, as issued by the International Accounting Standards Board.

"*Immaterial Subsidiary*" means, at any date of determination, each Restricted Subsidiary of the Company and the Principal Guarantor, as the case may be, that (i) has not guaranteed any other Indebtedness of the Company and (ii) has Total Assets and revenues of less than 10% of Total Assets and, together with all other Immaterial Subsidiaries (as determined in accordance with IFRS), has Total Assets and revenues of less than 10% of Total Assets, in each case, measured at the end of the most recent fiscal period for which internal financial statements are available and revenues on a *pro forma* basis giving effect to any acquisitions or dispositions of companies, division or lines of business since such balance sheet date or the start of such four quarter period, as applicable, and on or prior to the date of acquisition of such Subsidiary; *provided* that, irrespective of this definition in no circumstance shall any of Etenorte, Eteselva and Termoselva be deemed to constitute an "Immaterial Subsidiary," for so long as they are a Subsidiary of the Company or the Principal Guarantor, as applicable.

"*Increased Amount*" has the meaning given to it under "—Restrictive Covenants—Limitation on Liens."

"*Incur*" means issue, assume, Guarantee, incur or otherwise become liable for; *provided*, *however*, that any Indebtedness or Capital Stock of a Person existing at the time such Person is merged or consolidated with the Company or the Principal Guarantor, as the case may be, or becomes a Subsidiary of the Company or the Principal Guarantor (whether by merger, consolidation, acquisition or otherwise), as the case may be, shall be deemed to be Incurred by such Person at the time of such merger or consolidation or at the time it becomes a Subsidiary of the Company or the Principal Guarantor, as applicable. The term "*Incurrence*" when used as a noun shall have a correlative meaning. Neither the accretion of principal of a non-interest bearing or other discount security nor the capitalization of interest on Indebtedness shall be deemed the Incurrence of Indebtedness.

"*Indebtedness*" means, as to any Person, without duplication, (a) the principal component of all indebtedness of such Person for borrowed money, (b) the principal of obligations of such Person evidenced by bonds, debentures, notes or other similar instruments, (c) the deferred purchase price of property or services, (d) reimbursement obligations of such Person under letters of credit (including standby and commercial), banker's acceptances, bank guaranties, surety and appeal bonds and similar obligations (except to the extent such reimbursement obligations relate to trade payables and are satisfied within 30 days of incurrence), (e) principal components of all indebtedness secured by any Lien on any property owned by such Person (including conditional sales or other title retention agreements), whether or not such indebtedness has been assumed by such Person (*provided* that, such indebtedness shall be the lesser of the Fair Market Value of the property to which such Lien relates and the amount of such Indebtedness of such other Person), (f) all Capitalized Lease Obligations of such Person and Attributable Debt in connection with Sale and Leaseback Transactions, (g) all obligations under any Hedging Agreement and (h) all off-balance sheet liabilities of such Person.

The amount of Indebtedness of any Person at any time in the case of a credit facility shall be the total amounts of funds borrowed and then outstanding. The amount of Indebtedness of any Person at any date shall be determined as set forth above (other than with respect to letters of credit or Guarantees or Indebtedness specified in clause (e) or (f) above) shall be (i) in the case of any Indebtedness issued with original issue discount, the amount in respect thereof that would appear on the balance sheet of such Person in accordance with IFRS and (ii) the principal amount of the Indebtedness, in the case of any other Indebtedness. The amount of any Contingent Obligation at any time shall be at any time shall be deemed to be an amount equal to the stated or determinable amount of the primary obligation in respect of which such Contingent Obligation is made or, if not stated or determinable, the maximum reasonably anticipated liability in respect thereof (assuming such Person is required to perform thereunder) as determined by such Person in good faith.

Notwithstanding the above provisions, in no event shall the following constitute Indebtedness:

(i) Contingent Obligations Incurred in the ordinary course of business or consistent with past practice, other than Guarantees or other assumptions of Indebtedness;

(ii) Obligations under or in respect of Permitted Parent Capital;

(iii) Cash Management Services;

(iv) any lease, concession or license of property (or Guarantee thereof) which would be considered an operating lease under IFRS as in effect on the Issue Date or any prepayments of deposits received from clients or customers in the ordinary course of business or consistent with past practice;

(v) obligations under any license, permit or other approval (or Guarantees given in respect of such obligations) incurred prior to the Issue Date or in the ordinary course of business or consistent with past practice;

(vi) in connection with the purchase by the Company, the Principal Guarantor or any Restricted Subsidiary of any business, any post-closing payment adjustments to which the seller may become entitled to the extent such payment is determined by a final closing balance sheet or such payment depends on the performance of such business after the closing; *provided*, *however*, that, at the time of closing, the amount of any such payment is not determinable and, to the extent such payment thereafter becomes fixed and determined, the amount is paid in a timely manner;

(vii) for the avoidance of doubt, any obligations in respect of workers' compensation claims, early retirement or termination obligations, pension fund obligations or contributions or similar claims, obligations or contributions or social security or wage Taxes;

(viii) Indebtedness of any Parent Entity appearing on the balance sheet of the Company solely by reason of push down accounting under IFRS; or

(ix) Capital Stock (other than Disqualified Stock).

"*Indenture*" means the Indenture, to be dated as of the Issue Date, among the Company, the Guarantors, Citibank, N.A., as Trustee (which term includes any successor trustee under the Indenture), Registrar, Paying Agent and Transfer Agent.

"*Independent Financial Advisor*" means an accounting, appraisal, investment banking firm or consultant to Persons engaged in Permitted Businesses of nationally recognized standing and in the good faith judgment of the Company, qualified for the particular task; *provided*, *however*, that such firm or appraiser is not an Affiliate of the Company.

"*Independent Investment Banker*" has the meaning given to it under "—Optional Redemption."

"*Initial Subsidiary Guarantors*" has the meaning given to it under "—The Note Guarantees."

"*interest payment date*" means each April 28 and October 28, commencing on October 28, 2017.

"*Interest Rate Agreement*" means, with respect to any Person, any interest rate protection agreement, interest rate future agreement, interest rate option agreement, interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate hedge agreement or other similar agreement or arrangement to which such Person is a party or a beneficiary.

"*Investment*" means, for any Person: (a) the acquisition (whether for cash, property of such Person, services or securities or otherwise) of capital stock, bonds, notes, debentures, partnership or other Equity Interests or other securities of any other Person, and (b) the making of any deposit with or advance, loan or other extension of credit to, any other Person (including the purchase of property from another Person subject to an understanding or agreement, contingent or otherwise, to resell such property to such Person, but excluding any such advance, loan or extension of credit having a term not exceeding 270 days made in the ordinary course of business). For purposes of the definition of "Unrestricted Subsidiary" and the covenant described under "—Restrictive Covenants—Limitation on Restricted Payments:"

(1) Investment shall include the portion (proportionate to the Equity Interest of the Company or the Principal Guarantor in such Subsidiary to be designated as an Unrestricted Subsidiary) of the Fair Market Value of the net assets of any Subsidiary of the Company or the Principal Guarantor at the time that such Subsidiary is designated an Unrestricted Subsidiary; *provided*, *however*, that, upon a redesignation of such Subsidiary as a Restricted Subsidiary, the

Company or the Principal Guarantor, as the case may be, shall be deemed to continue to have a permanent "Investment" in an Unrestricted Subsidiary in an amount (if positive) equal to:

(a) the Investment of the Company or the Principal Guarantor, as the case may be, in such Subsidiary at the time of such redesignation; *minus*

(b) the portion (proportionate to the Equity Interest of the Company or the Principal Guarantor, as the case may be, in such Subsidiary) of the Fair Market Value of the net assets of such Subsidiary at the time of such redesignation; and

(2) any property transferred to or from an Unrestricted Subsidiary shall be valued at its Fair Market Value at the time of such transfer as determined by the Company or the Principal Guarantor, as applicable.

The amount of any Investment outstanding at any time shall be the original cost of such Investment, reduced (at the Company's option) by any dividend, distribution, interest payment, return of capital, repayment or other amount or value received in respect of such Investment.

"*Investment Grade Rating*" means a rating equal to or higher than (a) "BBB−," by S&P or Fitch and (b) "Baa3," by Moody's.

"*Investment Grade Status*" shall occur when the Notes receive two of the following:

(1) a rating of "BBB−" or higher from S&P;

(2) a rating of "Baa3" or higher from Moody's; or

(3) a rating of "BBB−" or higher from Fitch;

or, if no rating of Moody's, S&P or Fitch then exists, the equivalent of such rating by any other Nationally Recognized Statistical Rating Organization.

"*ISIN*" has the meaning given to it under "—Form, Denomination and Title."

"*Issue Date*" means the date on which the Notes offered hereby are first issued.

"*legal defeasance*" has the meaning given to it under "—Defeasance."

"*Liability Management Transaction*" means the redemption of the Existing Bonds.

"*Lien*" means any mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or other), preference, priority or other security interest of any kind or nature whatsoever (including any conditional sale or other title retention agreement, any financing or similar statement or notice filed under the UCC or any other similar recording or notice statute, and any lease having substantially the same effect as any of the foregoing).

"*Local Taxes*" has the meaning given to it under "—Additional Amounts."

"*Maple*" means Maple Gas Corporation del Perú S.R.L.

"*Material Adverse Change*" means an event or circumstance that has had, or would reasonably be expected to have, a material adverse effect on: (a) the business, financial condition or results of operations of the Company, the Principal Guarantor and their respective Subsidiaries taken as a whole or (b) the Company's and the Guarantors' ability to perform their respective obligations under the Indenture.

"*Material Agreements*" means any purchase, sale, management services, licensing or concession agreement or any similar agreement with any governmental agency entered into in the ordinary course of business or consistent with past practice.

"*Moody's*" means Moody's Investors Service, Inc. and its successors.

"*Nationally Recognized Statistical Rating Organization*" means a nationally recognized statistical rating organization within the meaning of Rule 436 under the Securities Act.

"*Net Cash Proceeds*" from an Asset Sale means cash payments or Cash Equivalents received (including any cash payments received by way of deferred payment of principal pursuant to a note or installment receivable or otherwise and proceeds from the sale or other disposition of any securities received as consideration, but only as and when received, but excluding any other consideration received in the form of assumption by the acquiring Person of Indebtedness or other obligations relating to the properties or assets that are the subject of such Asset Sale or received in any other non-cash form) therefrom, in each case *minus*:

(1) all reasonable legal, accounting, investment banking, broker, consultant and advisory fees and expenses, title and recording tax expenses, commissions and other fees and expenses Incurred, and all federal, state, provincial, foreign and local taxes required to be paid or accrued as a liability in accordance with IFRS, as a consequence of such Asset Sale;

(2) all payments, including any prepayment premiums or penalties, required to be made on any Indebtedness is permitted under the Indenture that is secured by any assets subject to such Asset Disposition, in accordance with the terms of any Lien upon or other security agreement of any kind with respect to such assets, or which must by its terms, or by applicable law, be repaid out of the proceeds from such Asset Sale;

(3) all distributions and other payments required to be made to minority interest holders in Subsidiaries or joint ventures as a result of such Asset Sale;

(4) appropriate customary amounts to be provided by the seller as a reserve, in accordance with IFRS, against any liabilities associated with the property or other assets disposed of in such Asset Disposition and retained by the Company, the Principal Guarantor or any Restricted Subsidiary thereof after such Asset Sale; and

(5) any funded escrow established pursuant to the documents evidencing such sale or disposition to secure any indemnification obligation or adjustments to the purchase price associated with any such Asset Disposition; *provided* that, upon any such release of such escrowed amounts back to the Company, the Principal Guarantor or any Restricted Subsidiary thereof, such released amounts shall be deemed to be Net Cash Proceeds.

"*Non-Guarantor*" means any Restricted Subsidiary of the Company or Principal Guarantor that is not a Guarantor.

"*Non-Recourse Debt*" means Indebtedness:

(1) as to which none of the Company, any Guarantor or any Restricted Subsidiary (a) provides credit support of any kind (including any undertaking, agreement or instrument that would constitute Indebtedness) or (b) is directly or indirectly liable as a guarantor or otherwise; and

(2) as to which the obligees in respect of such Indebtedness have been notified in writing that they will not have any recourse to the stock or assets of the Company, any Guarantor or any Restricted Subsidiary (other than the Equity Interests of an Unrestricted Subsidiary).

"*Note Documents*" means the Notes (including Additional Notes), the Note Guarantees and the Indenture.

"*Note Guarantees*" means the Guarantees pursuant to the Indenture with respect to the Notes by the Guarantors of the Company's obligations under the Notes.

"*Notes*" has the meaning given to it under "—General Overview."

"*Obligations*" means any principal, interest, penalties, fees, indemnifications, reimbursements (including, without limitation, reimbursement obligations with respect to letters of credit and bankers' acceptances), damages and other liabilities payable under the documentation governing any Indebtedness.

"*OFAC*" means the Office of Foreign Assets Control of the U.S. Department of the Treasury.

"*Officers' Certificate*" means a certificate signed by at least two Authorized Officers of the Company, the Principal Guarantor or any Restricted Subsidiary thereof, as the case may be.

"*Opinion of Counsel*" means a written opinion from legal counsel (who may be an employee of or counsel to the Company, the Principal Guarantor or any of their respective Subsidiaries) who is reasonably satisfactory to the Trustee.

"*Orazul*" means Orazul Energía Perú S.A.C. (f/k/a Enerlam Perú S.A.C.), a Peruvian *sociedad anónima cerrada*.

"*Parent Entity*" means any, direct or indirect, parent of the Company, and, prior to the consummation of the Corporate Reorganization, the Principal Guarantor.

"*Parent Entity Expenses*" means:

(1) costs (including all professional fees and expenses) Incurred by any Parent Entity in connection with reporting obligations under or otherwise Incurred in connection with compliance with applicable laws, rules or regulations of any governmental, regulatory or self-regulatory body or stock exchange, the Indenture or any other agreement or instrument relating to the Notes, the Note Guarantees or any other Indebtedness of the Company, the Principal Guarantor or any Restricted Subsidiary;

(2) customary indemnification obligations of any Parent Entity owing to directors, officers, employees or other Persons under its articles, charter, by-laws, partnership agreement or other organizational documents or pursuant to written agreements with any such Person to the extent relating to the Company, the Principal Guarantor and their respective Subsidiaries;

(3) obligations of any Parent Entity in respect of director and officer insurance (including premiums therefor) to the extent relating to the Company, the Principal Guarantor and their respective Subsidiaries;

(4) general corporate overhead expenses, including professional fees and expenses and other expenses of any Parent Entity related to the ownership or operation of the business of the Company, the Principal Guarantor or any of their respective Restricted Subsidiaries; and

(5) expenses Incurred by any Parent Entity in connection with (i) any offering, sale, conversion or exchange of Capital Stock or Indebtedness and (ii) any related compensation paid to officers, directors and employees of the Parent Entity;

provided that that the aggregate amount of all such Parent Entity Expenses paid pursuant to clauses (1) through (5) shall not exceed U.S.$3.0 million in each fiscal year.

"*Paying Agent*" means the Trustee, or any successor thereof, as paying agent under the Indenture.

"*Payment Default*" has the meaning given to it under "—Events of Default."

"*Permitted Business*" means any business conducted by the Company, the Principal Guarantor and the Restricted Subsidiaries described in the offering memorandum or permitted under the by-laws (or similar applicable constituent document) of the Company or the Principal Guarantor or their respective Restricted Subsidiaries as of the Issue Date and any business reasonably related, ancillary, extensions, developments or complementary thereto.

"*Permitted Investment*" means:

(1) an Investment by the Company, the Principal Guarantor or any Restricted Subsidiary thereof in the Company, the Principal Guarantor or any Restricted Subsidiary or a Person that will upon the making of such Investment become a Restricted Subsidiary; *provided*, *however*, the primary business of such Restricted Subsidiary is a Permitted Business;

(2) an Investment by the Company, the Principal Guarantor or any Restricted Subsidiary thereof in another Person if as a result of such Investment such other Person is merged or consolidated with or into, or transfers or conveys all or substantially all its assets to, the Company, the Principal Guarantor or a Restricted Subsidiary or becomes a Restricted Subsidiary; *provided*, *however*, that such Person's primary business is a Permitted Business;

(3) Investments in cash and Cash Equivalents;

(4) Hedging Obligations to the extent permitted under "—Restrictive Covenants—Limitation on Indebtedness;"

(5) Guarantees of Indebtedness permitted under the covenant described under "—Restrictive Covenants—Limitation on Indebtedness;"

(6) repurchases of Notes or Additional Notes or any other Indebtedness of the Company, the Principal Guarantor or any Restricted Subsidiary thereof (including for the avoidance of doubt, the Existing Bonds); *provided* that, with respect to repurchases of Subordinated Obligations, such repurchase is not otherwise prohibited by the Indenture;

(7) Investments in payroll, travel and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses for accounting purposes and that are made in the ordinary course of business or consistent with past practice having an aggregate Fair Market Value, taken together with all other Investments made pursuant to this clause (7) that are at that time outstanding, not to exceed U.S.$2.5 million;

(8) Investments pursuant to or for purposes of funding agreements and instruments of an Affiliate which satisfy the requirements regarding Indebtedness in clause (2)(a)(i) under "—Limitation on Indebtedness;"

(9) any Investment to the extent made using Capital Stock of the Company (other than Disqualified Stock) or Capital Stock of any Parent Entity as consideration;

(10) Investments existing or pursuant to agreements or arrangements in effect on the Issue Date as may be amended, modified, supplemented, extended, renewed or replaced so long as such amendment, modification, supplement, extension or replacement is not disadvantageous to the Holders in any material respect when compared with the terms of such Investment as in effect on the issue Date; *provided* that the amount of any such Investment may be increased (a) as required by the terms of such Investment as in existence on the Issue Date or (b) as otherwise permitted under the Indenture, including the covenant described under "—Restrictive Covenants—Limitation on Restricted Payments;"

(11) Investments by an Unrestricted Subsidiary entered into prior to the day such Unrestricted Subsidiary is redesignated as a Restricted Subsidiary as described under the caption "—Restrictive Covenants—Limitation on Designation of Restricted and Unrestricted Subsidiaries," so long as such Investments are not made as a result of, in connection with, or in contemplation of, such redesignation;

(12) Payments in respect of insurance or insurance premiums in the ordinary course of business and in accordance with past practice;

(13) Investments in connection with a Permitted Tax Restructuring;

(14) any Investment made as a result of the receipt of non-cash proceeds from an Asset Disposition that was made pursuant to and in compliance with the covenant described under "—Restrictive Covenants—Limitation on Sales of Assets;"

(15) additional Investments having an aggregate fair market value, taken together with all other Investments made pursuant to this clause (15) that are at that time outstanding, not to exceed the greater of U.S.$30.0 million and 25.0% of Combined Consolidated Adjusted EBITDA (with the fair market value of each Investment being measured at the time made and without giving effect to subsequent changes in value); *provided*, *however*, that if any Investment pursuant to this clause is made in any Person that is not the Company, the Principal Guarantor or a Restricted Subsidiary at the date of the making of such Investment and such person becomes the Company, the Principal Guarantor or a Restricted Subsidiary after such date, such Investment shall thereafter be deemed to have been made pursuant to clause (1) or (2) above and shall cease to have been made pursuant for so long as such Person continues to be the Company, the Principal Guarantor or a Restricted Subsidiary.

"*Permitted Liens*" has the meaning given to it under "—Restrictive Covenants—Limitation on Liens."

"*Permitted Parent Capital*" means such extension of credit or allowance provided by a Parent Entity to the Company or any Affiliate thereof; *provided* that any such extension of credit or allowance is a Subordinated Obligation.

"*Permitted Payments*" has the meaning given to it under "—Restrictive Covenants—Limitation on Restricted Payments."

"*Permitted Tax Restructuring*" means any reorganizations and other activities related to tax planning and tax reorganization (as determined by the Company in good faith) so long as such Permitted Tax Restructuring is not materially adverse to the Holders.

"*Person*" means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organization, government or any agency or political subdivision thereof or any other entity.

"*Preferred Stock*" as applied to the Capital Stock of any Person, means Capital Stock of any class or classes (however designated) that is preferred as to the payment of dividends, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of Capital Stock of any other class of such Person.

"*Primary Treasury Dealer*" has the meaning given to it under "Optional Redemption."

"*Principal Guarantor*" has the meaning given to it under "—The Note Guarantees."

"*Pro Forma Basis*" means, with respect to the calculation of any test, financial ratio, basket or covenant under the Indenture, including the Combined Interest Coverage Ratio, the Combined Total Net Debt to EBITDA Ratio, Combined Consolidated Adjusted EBITDA, Combined Consolidated Interest Charges, Combined Consolidated Total Net Indebtedness and Combined Consolidated Net Tangible Assets, of any Person and its Restricted Subsidiaries, as of any date, that *pro forma* effect will be given to any acquisition, merger, consolidation, Investment, any issuance, incurrence, assumption or repayment or redemption of Indebtedness (including Indebtedness issued, incurred or assumed or repaid or redeemed as a result of, or to finance, any relevant transaction as permitted by the terms of the Indenture and for which any such test, financial ratio, basket or covenant is being calculated), any issuance or redemption of preferred stock or Disqualified Stock, all sales, transfers and other dispositions or discontinuance of any Subsidiary, line of business, division, segment or operating unit, any operational change (including the entry into any material contract or arrangement) or any designation of a Restricted Subsidiary to an Unrestricted Subsidiary or of an Unrestricted Subsidiary to a Restricted Subsidiary, in each case that have occurred during the four consecutive fiscal quarter period of such Person for which combined consolidated internal financial statements are available being used to calculate such test, financial ratio, basket or covenant (the "*Reference Period*"), or subsequent to the end of the Reference Period but prior to such date or prior to or simultaneously with the event for which a determination under this definition is made (including any such event occurring at a Person who became a Restricted Subsidiary of the subject Person or was merged or consolidated with or into the subject Person or any other Restricted Subsidiary of the subject Person after the commencement of the Reference Period), as if each such event occurred on the first day of the Reference Period.

For purposes of making any computation referred to above:

(1) if any Indebtedness bears a floating rate of interest and is being given *pro forma* effect, the interest on such Indebtedness shall be calculated as if the rate in effect on the date for which a determination under this definition is made had been the applicable rate for the entire period (taking into account any Hedging Agreement applicable to such Indebtedness if such Hedging Agreement has a remaining term in excess of 12 months);

(2) interest on a Capitalized Lease Obligation shall be deemed to accrue at an interest rate reasonably determined by a responsible financial or accounting officer, in his or her capacity as such and not in his or her personal capacity, of the Company to be the rate of interest implicit in such Capitalized Lease Obligation in accordance with IFRS;

(3) interest on Indebtedness that may optionally be determined at an interest rate based upon a factor of a prime or similar rate, an eurocurrency interbank offered rate, or other rate, shall be deemed to have been based upon the rate actually chosen, or, if none, then based upon such optional rate chosen as the Company may designate; and

(4) interest on any Indebtedness under a revolving credit facility computed on a *pro forma* basis shall be computed based upon the average daily balance of such Indebtedness during the applicable period.

Any *pro forma* calculation may include adjustments calculated in accordance with Regulation S-X under the Securities Act.

"*Proceeds Loan*" means the loan of a portion of the net proceeds of the Notes in an amount not to exceed U.S.$450.0 million pursuant to the Proceeds Loan Agreement, and all loans directly or indirectly replacing or refinancing such loan or any portion thereof, for the purposes of repaying existing Indebtedness of Orazul under its senior secured credit facility.

"*Proceeds Loan Agreement*" means that certain loan agreement made as of the Issue Date by and among Orazul, as borrower, and the Company, as lender.

"*Purchase Money Obligations*" means:

(1) Indebtedness consisting of the deferred purchase price of an asset, conditional sale obligations, obligations under any title retention agreement and other purchase money obligations, in each case where the maturity of such Indebtedness does not exceed the anticipated useful life of the asset being financed; and

(2) Indebtedness Incurred to finance the acquisition or cost of construction or improvement by the Company, the Principal Guarantor or a Restricted Subsidiary of an asset, including additions and improvements;

provided, *however*, that such Indebtedness is Incurred within 180 days before or after the acquisition, construction or improvement by the Company, the Principal Guarantor or such Restricted Subsidiary of such asset.

"*QIBs*" has the meaning given to it under "—Form, Denomination and Title."

"*Qualified Buyer*" means a Person (whether directly or indirectly through one or more of its Subsidiaries) that at the time it acquires an interest that is necessary to avoid the occurrence of a Change of Control:

(1) (A) has a tangible net worth or assets under management of at least $3.0 billion or (B) the ratings (from at least two of S&P, Moody's or Fitch) of the unsecured senior indebtedness of such Person are at least "BBB−" (or its equivalent); and

(2) either (A) with its Affiliates, has owned and actively managed or operated at least 750 MW of power generating assets relating to more than one project for at least the three preceding years and continues to own and actively manage or operate at least 750 MW of such assets relating to more than one project or (B) has contracted with a third party to manage and operate the business and operations of the Company, the Principal Guarantor and/or any of their respective Restricted Subsidiaries that, together with its Affiliates, has actively managed or operated at least 750 MW of power generating assets relating to more than one project for at least the three preceding years and continues to actively manage or operate at least 750 MW of such assets relating to more than one project;

provided that in no case shall any Person that (or, to such Person's knowledge following diligent inquiry, that has any director, officer, employee or agent or shareholder (direct or indirect) that) (i) is currently the subject of any Sanctions, (ii) is located, organized or resident in any Designated Jurisdiction, (iii) is a department, agency or instrumentality of, or otherwise controlled by or acting on behalf of, the government of any country that is the target of the several economic sanctions programs administered by the OFAC (31 C.F.R. Parts 500 through 598) or (iv) is included on OFAC's Specially Designated Nationals List or the Consolidated Sanctions List maintained by OFAC, HMT's Consolidated List of Financial Sanctions Targets or the Investment Ban List, or any similar list enforced by any other relevant Sanctions authority, or is owned or controlled by any such Person or Persons described in this clause (iv) constitute a Qualified Buyer.

"*Qualified Capital Stock*" means any Capital Stock that is not Disqualified Stock and any warrants, rights or options to purchase or acquire Capital Stock that is not Disqualified Stock or that are not convertible into or exchangeable into Disqualified Stock.

"*Rating Agency*" means any of Fitch, Moody's or S&P; or if, at the relevant time of determination, Fitch, Moody's or S&P do not have public rating in effect in respect of the Notes, any other internationally recognized U.S. statistical rating organizations as defined in Section 3(c)(62) of the Exchange Act.

"*Ratings Event*" 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 intention of the Company or the Principal Guarantor, as the case may be, 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, (ii) in the event the Notes are rated below 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, or (iii) the Notes shall not be, or cease to be, rated by at least one of the Rating Agencies; *provided* that, in each case, any such Ratings Event is in whole or in part in connection with a Change of Control.

"*Record Date*" has the meaning given to it under "—Basic Terms of the Notes."

"*Reference Treasury Dealer Quotation*" has the meaning give to it under "—Optional Redemption."

"*Reference Treasury Dealers*" has the meaning given to it under "—Optional Redemption."

"*Refinance*" means, in respect of any Indebtedness, to refinance, extend (including pursuant to any defeasance or discharge mechanism), renew, restate, refund, repay, replace, prepay, redeem, defease or retire, or to issue other Indebtedness in exchange or replacement for, such Indebtedness. "*Refinanced*" and "*Refinancing*" shall have correlative meanings.

"*Refinancing Indebtedness*" means Indebtedness that is Incurred to Refinance any Indebtedness of the Company, the Principal Guarantor or any Restricted Subsidiary thereof existing on the Issue Date or Incurred in compliance with the Indenture (including Indebtedness that Refinances Refinancing Indebtedness); *provided*, *however*, that:

(1) the Refinancing Indebtedness has:

(a) an Average Life at the time such Refinancing Indebtedness is Incurred that is equal to or greater than the Average Life of the Indebtedness being Refinanced; and

(b) a final maturity that that is equal to or later than the final maturity of the Indebtedness being Refinanced;

(2) such Refinancing Indebtedness is Incurred in an aggregate principal amount (or if issued with original issue discount, an aggregate issue price) that is equal to or less than the aggregate principal amount (or if issued with original issue discount, the aggregate accreted value) then outstanding of the Indebtedness being Refinanced (*plus* accrued interest on such Indebtedness and the amount of all reasonable fees and expenses, including premiums, incurred in connection therewith); and

(3) if the Indebtedness being Refinanced is a Subordinated Obligation, such Refinancing Indebtedness is a Subordinated Obligation, and, in the case of subordinated Indebtedness, is subordinated to the Notes on terms at least as favorable to the Holders as those contained in the documentation governing the Indebtedness being refinanced;

provided, *further*, *however*, that Refinancing Indebtedness shall not include Indebtedness of the Company, the Principal Guarantor or a Restricted Subsidiary thereof that Refinances Indebtedness of an Unrestricted Subsidiary; *provided*, *further*, that clauses (1) and (2) will not apply to the refinancing of any secured Indebtedness.

"*Register*" has the meaning given to it under "—Form, Denomination and Title."

"*Registrar*" means the Trustee, or any successor thereof, as registrar under the Indenture.

"*Regulation S*" has the meaning given to it under "—Form, Denomination and Title."

"*Regulation S Global Note*" has the meaning given to it under "—Form, Denomination and Title."

"*Related Taxes*" means any Taxes, including sales, use, transfer, rental, ad valorem, value added, stamp, property, consumption, franchise, license, capital, registration, business, customs, net worth, gross receipts, excise, occupancy, intangibles or similar Taxes and other similar fees and expenses (other than (x) Taxes measured by income, profit or similar franchise Taxes and (y) withholding Taxes), required to be paid (*provided* such Taxes are in fact paid) by any Parent Entity by virtue of its:

(1) being organized or having Capital Stock outstanding (but not by virtue of owning stock or other equity interests of any corporation or other entity other than, directly or indirectly, the Company, the Principal Guarantor or any of their respective Subsidiaries) or otherwise maintain its existence or good standing under applicable law;

(2) being a holding company parent, directly or indirectly, of the Company, the Principal Guarantor or any of their respective Subsidiaries;

(3) receiving dividends from or other distributions in respect of the Capital Stock of, directly or indirectly, the Company, the Principal Guarantor or any of their respective Subsidiaries; or

(4) having received any payment in respect to any of the items for which the Company is permitted to make payments to any Parent Entity pursuant to "—Certain Covenants—Limitation on Restricted Payments."

"*Relevant Date*" has the meaning given to it under "—Additional Amounts."

"*Responsible Officer*" means, (x) when used with respect to the Trustee, any officer within the Corporate Trust Office of the Trustee (or any successor group of the Trustee) or any other officer of the Trustee customarily performing functions similar to those performed by any of the above designated officers and also means, with respect to a particular corporate trust matter, any other officer to whom such matter is referred because of his knowledge of and familiarity with the particular subject and in each case who shall have direct responsibility for the administration of the Indenture, and (y) when used with respect to the Company, means any executive officer of the Company or any member of the Board of Directors of the Company (other than independent Directors).

"*Restricted Investment*" means any Investment other than an a Permitted Investment.

"*Restricted Payment*" has the meaning given to it under "—Restrictive Covenants—Limitation on Restricted Payments."

"*Restricted Subsidiary*" means any Subsidiary of the Company or the Principal Guarantor other than an Unrestricted Subsidiary.

"*Reversion Date*" has the meaning given to it under "—Release of Covenants."

"*Rule 144A*" has the meaning given to it under "—Form, Denomination and Title."

"*Rule 144A Global Note*" has the meaning given to it under "—Form, Denomination and Title."

"*S&P*" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies Inc., and its successors.

"*Sale and Lease-Back Transaction*" means any arrangement with any Person (other than the Company, the Principal Guarantor or a Restricted Subsidiary), or to which any such Person is a party, providing for the leasing to the Company, the Principal Guarantor or a Restricted Subsidiary for a period of more than three years of any property or assets which property or assets have been or are to be sold or transferred by the Company, the Principal Guarantor or such Restricted Subsidiary to such Person or to any other Person (other than the Company, the Principal Guarantor or a Restricted Subsidiary) to which funds have been or are to be advanced by such Person on the security of the leased property or assets. "*Sanctions*" shall mean the economic or financial sanctions, requirements or trade embargoes imposed, administered or enforced from time to time by (a) U.S. governmental authorities (including OFAC, the U.S. Department of State and the U.S. Department of Commerce), the United Nations Security Council, the European Union and Her Majesty's Treasury, and (b) any corresponding laws of jurisdictions in which the Company, the Principal Guarantor or any of their respective Subsidiaries operates, to the extent applicable to the Company, the Principal Guarantor or such Subsidiary, as the case may be.

"*SEC*" means the U.S. Securities and Exchange Commission.

"*Securities Act*" has the meaning given to it under "—Form, Denomination and Title."

"*Senior Indebtedness*" means all Indebtedness (whether or not secured) for borrowed money of the Company (including, for the avoidance of doubt, the Notes), or the Guarantors (including, for the avoidance of doubt, the Note Guarantees) or of any Restricted Subsidiary, whether outstanding on the Issue Date or Incurred thereafter, other than Subordinated Obligations.

"*Shareholders*" means, (a) at any time prior to the consummation of the Corporate Reorganization, the direct owners of a majority of the Equity Interests of the Company or the Principal Guarantor, as applicable and (b) at any time after the consummation of the Corporate Reorganization, the direct owners of a majority of the Equity Interests of Orazul.

"*Significant Subsidiary*" means any Restricted Subsidiary that would be a "significant subsidiary" as defined in Article 1, Rule 1-02 of Regulation S-X, promulgated pursuant to the Securities Act, as such regulation is in effect on the Issue Date. For the avoidance of doubt, irrespective of this definition, each of Etenorte, Eteselva and Termoselva shall at all times be deemed to constitute "Significant Subsidiaries."

"*SMV*" means the Peruvian Superintendency of the Securities Market (*Superintendencia del Mercado de Valores*).

"*Special Dividend*" means a (i) dividend or distribution or (ii) an Investment in each case on or within 180 days following the Issue Date in the aggregate amount of U.S.$57.0 million.

"*Specified Denominations*" has the meaning given to it under "—Form, Denomination and Title."

"*Sponsor*" means ISQ Global Infrastructure Fund L.P. or any one or more other investment funds or managed accounts with respect to which an Affiliate of I Squared Capital Advisors (US) LLC acts as the general partner or the investment manager with similar management and investment capabilities to those of I Squared Capital Advisors (US) LLC or is otherwise able to control such fund's or managed account's investment decisions.

"*Stated Maturity*" means, with respect to any Indebtedness, the date specified in such Indebtedness as the fixed date on which the final payment of principal of such Indebtedness is due and payable, including, with respect to any principal amount which is then due and payable pursuant to any mandatory redemption provision, the date specified for the payment thereof (but excluding any provision providing for the repurchase of any such Indebtedness upon the happening of any contingency unless such contingency has occurred).

"*Subordinated Obligation*" means any Indebtedness of the Company or Principal Guarantor that is expressly subordinate in right of payment to the Notes pursuant to a written agreement.

"*Subsidiary*" means, with respect to any Person (the "*parent*") at any date, any corporation, limited liability company, partnership, association or other entity the accounts of which would be consolidated with those of the parent in the parent's consolidated financial statements if such financial statements were prepared in accordance with IFRS as of such date, as well as any other corporation, limited liability company, partnership, association or other entity:

(1) of which securities or other ownership interests representing more than 50% of the equity or more than 50% of the ordinary voting power or, in the case of a partnership, more than 50% of the general partnership interests are, as of such date, owned, controlled or held; or

(2) that is, as of such date, otherwise controlled by the parent or one or more subsidiaries of the parent or by the parent and one or more subsidiaries of the parent.

"*Successor Company*" has the meaning given to it under "—Consolidation, Merger, Conveyance, Sale or Lease."

"*Suspended Covenants*" has the meaning given to it under "—Release of Covenants."

"*Suspension Period*" has the meaning given to it under "Release of Covenants."

"*Taxes*" means all present and future taxes, levies, imposts, deductions, charges, duties and withholdings and any charges of a similar nature (including interest, penalties and other liabilities with respect thereto) that are imposed by any government or other taxing authority.

"*Termoselva*" means Termoselva S.R.L., a limited liability partnership (*sociedad comercial de responsibilidad limitada*) organized and existing under the laws of Peru.

"*Total Assets*" means, as of any date, the total consolidated assets of the Company, the Principal Guarantor and their respective Restricted Subsidiaries, as applicable, on a consolidated basis, as shown on the most recent consolidated balance sheet of the Company, the Principal Guarantor and their respective Restricted Subsidiaries, as applicable, determined on a *pro forma* basis in a manner consistent with the *pro forma* basis contained in the definition of Combined Interest Coverage Ratio.

"*Transactions*" means the issuance of the Notes, the Liability Management Transaction and the making of the Proceeds Loan and all related costs expenses.

"*Transfer Agent*" means the Trustee, or any successor thereof, as transfer agent under the Indenture.

"*Treasury Rate*" has the meaning given to it under "—Optional Redemption."

"*Trustee*" means Citibank, N.A., as trustee under the Indenture, and any successor trustee thereof under the Indenture.

"*UCC*" means the Uniform Commercial Code as in effect from time to time in the State of New York; *provided*, *however*, that at any time, if by reason of mandatory provisions of law, any or all of the perfection or priority of a secured party's security interest in any item or portion of the collateral is governed by the Uniform Commercial Code as in effect in a jurisdiction other than the State of New York, the term "UCC" shall mean the Uniform Commercial Code as in effect, at such time, in such other jurisdiction for purposes of the provisions hereof relating to such perfection or priority and for purposes of definitions relating to such provisions.

"*United States*" or "*U.S.*" means the United States of America.

"*Unrestricted Subsidiary*" means any Subsidiary of the Company or the Principal Guarantor that is designated by the senior management of the Company as an Unrestricted Subsidiary, but only to the extent that such Subsidiary:

(1) has no Indebtedness other than Non-Recourse Debt;

(2) is not party to any agreement, contract, arrangement or understanding with the Company, any Guarantor or any Restricted Subsidiary unless the terms of any such agreement, contract, arrangement or understanding are not materially less favorable to the Company, such Guarantor or such Restricted Subsidiary than those that might have been obtained at the time of any such agreement, contract, arrangement or understanding than those that could have been obtained from Persons who are not Affiliates of the Company;

(3) is a Person with respect to which none of the Company, any Guarantor or any Restricted Subsidiary has any direct or indirect obligation (a) to subscribe for additional Equity Interests or (b) to maintain or preserve such Person's financial condition or to cause such Person to achieve any specified levels of operating results; and

(4) has not guaranteed or otherwise directly or indirectly provided credit support for any Indebtedness of the Company, any Guarantor or any Restricted Subsidiary.

Any such designation by the senior management of the Company shall be evidenced to the Trustee by filing with the Trustee an Officer's Certificate certifying that such designation complied with the conditions set forth in this definition.

"*U.S. Government Obligations*" means direct obligations (or certificates representing an ownership interest in such obligations) of the United States (including any agency or instrumentality thereof) for the payment of which the full faith and credit of the United States is pledged and that are not callable or redeemable at the Company's option.

"*Voting Stock*" of a Person means all classes of Capital Stock or other interests (including partnership interests) of such Person then outstanding and normally entitled (without regard to the occurrence of any contingency) to vote in the election of the directors of such Person.

TAXATION

The following discussion summarizes certain Peruvian and U.S. federal income tax considerations that may be relevant to you if you invest in the Notes. This summary is based on laws, regulations, rulings and decisions now in effect in Peru and the United States, which, in each case, may change. Any change could apply retroactively and could affect the continued validity of this summary.

This summary does not describe all of the tax considerations that may be relevant to you or your situation, particularly if you are subject to special tax rules. You should consult your tax advisors about the tax consequences of holding the Notes, including the relevance to your particular situation of the considerations discussed below, as well as of state, local and other tax laws.

Peruvian Tax Considerations

The following summary of certain Peruvian tax matters as in force on the date of this offering memorandum describes the principal tax consequences of an investment in the Notes by (i) an individual or legal entity who resides in Peru for Peruvian tax purposes ("Peruvian holder") or (ii) an individual or legal entity a person who is not a resident of Peru for Peruvian tax purposes and it does not invest in the Notes in connection with the conduct of a trade or business through a permanent establishment in Peru ("non-Peruvian holder").

For Peruvian tax purposes, Peruvian citizens are deemed to be residents of Peru, while non-Peruvian citizens are deemed to be residents of Peru provided such individuals have resided or stayed in Peru for more than 183 calendar days during any 12-month period. A legal entity is deemed to be resident of Peru for Peruvian tax purposes if it has been incorporated in Peru.

This summary is not intended to be a comprehensive description of all of the tax considerations that may be relevant to a decision to make an investment in the Notes. In addition, this summary does not describe any tax consequences arising under the laws of any taxing jurisdiction other than Peru.

Income Tax

General information

Peruvian residents, individuals or legal entities, as the Peruvian holders, are liable for income tax on their worldwide income, whereas non-resident individuals and non-resident legal entities, as the non-Peruvian holders, are only liable for income tax on their Peruvian source income.

Permanent establishments in Peru of non-resident legal entities are deemed to be residents of Peru for income tax purposes, but they are only liable for income tax on the Peruvian source income attributed to said permanent establishment. Tax exemptions may be applicable.

Payment of Principal and Interest on the Notes

Repayments of principal on the Notes by us will not be subject to withholding.

Payments of interest on the Notes by us will be subject to withholding at a 4.99% rate, as long as the nominee of DTC or any other non-resident is deemed owner of the Notes.

In the event that the beneficial interests in the global notes are exchanged for certificated notes, the above tax consequences on payments of interest will remain applicable as long as a non-resident is deemed owner of the certificated notes, except where (i) the owner of the certificated notes is deemed related with us ("related party") or (ii) the owner of the certificated notes is an individual residing in a jurisdiction with low or no taxation ("tax haven"). In these cases payments of interest on the Notes by us will be subject to withholding at a 30% rate.

In the event that the beneficial interests in the global notes are exchanged for certificated notes and a Peruvian resident is deemed owner of said certificated notes, legal entities must add the interest to their worldwide income, whereas individuals will be subject to a withholding at a 5% rate.

We have agreed to pay additional amounts in respect of any such withholding tax, subject to specific exceptions and limitations (see "Description of the Notes—Additional Amounts").

Principal and interest on a beneficial interest in a global note

Repayments of principal on a beneficial interest in a global note will not be subject to income tax.

Payments of interest on a beneficial interest in a global note will be subject to income tax provided the interest is received by Peruvian holders. Peruvian holders must add such interest to their worldwide income.

Sale of a beneficial interest in a global note or sale of a certificated note

Proceeds received by a non-Peruvian holder on a sale, exchange or disposition of a beneficial interest in a global note 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 certificated notes, capital gains arising from the sale, exchange or other disposition of said certificated notes by non-Peruvian holders would be subject to Peruvian income tax, at a 30% rate.

Capital gains are defined as the positive difference between the price at which the Notes are sold and the holder's tax basis in the Notes (*i.e.*, the acquisition value). The acquisition value has to be certified by the Peruvian Tax Administration through a form presented by the seller. This certification is not needed in case of early redemptions called by the issuer.

Any capital gain arising from the sale, exchange or other disposition by a Peruvian holder of a beneficial interest in a global note will be subject to income tax. Peruvian holders must add those capital gains to their worldwide income. In the event that the beneficial interests in the global notes are exchanged for certificated notes, any capital gain arising from the sale, exchange or other disposition of said certificated notes by Peruvian holders would be subject to Peruvian income tax. Peruvian holders being legal entities must add those capital gains to their worldwide income, whereas Peruvian holders being individuals must add those capital gains to their income from capital.

Value Added Tax (VAT)

No VAT is payable in connection with the purchase, ownership or disposition of a note, a beneficial interest in a global note or a certificated note.

Financial Transaction Tax

Additionally, it is important to mention that in Peru there is a Financial Transactions Tax ("FTT") at a 0.005% rate on debits and credits made in a Peruvian bank or other financial institution account, either in national or foreign currency. If the issue price paid for the Notes is deposited in a Peruvian Financial System (*Sistema Financiero Peruano* or "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, but the PFS bank acts as withholding agent.

Certain U.S. Federal Income Tax Considerations

The following is a general discussion based upon present law of certain U.S. federal income tax considerations for prospective purchasers of the Notes. The discussion addresses only persons that purchase Notes in the original offering at their "issue price," hold the Notes as capital assets, and, in the case of U.S. holders, use the U.S. Dollar as their functional currency. The discussion does not consider the circumstances of particular purchasers, some of which (such as financial institutions, insurance companies, regulated investment companies, tax exempt organizations, dealers, traders who elect to mark their investment to market, and persons holding the Notes as part of a hedge, straddle, conversion, constructive sale or integrated transaction) are subject to special tax regimes. The discussion does not address any U.S. state and local or foreign taxes, the Medicare tax on net investment income or the federal alternative minimum tax. Special rules also apply to individuals, certain of which may not be discussed below. Prospective investors should note that no rulings have been, or are expected to be, sought from the U.S. Internal Revenue Service (the "IRS") with respect to any of the U.S. federal income tax consequences discussed below, and no assurance can be given that the IRS or a court will not take contrary positions.

EACH PROSPECTIVE PURCHASER IS URGED TO CONSULT ITS OWN TAX ADVISOR ABOUT THE TAX CONSEQUENCES OF AN INVESTMENT IN THE NOTES UNDER THE FEDERAL, STATE AND LOCAL LAWS OF THE UNITED STATES, PERU AND THE LAWS OF ANY OTHER JURISDICTION WHERE THE PURCHASER MAY BE SUBJECT TO TAXATION.

For purposes of this discussion, "U.S. Holder" means the beneficial owner of a Note that for U.S. federal income tax purposes is

- a citizen or individual resident of the United States,
- a corporation organized in or created under the laws of the United States or any political subdivision thereof,
- a trust (i) if one or more United States persons have the authority to control all substantial decisions of the trust and the administration of the trust is subject to the primary supervision of a U.S. court or (ii) that has validly elected to be treated as a U.S. person, or
- an estate the income of which is subject to U.S. federal income taxation regardless of its source.

"Non-U.S. Holder" means a person that is a beneficial owner of a Note that is not a partnership for U.S. federal income tax purposes or a U.S. Holder.

The treatment of partners (or other equity owners) in an entity or arrangement treated as a partnership for U.S. federal income tax purposes that owns, or is the beneficial owner of, Notes may depend on the status of such partners (or other equity owners) and the status and activities of the partnership (or such other entity or arrangement) and such persons should consult their own tax advisors about the consequences of an investment in the Notes.

Potential Contingent Payment Debt Instrument Treatment

In certain circumstances the Issuer may be required to make payments on a Note that would change the yield of the Note. See "Description of the Notes—Repurchases at the Option of the Holders of the Notes Upon Change of Control that Results in a Ratings Event." These obligations may implicate the provisions of Treasury regulations relating to contingent payment debt instruments ("CPDIs"). According to the applicable Treasury regulations, certain contingencies will not cause a debt instrument to be treated as a CPDI if such contingencies, as of the date of issuance, are "remote or incidental" or certain other circumstances apply. The Issuer intends to take the position that the Notes are not CPDIs. This determination, however, is not binding on the IRS and if the IRS were to challenge this determination, a holder may be required to accrue income on the Notes that such holder owns in excess of stated interest, and to treat as ordinary income rather than capital gain any income realized on the taxable disposition of such Notes before the resolution of the contingency. If the Notes are not CPDIs but such contingent payments were required to be made, it may affect the amount and timing of the income that a U.S. Holder recognizes. U.S. Holders are urged to consult their own tax advisors regarding the potential application to the Notes of the CPDI rules and the consequences thereof. The remainder of this discussion assumes that the Notes will not be treated as CPDIs.

Interest

Stated interest paid to a U.S. Holder, and any additional amounts with respect to withholding tax on the Notes (including the amount of tax withheld from payments of interest and additional amounts), will be includible in the U.S. Holder's gross income as ordinary interest income at the time interest and additional amounts are received or accrued in accordance with the U.S. Holder's regular method of tax accounting for U.S. federal income tax purposes. It is expected, and the remainder of this discussion assumes, that the Notes will not be issued with original issue discount for U.S. federal income tax purposes.

Interest on the Notes generally 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 for purposes of computing the foreign tax credit allowable under the U.S. federal income tax laws. 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 foreign income taxes withheld on interest payments on the Notes. Alternatively, the U.S. Holder may be able to deduct such taxes in computing taxable income for U.S. federal income tax purposes. 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 or a deduction for foreign taxes paid under their particular circumstances.

Sale, Exchange or Other Taxable Disposition

Upon the sale, exchange or other taxable disposition (including 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 interest, which will be taxable as interest) 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 be equal to the amount that the U.S. Holder paid for the Note. Any such gain or loss generally will be capital gain or loss and generally will be long-term capital gain or loss if the U.S. Holder's holding period in the Note exceeds 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.

Capital gain or loss, if any, recognized by a U.S. Holder on the sale, exchange or other taxable disposition of a Note will generally be treated as U.S. source gain or loss for U.S. foreign tax credit purposes. Consequently, in the case of a gain from a disposition of a Note that is subject to a non-U.S. income tax, the U.S. Holder may not be able to benefit from a foreign tax credit for the tax unless the U.S. Holder can apply the credit against U.S. federal income tax payable on other income from foreign sources. Alternatively, the U.S. Holder may take a deduction for the foreign income tax if the U.S. Holder elects to deduct (rather than credit) all foreign income taxes paid or accrued during the taxable year.

Non-U.S. Holders

Subject to the discussion of backup withholding below, a Non-U.S. Holder generally will not be subject to U.S. federal withholding tax on interest and additional amounts on or gain with respect to the Notes. A Non-U.S. Holder also generally will not be subject to U.S. federal income tax on a net income basis with respect to interest and additional amounts received in respect of the Notes or gain realized on the sale, exchange or other taxable disposition (including redemption) of the Notes, unless that interest or gain is effectively connected with the conduct by the Non-U.S. Holder of a trade or business within the United States or, in the case of gain realized by an individual Non-U.S. Holder, the Non-U.S. Holder is present in the United States for 183 days or more in the taxable year of the disposition and certain other conditions are met.

U.S. Backup Withholding and Information Reporting

Information reporting generally will apply to payments of principal of, and interest on, Notes (including additional amounts), and to proceeds from the sale, exchange or other taxable disposition (including redemption) of Notes, to a U.S. Holder (other than an exempt recipient). Backup withholding may be required on reportable payments if the holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with, or establish an exemption from, information reporting and backup withholding. Non-U.S. Holders generally will be required to comply with applicable certification procedures to establish that they are not U.S. Holders in order to avoid the application of information reporting and backup withholding. Backup withholding is not an additional tax. A holder of Notes 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.

"Specified Foreign Financial Asset" Reporting

Owners of "specified foreign financial assets" with an aggregate value in excess of U.S.$50,000 (and in some circumstances, a higher threshold), may be required to file an information statement with respect to such assets with their U.S. federal income tax returns, currently on IRS Form 8938. The Notes generally are expected to constitute "specified foreign financial assets" unless they are held in accounts maintained by financial institutions. U.S. Holders are urged to consult their tax advisors regarding the application of this information reporting requirement.

The above description is not intended to constitute a complete analysis of all tax consequences relating to the ownership of the Notes. Prospective purchasers of Notes should consult their own tax advisors concerning the tax consequences of their particular situations.

PLAN OF DISTRIBUTION

Subject to the terms and conditions set forth in a purchase agreement dated the date hereof among us and the Initial Purchasers, the Issuer has agreed to sell to the Initial Purchasers, and each of the Initial Purchasers has agreed, severally and not jointly, to purchase from the Issuer, the principal amount of Notes set forth opposite its name below.

Initial Purchaser	Principal Amount of Notes
Deutsche Bank Securities Inc.	$194,346,000
Credicorp Capital Sociedad Agente de Bolsa S.A.	194,346,000
Citigroup Global Markets Inc.	77,739,000
Morgan Stanley & Co. LLC	77,739,000
Scotia Capital (USA) Inc.	5,830,000
Total	$550,000,000

Subject to the terms and conditions set forth in the purchase agreement, including certain approvals regarding legal matters, the Initial Purchasers have agreed, severally and not jointly, to purchase all of the Notes sold under the purchase agreement if any of these Notes are purchased. If an Initial Purchaser defaults, the purchase agreement provides that the purchase commitments of the non-defaulting Initial Purchasers may be increased or the purchase agreement may be terminated.

One or more of the Initial Purchasers may be restricted in its U.S. securities dealings under the bank holding company act and not be U.S.-registered broker-dealers. All sales of securities in the U.S. will be made by or through U.S.-registered broker-dealers. 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 effect any offers or sales of the Securities in the United States or to U.S. persons unless it is through one or more U.S. registered broker-dealers as permitted by the regulations of the Financial Industry Regulatory Authority, Inc., or FINRA. Credicorp Capital may make offers and sales of the notes outside of the United States to non-U.S. persons, pursuant to Regulation S.

Banco Internacional del Perú S.A.A. ("Interbank") is not a broker-dealer registered with the SEC and will not make any sale of the Notes inside or outside the United States.

We have agreed to indemnify each of the Initial Purchasers against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the Initial Purchasers may be required to make in respect of any of those liabilities.

You should be aware that the laws and practices of certain countries require investors to pay stamp taxes and other charges in connection with purchases of the Notes.

Commissions and Discounts

The Initial Purchasers propose initially to offer the Notes at the offering price set forth on the cover page of this offering memorandum. After the initial offering, the offering price or any other term of the offering may be changed. The Initial Purchasers may offer and sell Notes through certain of their affiliates.

Notes Are Not Being Registered

The Notes have not been, and will not be, registered under the Securities Act or any state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except to persons reasonably believed to be qualified institutional buyers in reliance on Rule 144A under the Securities Act and to persons in offshore transactions in reliance on Regulation S under the Securities Act. The Initial Purchasers propose to offer the Notes for resale in transactions not requiring registration under the Securities Act or applicable state securities laws, including sales pursuant to Rule 144A and Regulation S. The Initial Purchasers will not offer or sell the Notes except to persons they reasonably believe to be qualified institutional buyers or pursuant to offers and sales to non-U.S. persons that occur outside of the United States within the meaning of Regulation S. In addition, until 40 days following the commencement of this offering, an offer or sale of Notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act unless the dealer makes the offer or sale in compliance with Rule 144A or another exemption from registration under the Securities Act. Each purchaser of the Notes will be deemed to have made acknowledgments, representations and agreements as described under "Transfer Restrictions." Resales of the Notes are restricted as described under "Transfer Restrictions."

New Issue of Notes

The Notes are a new issue of securities with no established trading market. Approval-in principle has been received for the listing of and quotation for the Notes on the SGX-ST. However, there is currently no public market for the Notes and we cannot assure you that an active trading market for the notes will develop and continue after this offering. We have been advised by the Initial Purchasers that they presently intend to make a market in the Notes after completion of the offering. However, they are under no obligation to do so and may discontinue any market-making activities at any time without any notice. We cannot assure the liquidity of the trading market for the Notes. If an active trading market for the Notes does not develop, the market price and liquidity of the Notes may be adversely affected. If the Notes are traded, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, our operating performance and financial condition, general economic conditions and other factors.

Settlement

We expect that delivery of the Notes will be made to investors on or about April 28, 2017, which will be the third business day following the date of this offering memorandum (such settlement being referred to as "T+3").

No Sales of Similar Securities

We have agreed that we will not, for a period beginning on the date hereof and lasting 90 days from the issue date of the Notes, without first obtaining the prior written consent of the Initial Purchasers, directly or indirectly, issue, sell, offer to contract or grant any option to sell, pledge, transfer or otherwise dispose of, any debt securities or securities exchangeable for or convertible into debt securities, except for the Notes sold to the Initial Purchasers pursuant to the purchase agreement.

Over-Allotment, Stabilizing Transactions, Covering Transactions and Penalty Bids

The Initial Purchasers may engage in over-allotment, stabilizing transactions, covering transactions and penalty bids in accordance with Regulation M under the Exchange Act. Over-allotment involves sales in excess of the offering size, which creates a short position for the Initial Purchasers. Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum. Covering transactions involve purchases of the Notes in the open market after the distribution has been completed in order to cover short positions. Penalty bids permit the Initial Purchasers to reclaim a selling concession from a broker/dealer when the Notes originally sold by such broker/dealer are purchased in a stabilizing or covering transaction to cover short positions. These stabilizing transactions, covering transactions and penalty bids may cause the price of the Notes to be higher than it would otherwise be in the absence of these transactions. These transactions, if commenced, may be discontinued at any time.

Other Relationships

Some of the Initial Purchasers and their affiliates have engaged in, and may provide from time to time in the future, certain commercial banking, financial advisory, investment banking and other commercial dealings and services in the ordinary course of business with us or our affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions. Certain of the Initial Purchasers or their respective affiliates will receive proceeds from the concurrent liability management transactions and as such will receive a portion of the net proceeds from this offering applied to those transactions, including affiliates of Deutsche Bank Securities Inc., Credicorp Capital and Scotia Capital (USA) Inc., each of whom are lenders under the Bank Debt. Interbank is a lender under the Bank Debt. See "Use of Proceeds."

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. Certain of the Initial Purchasers or their affiliates that have a lending relationship with us routinely hedge their credit exposure to us consistent with their customary risk management policies. Typically, such 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. Any such short positions could adversely affect future trading prices of the Notes. 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.

European Economic Area

In relation to each Member State of the European Economic Area, no offer of Notes which are the subject of the offering has been, or will be made to the public in that Member State, other than under the following exemptions under the Prospectus Directive:

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 Initial Purchasers 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 referred to in (a) to (c) above shall result in a requirement for Egenor 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.

Each person located in a Member State to whom any offer of Notes is made or who receives any communication in respect of any offer of Notes, or who initially acquires any Notes, will be deemed to have represented, warranted, acknowledged and agreed to and with each Initial Purchaser and Egenor that (1) it is a "qualified investor" within the meaning of the law in that Member State implementing Article 2(1)(e) of the Prospectus Directive; and (2) in the case of any Notes acquired by it as a financial intermediary as that term is used in Article 3(2) of the Prospectus Directive, the Notes acquired by it in the offer have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Member State other than qualified investors, as that term is defined in the Prospectus Directive, or in circumstances in which the prior consent of the Initial Purchasers has been given to the offer or resale; or where the Notes have been acquired by it on behalf of persons in any Member State other than qualified investors, the offer of those Notes to it is not treated under the Prospectus Directive as having been made to such persons.

Egenor, the Initial Purchasers and their respective affiliates will rely upon the truth and accuracy of the foregoing representations, acknowledgments and agreements.

This offering memorandum has been prepared on the basis that any offer of Notes in any Member State will be made pursuant to an exemption under the Prospectus Directive from the requirement to publish a prospectus 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 Egenor or any of the Initial Purchasers to publish a prospectus pursuant to Article 3 of the Prospectus Directive in relation to such offer. Neither Egenor nor the Initial Purchasers have authorized, nor do they authorize, the making of any offer of Notes in circumstances in which an obligation arises for Egenor or the Initial Purchasers to publish a prospectus for such offer.

For the purposes of this provision, the expression "an offer of Notes to the public" in relation to any Notes in any 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 that Relevant Member State, the expression "Prospectus Directive" means Directive 2003/71/EC (as amended) and includes any relevant implementing measure each Member State.

The above selling restriction is in addition to any other selling restrictions set out below.

Notice to Prospective Investors in the United Kingdom

In addition, in the United Kingdom, this document is being distributed only to, and is directed only at, and any offer subsequently made may only be directed at persons who are "qualified investors" (as defined in the Prospectus Directive) (i) who have professional experience in matters relating to investments falling within Article 19 (5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "Order") and/or (ii) who are high net worth companies (or persons to whom it may otherwise be lawfully communicated) falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"). This document must not be acted on or relied on in the United Kingdom by persons who are not relevant persons. In the United Kingdom, any investment or investment activity to which this document relates is only available to, and will be engaged in with, relevant persons.

Notice to Prospective Investors in Switzerland

This offering memorandum does not constitute an issue prospectus pursuant to Article 652a or Article 1156 of the Swiss Code of Obligations and the Notes will not be listed on the SIX Swiss Exchange. Therefore, this offering memorandum may not comply with the disclosure standards of the listing rules (including any additional listing rules or prospectus schemes) of the SIX Swiss Exchange. Accordingly, the Notes may not be offered to the public in or from Switzerland, but only to a selected and limited circle of investors who do not subscribe to the Notes with a view to distribution. Any such investors will be individually approached by the Initial Purchasers from time to time.

Notice to Prospective Investors in the Dubai International Financial Centre

This offering memorandum relates to an Exempt Offer in accordance with the Offered Securities Rules of the Dubai Financial Services Authority ("DFSA"). This offering memorandum is intended for distribution only to persons of a type specified in the Offered Securities Rules of the DFSA. It must not be delivered to, or relied on by, any other person. The DFSA has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The DFSA has not approved this offering memorandum nor taken steps to verify the information set forth herein and has no responsibility for the offering memorandum. The Notes to which this offering memorandum relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the Notes offered should conduct their own due diligence on the Notes. If you do not understand the contents of this offering memorandum you should consult an authorized financial advisor.

Notice to Prospective Investors in Canada

The Notes may be sold only to purchasers in the provinces of Alberta, British Columbia, New Brunswick, Nova Scotia, Ontario, Prince Edward Island and Quebec purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the Notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this offering memorandum (including any amendment thereto) 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 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.

Pursuant to section 3A.3 (or, in the case of securities issued or guaranteed by the government of a non-Canadian jurisdiction, section 3A.4) of National Instrument 33-105 Underwriting Conflicts (NI 33-105), the Initial Purchasers are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

Notice to Prospective Investors in Peru

The Notes will not be subject to a public offering in Peru. The Notes and the information contained in this offering memorandum have not been and will not be registered with or approved by the SMV or the BVL. 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.

Notice to Prospective Investors in Singapore

This offering memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. As such, the Notes may not be offered or sold, or made the subject of an invitation for subscription or purchase, nor may the Offering Memorandum or any of the documents or materials in connection with the offer or sale or invitation for subscription or any Notes be circulated or distributed, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor;

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

- to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;
- where no consideration is or will be given for the transfer;
- where the transfer is by operation of law;
- as specified in Section 276(7) of the SFA; or
- as specified in Regulation 32 of the Securities and Futures (Offers and Investments) (Shares and Debentures) Regulations 2005 of Singapore.

TRANSFER RESTRICTIONS

The Notes and the Note Guarantees have not been registered and will not be registered under the Securities Act, any U.S. state securities laws or the laws of any other jurisdiction, and may not be offered or sold except pursuant to an effective registration statement or pursuant to 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:

1. in the United States to qualified institutional buyers (as defined in Rule 144A) in reliance on Rule 144A under the Securities Act; and
2. 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.

This offering memorandum, the Notes and the Note Guarantees have not been, and will not be, registered with or approved by the SMV or the BVL. Accordingly, in addition to the transfer restrictions set forth above, the Notes cannot be offered or sold in Peru, except in compliance with applicable securities laws and regulations of Peru.

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 in compliance with Regulation S under the Securities Act;

(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 Notes initially offered in the United States to qualified institutional buyers will be represented by one or more global Notes and that 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) 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 and such trustee, registrar or transfer agent that the restrictions set forth herein have been complied with;

(8) 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; and

(9) 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.

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. THE HOLDER HEREOF, BY PURCHASING THIS NOTE, AGREES THAT NEITHER THIS NOTE NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, SUCH REGISTRATION AND IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY OTHER APPLICABLE JURISDICTION."

For further discussion of the requirements (including the presentation of transfer certificates) under the indenture to effect exchanges or transfers of interest in Global Notes and certificated Notes, see "Description of the Notes."

LISTING AND GENERAL INFORMATION

Since December 31, 2016, the date of the latest audited financial statements of Egenor included herein, there has been no material adverse change, or any development involving a prospective material adverse change, in or affecting Egenor's condition, financial position, management, properties, shareholders' equity, earnings, business affairs, business prospects or results of operations which is not otherwise disclosed herein. Since December 31, 2016, the date of the latest audited financial statements of Aguaytía included herein, there has been no material adverse change, or any development involving a prospective material adverse change, in or affecting Aguaytía's condition, financial position, management, properties, shareholders' equity, earnings, business affairs, business prospects or results of operations which is not otherwise disclosed herein.

Egenor was formed under the laws of Peru on in December 1996. Aguaytía was formed under the laws of Peru in January 1996. The issuance and offering of the Notes and the Note Guarantees were duly authorized by resolutions of Egenor's meeting of its shareholders on March 30, 2017 and resolutions of meetings of the partners of Aguaytía, Etenorte, Eteselva and Termoselva on April 17, 2017.

The Notes sold in offshore transactions in reliance on Regulation S and represented by the Regulation S Global Note have been accepted for clearance through Clearstream and Euroclear under ISIN No. USP7372BAA19. The CUSIP number for the Rule 144A Global Note sold to QIBs is 68559B AA5.

Approval in-principle has been received from the SGX-ST for the listing and quotation for the Notes on the SGX-ST. The SGX-ST takes no responsibility for the accuracy of any of the statements made or opinions or reports contained in this offering memorandum. The Notes will be traded on the SGX-ST in a minimum board lot size of U.S.$200,000 (or its equivalent in foreign currencies) for so long as any of the Notes are listed on the SGX-ST and the rules of the SGX-ST so require. Approval in-principle received from the SGX-ST is not to be taken as an indication of the merits of the Issuer, the Guarantors, the Notes or the Note Guarantees. There is currently no public market for the Notes.

For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, in the event that the Notes which are issued in global certificated form are exchanged for Notes in definitive registered form or definitive registered Notes, the Issuer will appoint and maintain a paying agent in Singapore, where the certificates in definitive form in respect of Notes may be presented or surrendered for payment or redemption. In addition, in the event that the Notes which are issued in global certificated form are exchanged for Notes in definitive registered form or definitive registered Notes, an announcement of such exchange shall be made by or on behalf of the Issuer through the SGX-ST and such announcement will include all material information with respect to the delivery of the certificates in definitive form, including details of the paying agent in Singapore. Except as disclosed in this offering memorandum, we are not involved in any litigation or arbitration proceedings relating to claims or amounts that are material in the context of this offering, nor, so far as we are aware, is any such litigation or arbitration pending or threatened.

Egenor's audited consolidated financial statements as of December 31, 2016, December 31, 2015 and December 31, 2014 and for the three years ended December 31, 2016 and the audit reports thereon are included in this offering memorandum. Aguaytía's audited consolidated financial statements as of December 31, 2016, December 31, 2015 and December 31, 2014 and for the three years ended December 31, 2016 and the audit reports thereon are included in this offering memorandum.

Copies of each of Egenor's and Aguaytía's latest and future audited annual financial statements and copies of Egenor's incorporation documents including its by-laws (*estatutos sociales*), as well as the

Indenture (including the forms of Notes and Guarantees) and the purchase agreement will be available, free of charge, at the offices of the principal paying agent and any other agent.

Pursuant to the Indenture, the Trustee may resign at any time by written notice to Egenor. The holders of a majority in principal amount of the outstanding Notes may remove the Trustee by written notice to the Trustee if the Trustee no longer meets the eligibility requirements described in the last sentence of this paragraph. In addition, Egenor may remove the Trustee if the Trustee: (i) does not have a combined capital and surplus of at least U.S.$500 million as set forth in its most recent published annual report, (ii) does not have a corporate trust office in the City of New York, New York or (iii)(A) is adjudged a bankrupt or an insolvent; (B) a receiver or other public officer takes charge of the Trustee or its property; or (C) the Trustee becomes incapable of acting.

LEGAL MATTERS

The validity of the Notes will be passed upon for us by Milbank, Tweed, Hadley & McCloy LLP, New York, New York, our U.S. counsel, and for the Initial Purchasers by Gibson, Dunn & Crutcher LLP, New York, New York, U.S. counsel for the Initial Purchasers. Milbank, Tweed, Hadley & McCloy LLP will rely, as to all matters of Peruvian law, on the opinion of Rodrigo, Elías & Medrano Abogados S. Civil de R.L., our Peruvian counsel and Gibson, Dunn & Crutcher LLP will rely, as to all matters of Peruvian law, on the opinion of J&A Garrigues Perú S. Civil de R.L., as Peruvian counsel to the Initial Purchasers.

TRUSTEE, REGISTRAR, PAYING AGENT AND TRANSFER AGENT

Citibank, N.A. is the trustee, registrar, paying agent and transfer agent for the Notes. Citibank, N.A. is located at 388 Greenwich Street, New York, New York 10013, or any other address that the trustee may designate from time to time by notice to the noteholders.

INDEPENDENT AUDITORS

Egenor's audited consolidated financial statements as of December 31, 2016, 2015 and 2014 and for each of the three years then ended included in this offering memorandum have been audited by Gris y Asociados S. Civil de R.L., a member firm of Deloitte Touche Tohmatsu Limited, Egenor's independent auditors as stated in their report appearing herein.

Aguaytía's audited consolidated financial statements as of December 31, 2016, 2015 and 2014 and for each of the three years then ended included in this offering memorandum have been audited by Gris y Asociados S. Civil de R.L., a member firm of Deloitte Touche Tohmatsu Limited, Aguaytía's independent auditors as stated in their report appearing herein.

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Orazul Energy Egenor S. en C. por A. (before Duke Energy Egenor S. en C. por A.) and Subsidiary

Independent Auditors' Report

Consolidated Financial Statements
As of December 31, 2016, 2015 and 2014 and for the years ended December 31, 2016, 2015 and 2014

ORAZUL ENERGY EGENOR S. EN C. POR A. AND SUBSIDIARY

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Deloitte.

Gris y Asociados S. Civil
de R.L.
Las Begonias 441, Piso 6
San Isidro, Lima 27
Perú

Tel: +51 (1)211 8585
Fax: +51 (1)211 8586
www.deloitte.com/pe

INDEPENDENT AUDITOR'S REPORT

To the Partners of
Orazul Energy Egenor S. en C. por A. and Subsidiary

1. We have audited the accompanying consolidated financial statements of **Orazul Energy Egenor S. en C. por A. and Subsidiary**, which comprise the consolidated statements of financial position as of December 31, 2016, 2015 and 2014, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

2. Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards issued by International Accounting Standards Board, and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's responsibility

3. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing, approved for their application in Peru by the Consejo Directivo de la Junta de Decanos de Colegios de Contadores Publicos del Peru (Board of Deans of the Peruvian 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 consolidated financial statements are free from material misstatements.

4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company and Subsidiary for the preparation and fair presentation of the consolidated 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 internal control of the Company and Subsidiary. 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 consolidated financial statements

5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

6. In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of **Orazul Energy Egenor S. en C. por A. and Subsidiary** as of December 31, 2016, 2015 and 2014, their consolidated financial performance and consolidated cash flows for the years then ended, in accordance with International Financial Reporting Standards issued by International Accounting Standards Board.

Other matters

7. English translation of the consolidated financial statements

   This report and the consolidated financial statements referred to above have been translated into English for the convenience of English-speaking readers. As further explained in Note 1(d) to the accompanying consolidated financial statements, the consolidated financial statements are the English translation of those originally prepared by the Company in Spanish and presented in accordance with International Financial Reporting Standards ("IFRS") issued by International Accounting Standards Board. The effects of the differences between IFRS and the accounting principles generally accepted in the countries in which the financial statements are to be used have not been quantified.

8. Convenience translation

   Our audit also comprehended the translation of Soles into U.S. Dollars amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 2(b) to the consolidated financial statements. Such U.S. dollars amounts are presented solely for the convenience of readers outside Peru.

Gris y Asociados S. Civil de R. L.

Countersigned by:

Quispe Soto B
______________________ (Partner)
Beatriz Quispe Soto
CPC Registration No. 29474

April 14, 2017

ORAZUL ENERGY EGENOR S. EN C. POR A. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2016 , 2015 AND 2014
(In thousands of soles S/000)

	Notes	2016 US$000 (Note 2(b))	2016 S/000	2015 S/000	2014 S/000
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	5	9,220	30,978	348,199	154,707
Trade accounts receivable (net)	6	12,105	40,674	38,256	51,411
Other accounts receivable	7	415	1,394	7,046	808
Accounts receivable from related entities	8	17,144	57,605	3,103	5,922
Inventories (net)	9	1,307	4,392	5,109	6,739
Income tax asset	24 (d)	1,144	3,843	-	-
Other assets		73	269	244	376
Total current assets		41,408	139,155	401,957	219,963
NON-CURRENT ASSETS:					
Accounts receivable from related entities	8	46,190	155,200	-	-
Other accounts receivable	7	409	1,377	1,377	3,218
Property, plant and equipment (net)	11	233,839	785,700	814,284	842,469
Other assets		470	1,580	1,135	1,315
Total non-current assets		280,908	943,857	816,796	847,002
TOTAL		322,316	1,083,012	1,218,753	1,066,965
LIABILITIES AND EQUITY					
CURRENT LIABILITIES:					
Financial obligations	12	1,233	4,144	4,210	4,523
Trade accounts payable	13	6,043	20,304	19,894	16,207
Other accounts payable	14	1,249	4,198	5,926	6,820
Accounts payable to related entities	8	86	316	3,934	165
Liabilities for employee benefits	15	7,443	25,009	20,490	24,645
Income tax liability	24 (e)	-	-	10,063	39,284
Total current liabilities		16,054	53,971	64,517	91,644
NON-CURRENT LIABILITIES:					
Financial obligations	12	75,000	252,000	255,975	224,175
Deferred income tax liabilities	25	48,125	161,701	142,466	142,678
Provisions	16	1,530	5,141	6,689	4,987
Total non-current liabilities		124,655	418,842	405,130	371,840
Total liabilities		140,709	472,813	469,647	463,484
EQUITY:					
Issued capital stock	17 (a)	105,214	353,519	353,519	353,519
Legal reserve	17 (b)	21,043	70,704	70,704	95,678
Retained earnings	17 (c)	55,350	185,976	324,883	154,284
Total equity		181,607	610,199	749,106	603,481
TOTAL		322,316	1,083,012	1,218,753	1,066,965

The accompanying notes are an integral part of these consolidated financial statements

ORAZUL ENERGY EGENOR S. EN C. POR A. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
(In thousands of soles S/000)

	Notes	2016 US$000 (Note 2(b))	2016 S/000	2015 S/000	2014 S/000
CONTINUOUS OPERATIONS					
Sale of energy and electrical energy transmission services	18	128,060	430,281	420,652	375,715
Costs of sale of energy and electrical energy transmission services	19	(67,845)	(227,960)	(205,059)	(190,060)
Gross profit		60,215	202,321	215,593	185,655
Administrative expenses	20	(17,153)	(57,634)	(50,402)	(52,067)
Selling expenses	21	(1,404)	(4,718)	(4,881)	(6,227)
Other income	22	16,527	55,531	58,077	46,329
Other expenses		(887)	(2,979)	(5,102)	(4,269)
Financial income		495	1,663	3,419	1,592
Financial expenses	23	(4,671)	(15,693)	(16,047)	(16,119)
Exchange difference (net)	4 (a)	358	1,202	(2,535)	860
Profit before income tax		53,480	179,693	198,122	155,754
Income tax expense	24 (b)	(21,131)	(71,000)	(52,497)	(26,491)
Net profit for the year for continuous operations		32,349	108,693	145,625	129,263
DISCONTINUED OPERATIONS					
Net profit for the year for discontinued operations	10	-	-	-	27,360
Net profit for the year		32,349	108,693	145,625	156,623
Other comprehensive income for the year		-	-	-	-
Total comprehensive income for the year		32,349	108,693	145,625	156,623

The accompanying notes are an integral part of these consolidated financial statements

ORAZUL ENERGY EGENOR S. EN C. POR A. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
(In thousands of soles S/000)

	2016 US$000 (Note 2(b))	2016 S/000	2015 S/000	2014 S/000
ISSUED CAPITAL STOCK (Note 17 (a))				
Balance, beginning of year	105,214	353,519	353,519	538,519
Capital reduction	-	-	-	(185,000)
Balance, end of year	105,214	353,519	353,519	353,519
LEGAL RESERVE (Note 17 (b))				
Balance, beginning of year	21,043	70,704	95,678	95,678
Transfer of legal reserve	-	-	(24,974)	-
Balance, end of year	21,043	70,704	70,704	95,678
RETAINED EARNINGS (Note 17 (c))				
Balance, beginning of year	96,691	324,883	154,284	120,289
Total comprehensive income for the year	32,349	108,693	145,625	156,623
Transfer of legal reserve	-	-	24,974	-
Dividends declared in cash (Note 17 (d))	(73,690)	(247,600)	-	(122,628)
Balance, end of year	55,350	185,976	324,883	154,284
TOTAL EQUITY	181,607	610,199	749,106	603,481

The accompanying notes are an integral part of these consolidated financial statements

ORAZUL ENERGY EGENOR S. EN C. POR A. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
(In thousands of soles S/000)

	2016 US$000 (Note 2(b))	2016 S/000	2015 S/000	2014 S/000
OPERATING ACTIVITIES:				
Collection from:				
Sale of energy and electrical energy transmission services	126,938	426,510	437,883	423,080
Services provided	11,069	37,191	41,382	38,066
Recovery of taxes	1,576	5,294	1,462	-
Interests and returns	307	1,031	730	1,865
Penalties for advance resolutions of contracts	4,994	16,780	-	-
Other operating activities	415	1,396	3,008	487
Payments for/to:				
Suppliers of goods and services	(48,003)	(161,289)	(136,831)	(144,603)
Income tax	(19,524)	(65,599)	(85,346)	(66,498)
Employees and social benefits	(21,659)	(72,774)	(70,646)	(63,713)
Interests	(4,787)	(16,083)	(16,047)	(3,123)
Taxes	(3,253)	(10,929)	(10,552)	(13,691)
Reimbursements to related entities	(1,171)	(3,934)	-	-
Other operating activities	(843)	(2,831)	(2,104)	(2,770)
Net cash and cash equivalents provided by operating activities	46,059	154,763	162,939	169,100
INVESTMENT ACTIVITIES:				
Collection from:				
Sale of property, plant and equipment	106	355	21,217	333,528
Payments for:	-			
Purchase of property, plant and equipment	(4,636)	(15,578)	(17,885)	(11,518)
Purchase of intangible assets	(294)	(989)	(328)	(795)
Loans granted to related entities	(62,180)	(208,924)	-	-
Net cash and cash equivalents (used in) provided by investment activities	(67,004)	(225,136)	3,004	321,215
FINANCING ACTIVITIES:				
Payments for:				
Capital reduction	-	-	-	(185,000)
Dividends	(73,690)	(247,600)	-	(122,628)
Financial obligations	-	-	(856)	(182,681)
Net cash and cash equivalents used in financing activities	(73,690)	(247,600)	(856)	(490,309)
EFFECT OF EXCHANGE DIFFERENCE ON CASH AND CASH EQUIVALENTS	224	752	28,405	15,653
NET (DECREASE) INCREASE OF CASH AND CASH EQUIVALENTS	(94,411)	(317,221)	193,492	15,659
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	103,631	348,199	154,707	139,048
CASH AND CASH EQUIVALENT AT THE END OF THE YEAR	9,220	30,978	348,199	154,707

The accompanying notes are an integral part of these consolidated financial statements

1. INCORPORATION, ECONOMIC ACTIVITY, APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS, MAIN AGREEMENTS, SUBSIDIARY AND OPERATING REGULATIONS

(a) Incorporation

Orazul Energy Egenor S. en C. por A. is a partnership limited by shares (hereinafter, the Company) and a subsidiary of Orazul Energy Peru Holdings S.R.L. which owns 99.97% of voting shares which are representative of its issued capital stock. The Company was incorporated in Peru under the name of Egenor S.A. on January 1, 1997, resulting from the merger of Empresa de Generacion Electrica Nor Peru S.A. (a company owned by the Peruvian government until August 1996) and Power North S.A.

On December 20, 2016, Orazul Energy Peru Holdings S.R.L. (before Duke Energy Peru Holdings S.R.L.)'s shares were acquired indirectly by Orazul Energia Peru S.A.C (ultimate parent Company in Peru of Orazul Energy Peru Holding S.R.L.) and Orazul Energia (España) Holdings S.R.L., which are part of ISQ Global Infraestructure Fund. Since the acquisition date, the Company and subsidiary no longer belong to Duke Energy Corporation Group; due to Orazul Energia Peru S.A.C. obtained the control of the Company.

(b) Economic activity

The Company is engaged in the generation of electrical energy within the area of its concessions and authorizations through its hydroelectric power plants Cañon del Pato and Carhuaquero, and also in the sale of electrical energy to regulated and free customers in the Peruvian territory that are part of the National Interconnected Electrical System (SEIN, for its acronym in Spanish) which the Company participates in.

During 2014, the thermoelectric power plants of Chimbote, Chiclayo, Piura and Trujillo were withdrawn from SEIN since they were not being operated, according to the termination of the generation permits approved by the Economic Operation Committee of the National Interconnected System (COES-SINAC, for its acronym in Spanish) (Note 11 (b)).

The Company's legal domicile, where its administrative offices are located, is Calle Dionisio Derteano 144, Floor 19, San Isidro, Lima, Peru.

(c) Approval of the consolidated financial statements

The consolidated financial statements for the year ended December 31, 2016, prepared under International Financial Reporting Standards, were approved for issuance by the Company's Management on April 14, 2017.

The accompanying consolidated financial statements for the year ended December 31, 2015, prepared under International Financial Reporting Standards, were approved for issuance by the Company's Management on February 10, 2016.

The consolidated financial statements for the year ended December 31, 2014, prepared under International Financial Reporting Standards, were approved for issuance by the Company's Management on February 13, 2015.

Purpose of the consolidated financial statements

These consolidated financial statements were prepared by the Company for the process of issuing and offering of senior guaranteed notes.

(d) Additional Explanation for translation into English of the original consolidated financial statements issued in Spanish

These consolidated financial statements have been translated into English for convenience of the English-speaking readers and have been derived from the financial statements originally issued in Spanish. In the event of discrepancy, the Spanish language version prevails.

These financial statement were originally prepared and presented in accordance with International Financial Reporting Standards ("IFRS") issued by International Accounting Standards Board. The effects of the differences between IFRS and the accounting principles generally accepted in the countries in which the financial statements are to be used have not been quantified.

(e) Main agreements

(i) Operation and maintenance agreement

(i.1) The Company and Aguaytia Energy del Peru S.R.L., a related entity, entered into an agreement whereby the Company provides operation and maintenance services from March 1, 2010, which can be renewed under the express consent of the entities each year (Note 8). The maturity of this agreement is on December 31, 2017.

(i.2) The Company and Termoselva S.R.L., a related entity, entered into an agreement whereby the Company provides operation and maintenance services from September 1, 2014, which can be renewed under the express consent of the parties each year (Note 8). The maturity of this agreement is on December 31, 2017.

(i.3) The Company and Eteselva S.R.L., a related entity, entered into an agreement whereby the Company provides operation and maintenance services from January 1, 2015, which can be renewed under the express consent of the parties each year (Note 8). The maturity of this agreement is on December 31, 2017.

(ii) Agreement for management and other services

The Company and Aguaytia Energy del Peru S.R.L., Termoselva S.R.L. and Eteselva S.R.L., related entities, entered into an agreement for management and other services in February 2009, which can be renewed under the express consent of the parties each year (Note 8). The maturity of this agreement is on December 31, 2017.

(f) Subsidiary

The Subsidiary is the entity in which the Company has the power over the investee; is exposed, or has rights, to variable returns from its involvement with the investee; and has the ability to use its power to affect its returns. This situation is usually observed by controlling the equity interest of more than half of voting shares.

The Subsidiary is entirely consolidated as from the date when their control was effectively transferred to the Company, and will cease to be so when the Company loses such control.

The Subsidiary, as of December 31, 2016, 2015 and 2014, and the percentages of interest owned by the Company are detailed below:

	Direct and indirect Equity interest		
	2016	**2015**	**2014**
	%	**%**	**%**
Etenorte S.R.L.	99.99	99.99	99.99

(i) Incorporation

Etenorte S.R.L. (hereinafter, ETENORTE) was incorporated on November 1, 2006, by the contribution of an equity block comprising assets and liabilities of the Company, related to the transmission of electricity.

(ii) Economic activity

ETENORTE is engaged in the transmission of electrical energy in accordance with Peruvian regulations, through the concession of certain transmission lines in northern Peru. The Company is its main client, which represents approximately 85% of its operating income (82% and 83% in 2015 and 2014).

(iii) Amounts of the financial statements of the consolidated Subsidiary

Certain amounts of the financial statements of the Subsidiary as of December 31, 2016, 2015 and 2014, prepared under International Financial Reporting Standards, before elimination for consolidation purposes, are presented below:

Etenorte S.R.L.	**2016** US$000	**2016** S/000	**2015** S/000	**2014** S/000
Total assets	10,859	36,485	48,665	39,070
Total liabilities	1,465	4,923	6,299	5,095
Equity	9,394	31,562	42,366	33,975
Net profit	1,887	6,339	8,391	7,355
Other comprehensive income	-	-	-	-

(g) Operating regulations and legal standards that affect the electrical sector

Main operating regulations and legal standards of the electrical sector, where the Company and Subsidiary develop their activities are as follows:

- Electrical Concessions Law.

- Law to ensure the efficient development of electrical generation.

- Law that establishes a mechanism to ensure the electricity supply for the regulated market.

- Technical Quality Standard for Electrical Services.

- Anti-monopoly and Anti-oligopoly Law in the Electrical Sector.

- Supervisory Entity of Investment in Energy and Mining.

- Break-even Law for the Budget of the Public Sector for Taxable Period 2014 (Law No. 30115), whose Tenth Supplementary Provision sets out the extension of the effective term of Emergency Decree No. 049-2008 until December 31, 2016 and extended up to October 1, 2017 by sixth article of Law 30513.

- Regulations for Environmental Protection during Electrical Activities (Supreme Decree No. 29-94-EM).

- Promotion of Investments for Electricity Generation by using Renewable Energy.

- Energy Security System in Hydrocarbons and the Energy Social Inclusion Fund (Law No. 29852), and its regulation, Supreme Decree No. 021-2012-EM.

- Supreme Decree No. 026-2016-EM, which establishes the Regulation of the wholesale Electricity Market.

- Law that guarantees energy security and promotes the development of the petrochemical pole southern Peru (Law No. 29970) and its Regulations, Supreme Decree No. 038-2013-EM and Supreme Decree No. 005-2014-EM.

- Law for the Promotion of Investments for Economic Growth and Sustainable Development (Law No. 30327), which establishes the simplification and incorporation of permits and procedures, as well as investment promotion measures.

- Legislative Decree that improves the Regulation of Electricity Distribution in order to promote the access to electrical energy in Peru (Legislative Decree No. 1221), which establishes amendments to the Electrical Concessions Law. It also establishes guidance for the development of Distributed Generation.

- Legislative Decree of the private investment promotion framework through private and public associations and projects (Legislative Decree No. 1224) and its Regulations approved by Supreme Decree No. 410-2015-EF, which establish process and methods to promote private investments for the development of public infrastructure, public services, services related to them, applied research and/or technological innovation projects and execution of asset projects.

The Company and Subsidiary' Management considers that they have complied with applicable standards and regulations and that no contingencies will arise from such compliance.

2. SIGNIFICANT ACCOUNTING POLICIES

Main accounting policies used by the Company and Subsidiary for the preparation and presentation of these consolidated financial statements are presented below:

(a) Statement of compliance and basis of preparation and presentation

The accompanying consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), effective as of December 31, 2016, including the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) and Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC), adopted by the IASB. Historical cost basis was applied for these purposes. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Fair value is the price that would be received when selling an asset, or paid when transferring a liability in an organized transaction between market participants at a measurement date, regardless of the fact that such price is directly observable or considerable through another valuation technique. When estimating the fair value of an asset or liability, the Company and Subsidiary considers the characteristics of such asset or liability in the event that market participants would want to consider them when setting a price at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined over such basis, except for shared-based payemnts (within the scope of IFRS 2), lease transactions (within the scope of IAS 17), and measurements somehow similar to fair value, but not fair value, such as net realizable value in IAS 2, or value in use in IAS 36.

Additionally, for financial reporting purposes, fair value measurements are categorized in three levels: 1, 2 or 3; depending on the degree in which the information for fair value measurements are observable, and their significance to fair value measurement in its entirety, as described below:

Level 1: Input is quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company may access to at the measurement date.

Level 2: Input is different than quoted prices included in Level 1, which are observable for the asset or liability, whether directly or indirectly.

Level 3: Input is not observable for the asset or liability.

(b) Functional and presentation currency

Functional currency

The Company and its Subsidiary prepare and present its consolidated financial statements in Soles, their functional currency determined by Management. The functional currency is the currency of the main economic environment in which an entity operates, which influences the selling prices of traded goods, among other factors.

Presentation currency and unit of currency

These consolidated financial statements have been prepared in Soles, which is the currency of the primary economic environment of Orazul Energy Egenor S. en C. por A. and Subsidiary ("functional currency"). In addition, the consolidated financial statements as of December 31, 2016 have been presented in U.S. dollar, presentation currency, which were prepared by the Company for the process of issuing and offering of senior guaranteed notes. The translations of

Soles amounts into U.S. dollar amounts are included solely for the convenience of readers outside Peru and have been made at the rate of S/3.36 to $1, the rate of exchange as of December 31, 2016 for assest, liabilities, income, expenses and equity accounts. Such translations should not be construed as representations that the Soles amounts could be converted into U.S. dollars at that or any other rate.

(c) Foreign currency transactions

Operations performed in currencies other than the Peruvian soles are considered as “foreign currency transactions”, and are recognized by applying exchange rates effective at the date of transactions. At the end of each reporting period, balances of monetary items denominated in foreign currency are translated at exchange rates effective at that date. Balances of non-monetary items which are recognized in terms of historical cost in foreign currency are translated using exchange rates effective at the date of transactions.

Exchange differences derived from monetary items are recognized in net profit or loss for the period when arisen.

(d) Basis of consolidation

The accompanying consolidated financial statements include the accounts of the Company and of those entities controlled by the Company (Subsidiary), as indicated in Note 1 (f). The Company considers that control of an entity is achieved when the Company has the power to govern their financial and operating policies in order to obtain benefits from their activities.

All intercompany transactions have been eliminated for consolidation. When necessary, adjustments are made to the financial statements of the Subsidiary to bring their accounting policies into line with those used by the controlling Company.

Total comprehensive income of the Subsidiary is attributed to the Company’s partners and to the non-controlling owners of the Subsidiary even in cases when these interests result in a deficit balance.

(e) Financial instruments

Financial instruments are defined as contracts that give rise simultaneously to a financial asset in a company and a financial liability or equity instrument in another company. Financial assets and liabilities are recognized when the Company and Subsidiary becomes part of the contractual agreements of the corresponding instrument.

Financial assets and liabilities are initially recognized at fair value plus transaction costs directly attributable to the acquisition or issue of financial assets and financial liabilities, except for those classified at fair value through profit or loss, which are initially recognized at fair value and whose transaction costs, directly attributable to their acquisition or issue, are immediately recognized in profit or loss for the period.

Financial assets

Conventional purchases or sales of financial assets are recognized and derecognized using the accounting method at the contracting date, in which the following are recognized at such date: a) the asset to be received and the liability to be paid, and b) the derecognition of the asset being sold, the recognition of the possible output of the sale or disposal by other means, and the recognition of an account receivable from the buyer.

Financial assets held by the Company and Subsidiary are classified as loans and receivables. These assets are recorded at amortized cost using the effective interest rate less any accumulated loss for recognized impairment. Income from interests is recognized using the effective interest rate, except for those short-term accounts receivable whose recognition is not considered significant. The Company and Subsidiary does not hold financial assets that require to be classified as: Financial assets at fair value through profit or loss; held-to-maturity investments or available-for-sale financial assets, nor has it carried out transactions during the period when those classifications have been required.

Financial liabilities

Financial liabilities and equity instruments are classified in accordance with the content of contractual arrangements entered into and considering the economic substance of the contract. An equity instrument is any contract that evidences a residual interest in the Company's equity once all its liabilities are deducted.

The financial liabilities held by the Company and Subsidiary are classified as other financial liabilities, and are recorded at amortized cost after initial recognition using the effective interest rate method, recognizing the interest expense throughout the corresponding period.

(f) Inventories

Inventories (supplies and spare parts) are stated at the lower of cost and net realisable value. Net realisable value represents the estimated selling price for inventories less all costs necessary to make the sale. Cost is determined using the weighted-average method. The estimate for obsolescence is recognized for those inventories in poor conditions and is charged to profit or loss in the year when obsolescence is identified.

(g) Property, plant and equipment

Property, plant and equipment are presented at cost, net of accumulated depreciation and any recognized impairment loss. Initial disbursements, as well as those subsequently incurred, related to goods whose cost can be estimated reliably, and it is probable that future economic benefits will be obtained from them, are recognized as property, plant and equipment.

Disbursements for maintenance and repairs are recognized as expenses in the year when incurred. Profits or losses arising from the sale or disposal of an item of property, plant and equipment are determined as the difference between the sales proceed and the carrying amount of the asset, which are recognized in profit or loss for the period when the sale is considered performed.

Important components and spare parts that the Company and Subsidiary expect to use for more than one period and that are related to an item of property, plant and equipment are recognized as such at the date of acquisition.

Work in progress are presented at cost. The cost of these assets in process includes professional fees and other costs, for qualifying assets, borrowing costs. Those assets are subsequently reclassified to their category of property, plant and equipment once the construction or acquisition process is complete and they are ready for their intended use. These assets are depreciated from that moment, similarly to the rest of property, plant and equipment.

Depreciation is determined using the straight-line method on the estimated useful life of property, plant and equipment, represented by equivalent depreciation rates. Annual depreciation is recognized as expense or cost of other asset and is calculated considering the useful lives estimated for the following items:

	Years
Buildings and other constructions	12 – 80
Machinery and equipment	3 – 35
Vehicles	2 – 24
Furniture and fixtures	10 – 16
Sundry equipment	2 – 28

Estimates on useful lives, residual values, if applicable, and depreciation method are reviewed regularly at the end of each reporing period in order to ensure that the depreciation method and period are consistent with the expected pattern of economic benefits of items of property, plant and equipment, prospectively incorporating the effects of any change in these estimates against net profit or loss in the period they are made.

(h) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(i) Assets held for sale

Non-current assets and the disposal group are classified as held for sale if its carrying amount is recovered principally through a sale transaction rather than continuing use. This condition is valid when the sale is highly probable and the non-current asset (or disposal group) is eligible for immediate sale in its present condition. In addition, Management must be committed to a plan to sell the asset, which is expected to be performed within a year from the classification date, which is when the depreciation of these assets is suspended.

Non-current assets (or disposal group) classified as held for sale shall be measured at the lower of its carrying amount and fair value less costs to sell.

(j) Leases

Situations where the Company is the lessee

Operating leases

A lease is classified as an operating lease if the lessor does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset. Payments made under an operating lease including prepayments (net of any incentive received from the lessor) are charged to profit or loss based on the straight line method in the lease term.

Finance leases

A lease is classified as a finance lease if the Company and Subsidiary assume substantially all the risks and rewards incidental to ownership of an underlying asset. The amounts of finance leases are capitalized at the beginning of the lease at the lower value of comparing the fair value of the leased asset and the present value of minimum lease payments.

Each lease installment is distributed between the liability and financial charge in order to obtain a constant rate on the outstanding balance. The obligation for pertinent lease installments, net of financial charges, is include in financial obligations. The component of financial cost is treated as a debt cost and is recognized in profit or loss or is capitalized during the lease term in order to obtain a regular and constant interest rate on the liability balance for each period.

The depreciation of leased assets is calculated using the straight line method according to the useful life of assets on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives. Corresponding obligations are recognized as liabilities.

The useful life, residual value and depreciation method are reviewed at the end of each reporting period. Any change in these estimates will be adjusted prospectively.

(k) Impairment of long-term assets

The Company and Subsidiary regularly review the carrying amounts of its long-lived assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). If it is not possible to estimate the recoverable amount of an individual asset, the Company and Subsidiary estimate the recoverable amount of the cash-generating unit where the asset belongs. If a reasonable and consistent allocation basis is identified, corporate assets are also allocated to individual cash-generating units, or otherwise, to the smallest group of cash-generating units for which a reasonable and consistent allocation basis is identified.

The recoverable amount is the higher of fair value less its cost to sell and value in use. Value in use is determined based on estimated future cash flows which are discounted to their present value, by using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks inherent to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is immediately recognized as expense.

An impairment loss can be subsequently reversed and recorded as income in profit for the period up to the amount in which the increased carrying amount does not exceed the carrying amount that had been determined if an impairment loss had not been recognized for the asset (or cash-generating unit) in previous years.

(l) Provisions

Provisions are recognized only when the Company and Subsidiary have a present obligation (legal or constructive) as a result of a past event, it is probable that the Company and Subsidiary will have to use resources which include economic benefits in order to settle such obligation and the amount of the obligation can be estimated reliably.

The amount recognized as provision reflects the best estimate of the disbursement necessary to settle the current obligation at the date of the consolidated statement of financial position, considering risks and uncertainties surrounding most of the events and circumstances concurrent to its valuation. If the amount of the provision is measured using estimated cash flows to settle the obligation, the carrying amount is the present value of corresponding disbursements.

In case it is expected that a part or the total disbursement necessary to settle the provision may be refunded by a third party, the portion receivable is recognized as an asset when its recovery is virtually certain, and the amount of such portion can be determined reliably.

(m) Contingent liabilities and assets

Contingent liabilities are not recognized in the consolidated financial statements, but are only disclosed in a note unless the possibility of an outflow of resources is remote. When the possibility of an outflow of resources to cover a contingent liability is remote, such disclosure is not required.

Contingent assets are not recognized in the consolidated financial statements, but are only disclosed in a note to the consolidated financial statements when it is probable that an inflow of resources will occur.

Items previously treated as contingent liabilities will be recognized in the consolidated financial statements in the period when a change in probabilities occurs, that is, when it is determined that an outflow of resources is probable to occur to cover such liability. Items previously treated as contingent assets will be recognized in the consolidated financial statements in the period when it is determined that an inflow of resources is virtually certain to occur.

(n) Employee benefits

Employee benefits include, among others, short-term benefits, such as wages, salaries and social security contributions, annual paid leaves, paid sick leaves, and profit-sharing and incentives, if paid within twelve months following the end of the period. These benefits are recognized against profit or loss for the period when the employee has provided services that entitle them to receive those benefits. These obligations are presented as part of the liabilities for employee benefits in the consolidated statement of financial position.

(o) Revenue recognition, costs and expenses

Revenue is measured using the fair value of the consideration, received or receivable, derived therefrom. Such revenue is reduced by estimates such as discounts and other similar concepts.

Provision of services and others

- Revenue from energy and power generation and energy transmission delivered but not billed at the end of each month is billed the following month, but is recognized as revenue based on estimated consumption of customers in the corresponding month.

- Revenue from management, administration and maintenance services are recognized in the month when such services are provided.

- Other revenue is recognized as realized and is recorded in the periods which it relates.

Interests

Revenue from interests is recognized when it is probable that the Company and Subsidiary will receive the economic benefits associated with the transaction and the revenue amount can be measured reliably. Such revenue is accumulated on a regular basis by taking the outstanding principal balance and applicable effective interest rate as a reference.

Costs and expenses

- The cost of generation of electrical energy and energy transmission are recorded in profit or loss of the year when service is provided, simultaneously with revenue recognition. Expenses are recorded in the periods they relate to and are recognized in profit or loss of the year when accrued, regardless of the payment date.

- The payroll cost related to management, administration and mantainance are recognized when accrued.

- Other costs and expenses are recognized when accrued.

(p) Income tax

Income tax expense comprises estimated current income tax payable plus deferred income tax.

Current income tax is determined by applying the tax rate established under effective tax laws on net taxable income of the year.

Deferred income tax corresponds to the tax amount expected to be recovered or paid on temporary differences between reported carrying amounts of assets and liabilities, and their corresponding tax bases. Deferred income tax liabilities are generally recognized for all taxable temporary differences. Deferred income tax assets are generally recognized for all deductible temporary differences and tax credits, discounts and unused tax losses, to the extent that it is probable that the Company and Subsidiary will have sufficient future taxable profit to make them effective. Those assets and liabilities are not recognized if temporary differences proceed from goodwill or initial recognition (except in a business combination) of other assets and liabilities in an operation that does not affect tax or accounting profit/loss.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is not probable that the Company and Subsidiary hold sufficient future taxable profit to recover the entirety, or a part, of those assets.

Deferred income tax assets and liabilities are measured at tax rates expected to be applied when the asset is realized or the liability is settled, based on approved rates and tax laws, or whose approval process is virtually completed at the end of the reporting period. The measurement of such deferred taxes reflects tax consequences that could derive from the manner the Company and Subsidiary expect to recover or settle the carrying amount of its assets and liabilities at the end of the reporting period.

Current and deferred income taxes are recognized as expense or income, and are included in the determination of net profit or loss for the period, except if those taxes relate to items recognized in other comprehensive income or directly in equity, in which case, current or deferred income taxes are also recognized in other comprehensive income or directly in equity, respectively.

(q) Cash and cash equivalents

Cash includes cash on hand and freely available deposits. Cash equivalents comprise short-term financial investments, maturing in less than 90 days as from the acquisition date, are readily convertible into a known cash amount and are not subject to a significant risk of changes in value.

(r) Segment information

Information reported to the chief operating decision maker, who is the CEO, for the purposes of resources allocation and assessment of segment performance. The CEO of the Company have chosen to organize the Company and Subsidiary in a single segment information, and is presented on an entity level basis, due to the Company and its Subsidiary has the same nature of economic activities or class of customers for their services and are subject to the same regulatory environment of the electrical sector. Therefore, the Company and Subsidiary have determined that they operate in a single operating and reportable segment.

The Company and Subsidiary do not provide services to any foreign customers, the total customers are domestics and during 2016, 2015 and 2014, have two external customer which individual sales are higher than 10% of the consolidated sales. The Company and Subsidairy's non-current assets are located in Peru and all sales are generated in Peru.

The measurement of segment profits is based on profit before income tax as presented in the consolidated statements of profit or loss and other comprehensive income.

(s) Criticial accounting judgments and key sources of uncertainty

Responsibility over information and estimations made

The Company and Subisidiary Management is responsible for the information contained in these consolidated financial statements. For the preparation of these consolidated financial statements, certain estimates have been used to quantify some assets, liabilities, revenue, expenses and commitments recorded therein, based on experience and other relevant factors. Final results may differ from those estimates.

These estimates are reviewed on an ongoing basis. Changes in accounting estimates are prospectively recognized by recording the effects of changes in the corresponding profit or loss accounts for the period when corresponding reviews are conducted.

The most important estimates considered for the preparation of the consolidated financial statements of the Company and Subsidiaries refer to:

- Determination of functional currency and record of foreign currency transactions (Note 2 (b) and (c)).
- Estimate for energy and power revenues delivered and not billed (Note 2 (o)).
- Energy and power purchases not billed provision (Note 2 (o)).
- Estimate for electric energy transmission revenues (Note 2 (o)).
- Useful life of property, plant and equipment (Note 2 (g)).
- Impairment losses on especific assets (Note 2 (f), (g), (k)).
- Current and deferred income tax determination (Note 2 (p)).
- Probability of contingencies (Note 2 (m)).

Key sources of uncertainty in estimates

We present the following basic assumptions regarding the future and other key sources of uncertainty in estimates, at the end of the reporting period, which may imply adjustments in the carrying amounts of assets and liabilities during the next financial period.

<u>Non-current assets impairment</u>

In order to review if the assets have suffered an impairment, the Company and Subsidiary compare the carrying amount of the assets with their recoverable value at least annually and whenever there are indications, applying the accounting policy described in Note 2 (k).

The methodology used by the Company and Subsidiary in estimating the recoverable amount of the assets is the value in use calculated from the present value of the expected future cash flows derived from the use of such assets.

The Company's Management has evaluated as a single Cash Generating Unit (CGU) all of its generation plants for the purpose of evaluating the Company's impairment; taking into account the business strategies are defined based on the client portfolio and not on an individual basis of each plant.

<u>Useful life of property, plant and equipment</u>

As described in Note 2(g), the Company and Subsidiary review the estimated useful life of its property, plant and equipment. In 2016, the management determined with its internal specialist that there were no significant changes on regard to the useful life estimate of the assets related to the hidroelectrical plants and transmission lines.The key sources of uncertainty considered for estimation of useful life are expected physical wear and tear and technical or commercial obsolescence arising from changes in use or changes in the demand for assets.

<u>Provisions for litigation and contingencies</u>

The final cost of settlement of claims, claims and litigation may vary due to estimates based on different interpretations of standards, opinions and final assessments of the amount of damages. Therefore, any variation in circumstances related to this type of contingencies could have a significant effect on the amount of the provision for contingencies recorded.

<u>Income tax and liabilities for deferred income tax</u>

The correct valuation of income tax expense depends on several factors, including estimates of the realization of deferred tax assets and liabilities and the accrual of income tax payments. Current collections and payments may differ materially from these estimates as a result of changes in tax rules, as well as unforeseen future transactions impacting the Company's tax balances (Notes 24 and 25).

3. NEW STANDARDS AND INTERPRETATIONS INTERNATIONALLY ISSUED

(a) *New IFRSs, interpretations and modifications to existant standards that did not significantly affect reported amounts and disclosures in current and previous years.*

The following standards, interpretations and amendments to current standards were published with mandatory application for accounting periods beginning on or after January 1, 2016, but were not relevant to the Company and Subsidiary operations:

- ***IFRS 14 Regulatory Deferral Accounts.*** Effective for annual periods beginning on or after January 1, 2016.

  IFRS 14 permits eligible first-time adopters of International Financial Reporting Standards to continue their previous GAAP rate-regulated accounting policies, with limited changes, at the time of initial adoption of IFRSs as well as in subsequent financial statements.

  The application of this IFRS has had no impact on the consolidated financial statements due to this IFRS is not applicable to the operation of the Company and Subsidiary.

- ***Amendments to IFRS 11 Joint Arrangements.*** Effective for annual periods beginning on or after January 1, 2016.

  The amendments to IFRS 11 provide guidance on how to account for the acquisition of an interest in a joint operation in which the activities constitute a business as defined in IFRS 3 *Business Combinations.* Specifically, the amendments state that the relevant principles on accounting for business combinations in IFRS 3 and other standards (e.g. IAS 36 *Impairment of Assets* regarding impairment of a cash-generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

  A joint operator is also required to disclose the relevant information required by IFRS 3 and other standards for business combinations.

  The amendments apply prospectively to acquisitions of interests in joint operations (in which the activities of the joint operations constitute businesses as defined in IFRS 3) occurring from the beginning of annual periods beginning on or after January 1, 2016.

  The application of these amendments has had no impact on the consolidated financial statements as the Company and Subsidiary does not hold joint arrangements.

- ***Amendments to IAS 1 Presentation of Financial Statements.*** Effective for annual periods beginning on or after January 1, 2016.

  The amendments were a response to comments of financial information preparers that there were difficulties in applying the judgment when preparing and presenting information in the financial statements, and included the following changes:

  - Clarification that information should not be obscured by aggregating or by providing immaterial information, materiality considerations apply to all parts of the financial statements, even when some standards require specific disclosures.

  - Clarification that the list of line items to be presented in the financial statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements and the clarification that an entity’s share of other comprehensive income of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether (or not) it will subsequently be reclassified to profit or loss.

- Examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order so far listed in paragraph 114 of IAS 1.

The application of these amendments has had no impact on the consolidated financial statements as the Company and Subsidiary did not have any transactions or information that would need further aggregated or desagrregated disclousures that previously have been considered.

- ***Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization.*** Effective for annual periods beginning on or after January 1, 2016.

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

- When the intangible asset is expressed as a measure of revenue, or
- When it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

As the Company and Subsidiary already use the straight-line method for the depreciation for its property, plant and equipment, the application of these amendments has had no impact on these consolidated financial statements.

- ***Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants.*** Effective for annual periods beginning on or after January 1, 2016.

The amendments to IAS 16 *Property, Plant and Equipment* and IAS 41 *Agriculture* define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with IAS 16, instead of IAS 41. The produce growing on bearer plants continues to be accounted for in accordance with IAS 41. These amendments include the option that bearer plants can be measured using either the cost model or the revaluation model set out in IAS 16.

Management considers that these amendments are not applicable to the Company and Subsidiary since they do not hold biological assets.

- ***Annual Improvements to IFRSs 2012 – 2014 Cycle.*** Effective for annual periods beginning on or after January 1, 2016.

The annual improvements to IFRSs 2012 – 2014 cycle include a number of amendments to various IFRSs, which are summarized below:

The amendments to IFRS 5 introduce specific guidance for when an entity reclassifies an asset (or disposal group) from held for sale to hold for distribution to owners (or vice versa). The amendments clarify that such a change should be considered as a continuation of the original plan of disposal and hence requirements set out in IFRS 5 regarding the change of sale plan do not apply. The amendments also clarify the guidance for when held-for-distribution accounting is discontinued.

The amendments to IFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets.

The amendments to IAS 19 clarify that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The assessment of the depth of a market for high quality corporate bonds should be at the currency level (the same currency as the benefits are to be paid). For currencies for which there is no deep market, the market yields at the end of the reporting period on government bonds denominated in that currency should be used instead.

Management considers that these admenments are not applicable to the Company and Subsidiary due to there were no any such transaction in the current year.

- ***Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception.*** Effective for annual periods beginning on or after January 1, 2016.

  The amendments clarify that the exemption from preparing consolidated financial statements is available to a parent company that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with IFRS 10. The amendments also clarify that the requirement for an investment entity to consolidate a subsidiary providing services related to the former's investment activities applies only to subsidiaries that are not investment entities themselves.

  Management considers these amendments are not applicable to the Company and Subsidiary are not an investment entity and does not have a parent, subsidiary, associate or joint venture classified as an investment entity.

- ***Amendments to IAS 27 Equity Method in Separate Financial Statements.*** Effective for anual periods beginning on or after January 1, 2016

  The amendments on IAS 27 allow to account for investment in subsidiaries, joint ventures and associates in it separates financial statements using the equity method in such statements.

  Management applied in advance the amendments to IAS 27 in its separate financial statements for the period ended December 31, 2014.

(b) New IFRSs and interpretations issued applicable after the date of submission of the consolidated financial statements

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

- ***IFRS 9 Financial Instruments.*** IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013, to include new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include: a) impairment requirements for financial assets, and b) limited changes to the classification and measurement requirements by introducing a "fair value through other comprehensive income" (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9:

- IFRS 9 requires all recognized financial assets within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortized cost or fair value. Specifically, debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interests on the principal outstanding, are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specific dates to cash flows that are solely payments of principal and interests on the principal amount outstanding, are generally measured at fair value through other comprehensive income. All other debt and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, only with dividend income generally recognized in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of such liability is recognized in other comprehensive income, unless the recognition of the changes of credit risk of the liability in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated at fair value through profit or loss is recognized in profit and loss.

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit impairment loss model, as opposed to an incurred credit impairment loss model under IAS 39. The credit impairment loss model requires an entity to account for expected credit losses and changes in those losses at each presentation date of the financial statements to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

- The new general hedge accounting requirements retain three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an "economic relationship". Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Management believes that at the date of the consolidated financial statements it is not practicable to provide a reasonable estimate of the effect of the application of this standard until a detailed review has been completed.

- ***IFRS 15 Revenue from Contracts with Customers.*** Effective for periods beginning on or after January 1, 2018.

  IFRS 15, issued in May 2014, establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations when it becomes effective.

  The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. Specifically, this standard introduces a 5-step approach to revenue recognition:

  Step 1: Identify the contract with a customer.
  Step 2: Identify the performance obligations in the contract.
  Step 3: Determine the transaction price.
  Step 4: Allocate the transaction price to the performance obligations in the contract.
  Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

  Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, that is, when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

  The Company's Management believes that the application of IFRS 15, in the future, have no a material impact on reported amounts and disclosures of the consolidated financial statements of the Company and Subsidiary. However, it is not feasible to provide a reasonable estimate of the impact of IFRS 15 until the Company and Subsidiary conducts a detailed review.

- ***IFRS 16 Leases.*** Effective for annual periods beginning on or after January 1, 2019.

  IFRS 16 establishes how to recognize, measure, present and disclose leases. This standard introduces only one accounting model, and requires lessees to recognize one asset and one liability for all leases provided they are not hired for 12 months or less, or the underlying asset has a less significant value. Lessors will continue classifying leases as operating or financial, with no further changes as they have been doing so under IAS 17.

  As of December 31, 2016, the Company and its Subsidiary have non-cancellable operating lease commitment of US$881 per year for office space. IAS 17 does not require the recognition of any right-of-use or liability for future payments for these leases; instead, certain information is disclosed as operating lease commitment in Note 29. A preliminary assessment indicates that these arrangement may meet the definition of a lease under IFRS 16, and hence the Company and its Subsidiary will not recognize a right-of-use asset and a corresponding liability in respect of all these unless they qualify for short-term leases upon the application of IFRS 16. The new requirement to recognize right-of-use assets and a related liability is expected to have an impact on the amounts recognized in the consolidated financial statements and the Management are currently assessing its potential impact. It is not practicable to provide a reasonable estimate of the financial effect until the directors complete the review.

  In contrast, for finance leases where the Company and its Subsidiary are a lessee, as they already recognize an asset and a related finance lease liability for the lease arrangement, the Management do not anticipate that the application of IFRS 16 will have a significant impact on the amounts recognized in the consolidated financial statements.

- ***IFRIC 22 Foreign Currency Transactions and Advance Consideration.*** Effective for annual periods beginning on or after January 1, 2018.

  The interpretation addresses foreign currency transactions or parts of transactions where:

  - There is consideration that is denominated or priced in a foreign currency;

  - The entity recognizes a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and

  - The prepayment asset or deferred income liability is non-monetary.

  The Interpretations Committee came to the following conclusion:

  - The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability.

  - If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

  Management is evaluating the possible impact that this interpretation will have in the consolidated financial statements.

- ***Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture***. The date of effective application of these amendments has been determined to be indefinite.

  These amendments deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, these amendments state that profits or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, profits and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

  Management believes that the amendments to this standard are not applicable to the Company and Subsidiary since it does not have associates or joint ventures.

- ***Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses.*** Effective for annual periods beginning on or after January 1, 2017.

  This standard amends IAS 12 Income Tax and clarifies the following:

  - Unrealized losses on debt instruments measured at fair value but at cost for tax purposes give rise to deductible temporary differences, regardless of whether the holder of the debt instrument expects to recover the carrying amount of the debt instrument until maturity or by selling it.

- The carrying amount of an asset does not limit the estimation of probable future taxable profits.The estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.

- An entity assesses a deferred tax asset in combination with other deferred tax assets. In circumstances in which local tax law restricts the utilization of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

Management believes that this amendment will not have a material impact on the financial statements since the Company and Subsidiary do not have unrealized losses on debt instruments.

- ***Amendments to IAS 7 Disclosure Initiative.*** Effective for annual periods beginning on or after January 1, 2017.

  These amendments require an entity to provide disclosures that enable users of consolidated financial statements to evaluate changes in liabilities arising from financing activities.

  Management is evaluating the possible impact that amendement will have on the consolidated financial statements.

- ***Clarifications to IFRS 15 Revenue from Contracts with Customers.*** Effective for annual periods beginning on or after January 1, 2018.

  These clarifications deal with three aspects of the standard (identification of performance obligations, principal versus agent considerations, and licenses) and provides a transition guidance for modified and finished contracts.

  Management is evaluating the possible impact that amendement will have on the consolidated financial statements.

- ***Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions.*** Effective for annual periods beginning on or after January 1, 2018.

  These amendments clarify the standard in relation to the accounting for cash-settled share-based payment transactions that include a performance conditions, the classification of share-based payment transactions settled with net of tax withholdings and the accounting for the modification of share-based payment transactions from cash-settled to equity-settled.

  Management believes that this amendment will not have a material impact on the consolidated financial statements since the Company and Subsidiary do not have share-based payment plans.

- ***Amendments to IFRS 4. Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts.*** The overlay approach should be applied when IFRS 9 is used for the first time. The deferral approach should be applicable for annual periods beginning on or after January 1, 2018 and can only be available for three years after such date.

  These amendments provide two options for entities that issue insurance contracts within the scope of IFRS 4:

  - An option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income of expenses arising from designated financial assets (the "overlay approach").

  - An optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4 (the "deferral approach").

  The application of both approaches is optional and an entity is permitted to stop applying them before the new insurance contracts standard is applied.

  Management believes that this amendment will not have a material impact on the consolidated financial statements since the Company and Subsidiary does not issue contracts that can be classified as such within the scope of IFRS 4 Insurance Contracts.

- ***Amendments to IAS 40 Transfers of Investment Property.*** Effective for annual periods beginning on or after January 1, 2018.

  The amendments in IAS 40 Investment Property are:

  - Paragraph 57 has been amended to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use.

  - The list of evidence in paragraph 57(a) – (d) was designated as non-exhaustive list of examples instead of the previous exhaustive list.

  Management believes that this amendment is not applicable to the Company and Subsidiary since it does not have investment property.

- ***Annual Improvements to IFRSs 2014 – 2016 Cycle***

  The annual improvements to IFRSs 2014 – 2016 cycle include a number of amendments to various IFRSs, which are summarized below:

  - IFRS 1 – Deleted the short-term exemptions in paragraphs E3–E7 of IFRS 1, because they have now served their intended purpose.

  - IFRS 12 – Clarified the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10–B16, apply to an entity's interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

- IAS 28 – Clarified that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after January 1, 2018. The amendments to IFRS 12 are effective for annual periods beginning on or after January 1, 2017.

Management believes that the amendments to these standards are not applicable to the Company and Subsidiary since do not execute those types of operations.

4. FINANCIAL INSTRUMENTS AND FINANCIAL RISK

Categories of financial instruments

The financial assets and liabilities of the Company and Subsidiary comprise the following:

	2016	2016	2015	2014
	US$000 (Note 2(b))	**S/ 000**	**S/ 000**	**S/ 000**
Financial assets:				
Loans and receivable (including cash and cash equivalents)				
Cash and cash equivalents	9,220	30,978	348,199	154,707
Trade accounts receivable (net)	12,105	40,674	38,256	51,411
Other accounts receivable	415	1,394	1,752	808
Accounts receivable from related entities	63,334	212,805	3,103	5,922
Total	85,074	285,851	391,310	212,848
Financial liabilities:				
At amortized cost				
Financial obligations	76,233	256,144	260,185	228,698
Trade accounts payable	6,043	20,304	19,894	16,207
Other accounts payable	170	571	1,908	2,219
Accounts payable to related entities	86	316	3,934	165
Total	82,532	277,335	285,921	247,289

Financial risks

The Company and Subsidiary are constantly exposed to credit, liquidity and market risks, which arise from the variation of exchange and interest rates. These risks are concentrated on electrical energy markets and are managed through specific policies and procedures established by the Financial Management. The Financial Management area is in charge of dealing with risks, and identifies, evaluates and covers financial risks.

(a) Market risk

(i) Exchange rate risk

The Company and Subsidiary mainly bill in Peruvian soles. The exchange rate risk in the Company and Subsidiary mainly arises from cash and cash equivalents, accounts receivable from related entities and from financial obligations held in foreing currency. The Company and Subsidiary do not use derivative financial instruments to cover its exposure to exchange rate risk.

The carrying amount of monetary assets and liabilities in foreign currency as of December 31, 2016, 2015 and 2014, reflected according to the basis of accounting described in Note 2 (c) to the consolidated financial statements, is presented below:

	2016	2015	2014
	US$000	US$000	US$000
Assets:			
Cash and cash equivalents	7,546	94,227	45,793
Other accounts receivable	116	40	89
Accounts receivable from related entities	63,389	821	1,943
Total	71,051	95,088	47,825
Liabilities:			
Financial obligations	76,233	76,234	76,513
Trade accounts payable	979	1,043	1,060
Other accounts payable	99	184	112
Accounts payable to related entities	-	1,065	15
Total	77,311	78,526	77,700
(Lliabilty)/Asset position (net)	(6,260)	16,562	(29,875)

The balances of financial assets and liabilities in foreign currency correspond to balances in U.S. dollars and are expressed in Peruvian soles at the supply and demand exchange rates published by Superintendencia de Banca, Seguros y AFP – SBS (Superintendence of Banking, Insurance and Private Pension Fund Administrators), effective at those dates, which were S/3.360 for selling and S/3.352 for buying (S/3.413 for selling and S/3.408 for buying as of December 31, 2015; S/2.989 for selling and S/2.981 for buying as of December 31, 2014) per US$1.00.

As of December 31, 2016, the Company and Subsidiary recorded foreign exchange profit for S/75,460 (equivalent to US$22,345) (S/69,046 in 2015 and S/43,131 in 2014) and foreign exchange losses for S/74,258 (equivalent to US$21,987) (S/71,581 in 2015 and S/42,271 in 2014), whose net amount is included in item exchange difference, net in the consolidated statement of profit or loss and other comprehensive income.

Management considers a sensitivity rate of 10% as reasonable in the evaluation of exchange rate risk. A sensitivity analysis assuming the revaluation/devaluation of the Peruvian Soles (S/), equivalent at the aforementioned rates, exclusively on balances of monetary assets and liabilities reflected above, is detailed in the following table:

	Increase (decrease in): Exchange rate	Effect on profit (loss) before income tax and equity
	%	S/000
2016:		
US$ / Soles	+10%	(2,160)
US$ / Soles	-10%	2,160
2015:		
US$ / Soles	+10%	5,644
US$ / Soles	-10%	(5,644)
2014:		
US$ / Soles	+10%	(8,930)
US$ / Soles	-10%	8,930

(ii) Interest rate risk

The Company and Subsidiary have financial assets related to loans granted to related entities that accrue interests at fix rate. Sales and operating cash flows of the Company and Subsidiary are independent of changes in market interest rates.

The policy of the Company and Subsidiary is to maintain borrowings at fixed interest rates. In this regard, short and long-term debts at fixed rates represent all total financial debt as of December 31, 2016, 2015 and 2014; therefore, any change in interest rates would not adversely affect profit or loss of the Company and Subsidiary.

(b) Credit risk

Credit risk refers to the event that the other party fails to meet their contractual obligations, which causes a financial loss for the Company and Subsidiary. Financial instruments that partially expose the Company and Subsidiary to credit risk concentrations mainly comprise cash and cash equivalents and trade accounts receivable.

Management considers that this risk is mitigated since trade accounts receivable are concentrated on highly renowned entities in the international market and the policy of the Company and Subsidiary to continuously assess the credit records of customers as well as their financial conditions to meet their obligations.

Regarding deposits in banks, the Company and Subsidiary place their liquidity excess in renowned financial institutions, establish conservative credit policies and constantly evaluate existing conditions in the market they operate. As a result, the Company and Subsidiary do not estimate significant losses arising from this risk.

(c) Liquidity risk

Management is mainly responsible for dealing with liquidity risk for which it has established policies and procedures regarding short, medium and long term debts. The Company and Subsidiary manage liquidity risk by monitoring their cash flows and the maturities of their financial assets and liabilities.

The contractual maturity of non-derivative financial assets is current as of December 31, 2016, 2015 and 2014; except for the loan granted to related entities during 2016 which maturity date is in 2026.

The analysis of financial liabilities, including interest payable of the Company and Subsidiary, classified per maturity, considering the remaining period to reach such maturity at the date of the consolidated statement of financial position, is presented below:

(Note 2(b))	Less than 1 year US$000	Between 1 and 2 years US$000	Between 2 and 5 years US$000	More than 5 years US$000	Total US$000
2016:					
Financial obligations	4,556	4,556	13,669	91,969	114,750
Trade accounts payable	6,043	-	-	-	6,043
Other accounts payable	170	-	-	-	170
Accounts payable to related entities	86	-	-	-	86
Total	10,855	4,556	13,669	91,969	121,049

	Less than 1 year S/000	Between 1 and 2 years S/000	Between 2 and 5 years S/000	More than 5 years S/000	Total S/000
2016:					
Financial obligations	15,309	15,309	45,927	309,015	385,560
Trade accounts payable	20,304	-	-	-	20,304
Other accounts payable	571	-	-	-	571
Accounts payable to related entities	316	-	-	-	316
Total	36,500	15,309	45,927	309,015	406,751

	Less than 1 year S/000	Between 1 and 2 years S/000	Between 2 and 5 years S/000	More than 5 years S/000	Total S/000
2015:					
Financial obligations	15,550	15,550	46,651	329,440	407,191
Trade accounts payable	19,894	-	-	-	19,894
Other accounts payable	1,908	-	-	-	1,908
Accounts payable to related entities	3,934	-	-	-	3,934
Total	41,286	15,550	46,651	329,440	432,927
2014:					
Financial obligations	13,619	13,619	40,856	302,132	370,226
Trade accounts payable	16,207	-	-	-	16,207
Other accounts payable	2,219	-	-	-	2,219
Accounts payable to related entities	165	-	-	-	165
Total	32,210	13,619	40,856	302,132	388,817

Management handles the risk associated with the amounts included in each one of the categories mentioned above, which include maintaining good credit history with local banks in order to ensure sufficient credit lines and also pay its working capital with cash flows provided by its operations.

(d) Capital risk management

The objectives of the Company and Subsidiary, when managing capital, are to safeguard their ability to continue as going concern in order to generate returns to its partners and other interest groups.

The capital structure of the Company and Subsidiary comprises net debt (financial obligations less cash and cash equivalents) and consolidated equity.

The net debt ratio comprises the following:

	2016 US$000 (Note 2(b))	2016 S/000	2015 S/000	2014 S/000
Financial obligations	76,233	256,144	260,185	228,698
Cash and cash equivalents	(9,220)	(30,978)	(348,199)	(154,707)
Total net debt	67,013	225,166	(88,014)	73,991
Total equity	181,607	610,199	749,106	603,481
Net debt ratio	0.37	0.37	(0.12)	0.12

(e) Fair value of financial instruments

Fair value is defined as the amount for which a financial instrument could be exchanged in a transaction between two willing parties, which should not be a forced sale or settlement, and the best evidence of its value is its price, if any.

As of December 31, 2016, 2015 and 2014, Management of the Company and Subsidiary considers that the accounting values of their financial instruments are similar to their fair values estimated in the market, based on methodologies and assumptions indicated below:

- The item cash and cash equivalents does not represent a significant credit or interest rate risk, so it has been assumed that the carrying amount is similar to fair value.

- Accounts receivable and payable mature, except for the non-current account receivable with related entity, in less than one year, so it has been considered that their fair value is not significantly different than their carrying amount. The Company's management considers that the carrying amount of the non-current account receivable with related entity approximate their fair value, since the receivable accrued an interest rate that is similar to market interest.

- In case of long-term financial obligations of the Company, as of December 31, 2016, the fair value of long-term financial obligations is S/264,429 (equivalent to US$78,699) (S/246,330 in 2015 and S/231,075 in 2014). For the calculation of such fair value, Management has projected each long-term debt according to the terms and conditions established at the contracting date and has discounted them at interest rates obtained from the Superintendence of Banking and Insurance, current in the market. Market rates have been obtained through bank quotations received by the Company. This fair value is classified as Level 2 since the measurement corresponds to variables that are based on observable market data, either directly or indirectly, other than quoted prices included in Level 1.

- Management considers that the fair values of other financial liabilities are similar to their carrying amount due to their short-term maturity.

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the following:

	2016 US$000 (Note 2(b))	2016 S/000	2015 S/000	2014 S/000
Cash on hands and banks (a)	9,220	30,978	294,407	154,707
Time deposits (b)	-	-	53,792	-
Total	9,220	30,978	348,199	154,707

(a) Cash on hands and banks mainly comprise checking accounts and correspond to balances held in local and foreign banks, in Peruvian soles and U.S. dollars, and are freely available.

(b) As of December 31, 2016, time deposits correspond to funds held by the Company and Subsidiary in local banks, in Peruvian soles and U.S. dollars, which mature in between 6 and 8 days and accrue interests at an annual rate of 4.05% for deposits in soles and 0.20% in U.S. dollars.

6. TRADE ACCOUNTS RECEIVABLE (NET)

Trade accounts receivable (net) comprise the following:

	2016 US$000 (Note 2(b))	2016 S/000	2015 S/000	2014 S/000
Energy and power delivered not billed	10,044	33,749	38,173	34,737
Invoices	2,565	8,619	1,776	19,479
Estimate for services provided not billed	74	247	248	293
Total	12,683	42,615	40,197	54,509
Impairment estimate	(578)	(1,941)	(1,941)	(3,098)
Total	12,105	40,674	38,256	51,411

The average credit period granted to customers of the Company and Subsidiary ranges between 7 and 15 days and between 30 and 60 days, respectively.

Once the terms indicated above expire, overdue balances accrue interests. The interest is determined by the annual average of the active and passive rate of the local and foreign currency. As of December 31, 2016, the annual average rate for the Company and Subsidiary are 10.31% and 3.90% for local and foreign currency, respectively (9.34% and 4.11% as of December 31, 2015 for local and foreign currency, respectively ;9.26% and 3.98% as of December 31, 2014 for local and foreign currency, respectively.)

As of December 31, 2016, the Company and Subsidiary hold accounts receivable within their maturity terms for S/33,409 (equivalent to US$9,943) (S/37,223 as of December 31, 2015 and S/51,274 as of December 31, 2014).

As of December 31, 2016, the Company and Subsidiary hold trade accounts receivable overdue but not impaired trade accounts receivable for S/7,265 (equivalent to US$2,162) (S/1,033 as of December 31, 2015 and S/137 as of December 31, 2014), for which no impairment estimate of accounts receivable has been determined since their credit quality has not varied significantly, and Management of the Company and Subsidiary considers that those amounts are still recoverable.

The aging of these balances is summarized as follows:

	2016	2016	2015	2014
	US$000 (Note 2(b))	S/000	S/000	S/000
Overdue for up to 30 days	2,154	7,237	1,032	62
Overdue between 31 and 90 days	8	28	1	75
Total	2,162	7,265	1,033	137

Energy and power delivered not billed

Energy and power delivered but not billed corresponds to the consideration for power and energy that the Economic Operation Committee of the National Interconnected System (COES-SINAC) monthly allocates to each generator and communicates to be billed to other generators or distributors, members of SINAC. Such energy and power basically corresponds to sales performed in December.

As of December 31, 2016, estimated energy delivered but not billed includes the amount of S/1,597 (equivalent to US$475) (S/1,594 as of December 31, 2015 and S/1,996 as of December 31, 2014) corresponding to consumptions of power and energy of customers (distribution companies) without contracts, under the scope of Law No. 29179 and Emergency Decree No. 049-2008, according to Note 1 (g) of the consolidated financial statements.

Energy and power delivered but not billed as of December 31, 2016, 2015 and 2014 was billed and collected substantially in January 2017, January 2016 and January 2015, respectively, except the impaired estimate amount, with no significant changes.

Impairment estimate of accounts receivable

The movement of the impairment estimate of accounts was as follows:

	2016	2016	2015	2014
	US$000 (Note 2(b))	S/000	S/000	S/000
Opening balance	578	1,941	3,098	4,397
Additions (Note 20)	-	-	(1,157)	(1,299)
Closing balance	578	1,941	1,941	3,098

The impairment estimate of accounts receivable is determined according to policies established by Management. This estimate is recognized considering, among other factors, uncollected balances for more than 90 days, the possibilities to be collected, and the evidence of financial difficulties of the debtor that will increase, beyond normal, the uncollectible risk of uncollected balances, so that its amount has a level that Management estimates appropriate to cover possible losses in accounts receivable at the date of the consolidated statement of financial position. The estimate amount is recognized against profit or loss of the year. Subsequent collections are recognized against profit or loss of the year. Basic criteria to derecognize impaired financial assets against such valuation account are: (i) depletion of the collection process, including enforcement of guarantees, and (ii) the debtor’s financial difficulties that evidence the inability to enforce the collection of accounts receivable.

The aging of accounts receivable and the status of customers are constantly monitored to ensure the appropriateness of the estimate in the consolidated financial statements. As a result, Management considers that the impairment estimate of accounts receivable covers sufficiently the risk of loss of doubtful accounts as of December 31, 2016, 2015 and 2014.

7. OTHER ACCOUNTS RECEIVABLE

Other accounts receivable comprise the following:

	Current				Non Current			
	2016	2016	2015	2014	2016	2016	2015	2014
	US$000 (Note 2(b))	S/000	S/000	S/000	US$ (Note 2(b))	S/000	S/000	S/000
Financial assets:								
Claims to COES	139	467	378	257	-	-	-	-
Interests	-	-	40	-	-	-	-	-
Sundry items	276	927	1,334	551	-	-	-	-
Sub total	415	1,394	1,752	808	-	-	-	-
Non-financial assets:								
Recovery of income tax from previous years (a)	-	-	5,294	-	-	-	-	-
Credit for temporary tax on net assets - ITAN (b)	-	-	-	-	-	-	-	1,841
Claims to SUNAT	-	-	-	-	409	1,377	1,377	1,377
Total	415	1,394	7,046	808	409	1,377	1,377	3,218

(a) As of December 31, 2015, this item corresponds to the reimbursement granted by the Tax Administration of the higher overpayment of income tax of 2003 and 2002 for S/4,221 and S/1,073, respectively, in relation to the deduction of maintenance expenses of slope for the additional water intake of Hydroelectric Power Plant Cañon del Pato. On February 12 and January 15, 2016, the Tax Administration approved and paid the reimbursement of the overpayment of S/2,383 and S/548, respectively and interests of S/2,155 and S/545, respectively, which are presented in item financial income in the consolidated statement of profit or loss and other comprehefnsive income.

(b) As of December 31, 2014, this item corresponded to ITAN balances paid for years 2009 and 2011. On March 2015, by virtue of Administrative Resolution No. 012-180-0007983, the Tax Administration approved the reimbursement for the amount of S/1,462 and interests of S/160, in relation to ITAN 2009. ITAN 2011 for S/379 was included in other financial expenses of the consolidated statement of profit or loss and other comprehensive income.

8. BALANCES AND TRANSACTIONS WITH RELATED ENTITIES

The parent Company of the Company and Subsidiary is Orazul Energy Peru Holding S.R.L., which belonged to the group of Duke Energy Corporation (United States of America) until December 20, 2016.

As described in Note 1(a), from December 20, 2016 and on, the Company and Subsidiary belongs to ISQ Global Infrastructure Fund Group (United States of America).

During 2016, 2015 and 2014, the Company and Subsidiary performed the following significant transactions with related entities in the normal course of operations:

	Sales			Others			
2016	**Sale of active and reactive electrical energy**	**Management and administrative services**	**Operation and maintenance services**	**Energy transmission services**	**Reimbursement of expenses**	**Dividends paid**	**Loans**
(Note 2(b))	**US$000**	**US$000 (Note 22)**	**US$000 (Note 22)**	**US$000**	**US$000**	**US$000**	**US$000**
Orazul Energy Peru Holdings S.R.L. (a)	-	-	-	-	-	73,690	-
Aguaytía Energy del Perú S.R.L. (b)	-	2,314	4,149	-	-	-	10,974
Termoselva S.R.L. (b)	355	1,648	1,390	16	-	-	3,990
Eteselva S.R.L. (b)	-	824	876	123	-	-	998
Orazul Energia Perú S.A.C. (c)	-	-	-	-	-	-	46,218
Total	355	4,786	6,415	139	-	73,690	62,180

	Sales			Others			
2016	**Sale of active and reactive electrical energy**	**Management and administrative services**	**Operation and maintenance services**	**Energy transmission services**	**Reimbursement of expenses**	**Dividends paid**	**Loans**
	S/.000	**S/.000 (Note 22)**	**S/.000 (Note 22)**	**S/.000**	**S/.000**	**S/.000**	**S/.000**
Orazul Energy Peru Holdings S.R.L. (a)	-	-	-	-	-	247,600	-
Aguaytía Energy del Perú S.R.L. (b)	-	7,776	13,941	-	-	-	36,872
Termoselva S.R.L. (b)	1,196	5,538	4,670	53	-	-	13,408
Eteselva S.R.L. (b)	-	2,768	2,945	413	-	-	3,352
Orazul Energia Perú S.A.C. (c)	-		-	-	-	-	155,292
Total	1,196	16,082	21,556	466	-	247,600	208,924

	Sales			Others			
2015	**Sale of active and reactive electrical energy**	**Management and administrative services**	**Operation and maintenance services**	**Energy transmission services**	**Reimbursement of expenses**	**Dividends paid**	**Loans**
	S/.000	**S/.000 (Note 22)**	**S/.000 (Note 22)**	**S/.000**	**S/.000**	**S/.000**	**S/.000**
Orazul Energy Peru Holdings S.R.L. (a)	-	11	-	-	-	-	-
Aguaytía Energy del Perú S.R.L. (b)	-	7,509	12,669	-	-	-	-
Termoselva S.R.L. (b)	1,070	5,463	4,434	43	-	-	-
Eteselva S.R.L. (b)	-	2,398	600	39	-	-	-
Others related entities	-	13	-	-	-	-	-
Total	1,070	15,394	17,703	82	-	-	-

	Sales			Others			
2014	**Sale of active and reactive electrical energy**	**Management and administrative services**	**Operation and maintenance services**	**Energy transmission services**	**Reimbursement of expenses**	**Dividends paid**	**Loans**
	S/.000	**S/.000 (Note 22)**	**S/.000 (Note 22)**	**S/.000**	**S/.000**	**S/.000**	**S/.000**
Orazul Energy Peru Holdings S.R.L. (a)	-	13	-	-	-	122,587	-
Aguaytía Energy del Perú S.R.L. (b)	-	6,736	14,278	-	-	-	-
Termoselva S.R.L. (b)	8,634	5,068	2,156	21	-	-	-
Eteselva S.R.L. (b)	-	2,224	-	886	-	-	-
Others related entities	-	10	-	-	(20)	41	-
Total	8,634	14,051	16,434	907	(20)	122,628	-

(a) Parent company
(b) Related entity
(c) Peruvian ultimate parent

These transactions, and other less relevant, resulted in the following balances receivable from and payable to the related entity:

	Relationship	2016 US$000 (Note 2(b))	2016 S/000	2015 S/000	2014 S/000
Non-trade accounts receivable:					
Aguaytía Energy del Perú S.R.L. (a)	Related entity	598	2,010	-	2,250
Duke Energy International LLC	Related entity	-	-	367	993
Termoselva S.R.L. (a)	Related entity	15	51	305	1,292
Eteselva S.R.L. (a)	Related entity	-	-	699	279
Duke Energy International Chile Holding II B.V.S.C.A.	Related entity	-	-	150	132
Duke Energy International Duqueco S.P.A.	Related entity	532	1,788	1,404	758
Duke Energy Corporated	Related entity	-	-	117	102
Orazul Energy Perú Holdings S.R.L.	Parent Company	-	-	36	90
Duke Energy International Argentina S.A.	Related entity	5	17	-	9
Other related entities	Related entity	-	-	25	17
Sub total		1,150	3,866	3,103	5,922
Loans granted - current portion					
Aguaytía Energy del Perú S.R.L. (c)	Related entity			-	-
Capital		10,974	36,872	-	-
Interests		22	73	-	-
Termoselva S.R.L. (c)	Related entity			-	-
Capital		3,990	13,408	-	-
Interests		8	27	-	-
Eteselva S.R.L. (c)	Related entity			-	-
Capital		998	3,352	-	-
Interests		2	7	-	-
Sub total		15,994	53,739	-	-
Total		17,144	57,605	3,103	5,922
Loans granted - non-current portion					
Orazul Energía Perú S.A.C. (b)	Related entity	46,190	155,200	-	-
Capital		46,104	154,910	-	-
Interests		86	290	-	-
Total		46,190	155,200	-	-
Non-trade payable accounts:					
Duke Energy International LLC.	Related entity	-	-	-	112
Gas Integral S.R.L.	Related entity	-	-	-	53
Eteselva S.R.L. (a)	Related entity	-	-	-	-
Termoselva S.R.L. (a)	Related entity	86	289	2,375	-
Aguaytía Energy del Perú S.R.L.	Related entity	-	27	1,559	-
Total		86	316	3,934	165

(a) As of December 31, 2016, 2015 and 2014, this item corresponds to the outstanding balance for administration, operation and mantainance services (Note 1).

(b) As of December 31, 2016, corresponds to non-current loan with Orazul Energia Peru S.A.C. The loan matures on December 2026 and accrue a 5% interest per year; accrued interests and the loan will be paid at maturity.

(c) Correspond to current term loans to related entities, which matures between May and December 2017. This loans accrue an interest on a 2.2% rate per year.

Remunerations to key personnel

Remunerations paid to key personnel who have the authority and responsibility of planning, managing and controlling the activities of the Company, whether directly or indirectly, amounted to S/7,963 (equivalent to US$2,370); S/8,831 and S/6,610 in 2016, 2015 and 2014, respectively.

9. INVENTORIES (NET)

Inventories (net) comprise the following:

	2016 US$000 (Note 2(b))	2016 S/000	2015 S/000	2014 S/000
Supplies and spare parts	1,864	6,263	6,755	7,629
Fuel and lubricants	99	332	372	2,594
	1,963	6,595	7,127	10,223
Obsolescence estimate	(656)	(2,203)	(2,018)	(3,484)
Total	1,307	4,392	5,109	6,739

The movement of the obsolescence estimate of inventories was as follows:

	2016 US$000 (Note 2(b))	2016 S/000	2015 S/000	2014 S/000
Opening balance	601	2,018	3,484	743
Increase (Note 19)	170	571	118	2,770
Recovery (Note 19)	(115)	(386)	(1,584)	(29)
Closing balance	656	2,203	2,018	3,484

The obsolescence estimate of inventories was determined based on external technical reports. Management believes that this estimate covers the obsolescence risk appropriately as of December 31, 2016, 2015 and 2014.

10. DISCONTINUED OPERATIONS

As of December 31, 2013, the Company held the assets of the Thermoelectric Power Plant Las Flores (the “plant”) as assets held for sale, whose carrying amount at such date net of accumulated depreciation was of S/290,191. On November 29, 2013, the Company entered into a Purchase Framework Agreement with Kallpa Generacion S.A. (“Kallpa”) and classified the assets associated with the plant as assets held for sale. For the actual transfer of the plant, the purchase contract stablished some requirements which were accomplished between February and March 2014; sales was fully closed on April 1, 2014.

Also, the Company paid the balance agreed upon in the finance lease agreement signed in prior years for the construction of the plant for S/169,408 (equivalent to US$56,677) some days before the sale of the plant to Kallpa was fully closed.

As result of the sale, the Company derecognized the net carrying value of plant for S/290,191, resulting a net income of S/30,035.

The income and expenses classified as net profit of the year for discontinued operations in the consolidated statement of profit or loss and other comprehensive income for the year ended December 31, 2014 is presented below:

	Jan-Mar 2014
	S/000
Sale of energy	14,410
Sale of power	8,014
Total sales	22,424
Costs of fuel and lubricants	(10,216)
Others	(951)
Total cost of sales	(11,167)
Financial expenses	(2,206)
Profit for the sale of the Plant	30,035
Profit before income tax	39,086
Income tax expense (Note 24 (b) (ii))	(11,726)
Net profit of the year for discontinued operations	27,360

The statement of cash flows for discontinued operations is presented below:

	Jan-Mar 2014
	S/000
OPERATING ACTIVITIES:	
Collections and payments from/for:	
Sale of electrical energy	22,424
Goods and services provided by suppliers	(10,216)
Value-Added Tax	(30,493)
Interests	(2,206)
Other operating activities	(951)
Net cash and cash equivalents used in operating activities	(21,442)
INVESTMENT ACTIVITIES:	
Collection from:	
Sale of property, plant and equipment	320,226
Cash and cash equivalents provided by investment activities	320,226
FINANCING ACTIVITIES:	
Payments for:	
Financial obligations	(169,408)
Cash and cash equivalents used in financing activities	(169,408)

11. PROPERTY, PLANT AND EQUIPMENT (NET)

The movement in the cost, accumulated depreciation and impairment loss of property, plant and equipment (net) during 2016, 2015 and 2014 was as follows:

	Land	Buildings and other constructions	Machinery and equipment	Vehicles	Furniture and fixtures	Sundry equipment	Cost for disposal of assets	Constructions in process	Total
	S/000	S/000	S/000	S/000	S/000	S/000	S/000	S/000	S/000
COST:									
As of January 1, 2014	10,461	1,144,142	814,300	8,388	4,220	46,369	165	7,655	2,035,700
Additions	-	-	-	-	-	-	-	11,518	11,518
Sales	(597)	(3,146)	(13,440)	(258)	(47)	(315)	(30)	-	(17,833)
Transfers	-	4,466	280	3,101	6	4,638	-	(12,491)	-
As of December 31, 2014	9,864	1,145,462	801,140	11,231	4,179	50,692	135	6,682	2,029,385
Additions	-	-	-	-	-	-	-	17,885	17,885
Sales	(395)	(8,749)	(567)	(1,929)	(440)	(2,144)	-	-	(14,224)
Transfers	-	6,562	2,963	1,121	20	4,194	-	(14,860)	-
As of December 31, 2015	9,469	1,143,275	803,536	10,423	3,759	52,742	135	9,707	2,033,046
Additions	-	-	-	-	-	-	-	15,581	15,581
Sales	-	(2,071)	(48,328)	(300)	(136)	(1,098)	-	-	(51,933)
Transfers	-	6,071	5,065	789	5	6,909	-	(18,839)	-
As of December 31, 2016	9,469	1,147,275	760,273	10,912	3,628	58,553	135	6,449	1,996,694
ACCUMULATED DEPRECIATION:									
As of January 1, 2014	-	524,300	557,170	6,956	2,770	36,329	128	-	1,127,653
Additions	-	20,037	18,148	789	177	2,655	4	-	41,810
Sales and disposals	-	(1,640)	(11,170)	(258)	(46)	(291)	(5)	-	(13,410)
As of December 31, 2014	-	542,697	564,148	7,487	2,901	38,693	127	-	1,156,053
Additions	-	18,934	18,413	1,187	162	2,865	8	-	41,569
Sales and disposals	-	(4,937)	(401)	(1,929)	(379)	(2,063)	-	-	(9,709)
As of December 31, 2015	-	556,694	582,160	6,745	2,684	39,495	135	-	1,187,913
Additions	-	19,510	18,525	1,432	160	3,693	-	-	43,320
Sales and disposals	-	(1,194)	(38,468)	(282)	(120)	(997)	-	-	(41,061)
As of December 31, 2016	-	575,010	562,217	7,895	2,724	42,191	135	-	1,190,172
IMPAIRMENT LOSS:									
As of January 1, 2014	14	2,787	30,019	3	5	113	-	-	32,941
Recovery	-	-	(2,078)	-	-	-	-	-	(2,078)
As of December 31, 2014	14	2,787	27,941	3	5	113	-	-	30,863
Recovery	(14)	-	-	-	-	-	-	-	(14)
As of December 31, 2015	-	2,787	27,941	3	5	113	-	-	30,849
Recovery		-	(10,027)		-	-	-	-	(10,027)
As of December 31, 2016	-	2,787	17,914	3	5	113	-	-	20,822
NET COST:									
Total as of December 31, 2016	9,469	569,478	180,142	3,014	899	16,249	-	6,449	785,700
Total as of December 31, 2015	9,469	583,794	193,435	3,675	1,070	13,134	-	9,707	814,284
Total as of December 31, 2014	9,850	599,978	209,051	3,741	1,273	11,886	8	6,682	842,469

	Land	Buildings and other constructions	Machinery and equipment	Vehicles	Furniture and fixtures	Sundry equipment	Cost for disposal of assets	Constructions in process	Total
	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000
COST (Nota 2(b)):									
As of December 31, 2015	2,818	340,260	239,148	3,102	1,119	15,697	40	2,889	605,073
Additions	-	-	-	-	-	-	-	4,637	4,637
Sales	-	(616)	(14,383)	(89)	(40)	(327)	-	-	(15,455)
Transfers	-	1,807	1,507	235	1	2,056	-	(5,606)	-
As of December 31, 2016	2,818	341,451	226,272	3,248	1,080	17,426	40	1,920	594,255
ACCUMULATED DEPRECIATION (Nota 2(b)):									
As of December 31, 2015	-	165,684	173,263	2,007	799	11,754	40	-	353,547
Additions	-	5,807	5,513	426	48	1,099	-	-	12,893
Sales and disposals	-	(355)	(11,449)	(84)	(36)	(297)	-	-	(12,221)
As of December 31, 2016	-	171,136	167,327	2,349	811	12,556	40	-	354,219
IMPAIRMENT LOSS (Nota 2(b)):									
As of December 31, 2015	-	829	8,316	1	1	34	-	-	9,181
Recovery	-	-	(2,984)	-	-	-	-	-	(2,984)
As of December 31, 2016	-	829	5,332	1	1	34	-	-	6,197
Total as of December 31, 2016	2,818	169,486	53,613	898	268	4,836	-	1,920	233,839

The expense for depreciation of the period of property, plant and equipment for the year ended December 31 have been recorded in the following items in the consolidated statement of profit or loss and other comprehensive income:

	2016 US$000 (Note 2(b))	2016 S/000	2015 S/000	2014 S/000
Costs of sale of electrical energy (Note 19)	12,637	42,459	40,406	40,598
Administrative expenses (Note 20)	256	861	1,163	1,212
Total	12,893	43,320	41,569	41,810

(a) Relevant sales of property, plant and equipment correspond to the following:

- In 2016: (i) machinery and equipment sale, related to Thermoelectric Piura Plant on September 30, 2016. The Company sold these equipments for S/510 (equivalent ro US$152) to ECJ Technology S.A. Disposals carrying amount, net of impairment, amounts to S/155. This sale generates a net income of S/355 (equivalent to US$106) (Note 22).

- In 2015: (i) sale of land and buildings related to the thermoelectric power plant of Piura; on December 21, 2015, the Company entered into a purchase agreement for US$7,000 (equivalent to S/23,856) with Asociacion de Comerciantes Multiplaza Piura-Norte, whose carrying amount was S/3,465, and gave rise to a net profit of S/20,391 (Note 22). The Company agreed to take all actions required to comply with its environmental and municipal commitments regarding the property in relation to the closure, remediation or abandonment of generation operations, which are estimated to be S/1,290 approximately, and are recorded in the item provisions, and (ii) sale of property, plant and equipment for a net carrying amount of S/353, which gave rise to a net profit of S/826 (Note 22).

- In 2014: (i) sale of thermoelectric power plants of Paita and Sullana; on October 31, 2014, the Company entered into a purchase agreement for US$4,400 (equivalent to S/12,839) and US$100 (equivalent to S/292) with Compañia Electrica El Platanal S.A. for the sale of the thermoelectric power plants of Paita and Sullana and personal property, respectively, whose carrying amount was S/2,094 and gave rise to a net profit of S/11,037 (Note 22), and (ii) sale of equipment for a net carrying amount of S/251, which gave rise to a net profit of S/135 (Note 22).

(b) Accumulated impairment loss as of December 31, 2016, 2015 and 2014 mainly corresponds to the impairment of thermoelectric power plants for S/17,914 (equivalent to US$5,332) as of December 31, 2016, indicated in Note 1 (b), since their carrying amounts exceeded their recoverable values. Management of the Company and Subsidiary considers that, as of December 31, 2016, 2015 and 2014, provisions are no longer required, other than the estimate previously recognized in the records for the impairment of property, plant and equipment. The recovery of impairment during 2016 and 2014 were as consequence of the sale of assets described in paragraph (a) is offset with the net profit.

(c) As of December 31, 2016, 2015 and 2014, the Company and Subsidiary do not have commitments for the acquisition of property, plant and equipment.

(d) According to the policies established by Management, as of December 31, 2016, 2015 and 2014, the Company and Subsidiary have hired insurance policies to cover the potential risks to which certain items of their property, plant and equipment are subject, as well as possible claims that may be filed due to the performance of their operations. The Company and Subsidiary understand that those insurance policies sufficiently cover the risks they are exposed to.

12. FINANCIAL OBLIGATIONS

Financial obligations comprise the following:

Creditors	Type of obligation	Maturity	Authorized and used amount	Outsatanding balance – Total 2016	2016	2015	2014
			US$000	US$000 (Note 2(b))	S/000	S/000	S/000
Bonds - 1st Serial - Second issuance (b.1)	Corporate bond	November 2026	35,000	35,923	120,703	120,513	105,541
Bonds - 2nd Serial - Second issuance (b.2)	Corporate bond	February 2024	40,000	40,310	135,441	139,672	122,301
BBVA Banco Continental S.A. (a)	Finance	November 2015	562	-	-	-	856
Total				76,233	256,144	260,185	228,698

Creditors	Type of obligation	Maturity	Authorized and used amount	Current 2016	Current 2016	Current 2015	Current 2014	Non Current 2016	Non Current 2016	Non Current 2015	Non Current 2014
			US$000	US$000 (Note 2(b))	S/000	S/000	S/000	US$000 (Note 2(b))	S/000	S/000	S/000
Bonds - 1st Serial - Second issuance (b.1)	Corporate bond	November 2026	35,000	923	3,103	1,058	926	35,000	117,600	119,455	104,615
Bonds - 2nd Serial - Second issuance (b.2)	Corporate bond	February 2024	40,000	310	1,041	3,152	2,741	40,000	134,400	136,520	119,560
BBVA Banco Continental S.A. (a)	Finance lease	November 2015	562	-	-	-	856	-	-	-	-
Total				1,233	4,144	4,210	4,523	75,000	252,000	255,975	224,175

The maturity of financial obligations, including interests, is presented below:

	2016 US$000 (Note 2(b))	2016 S/000	2015 S/000	2014 S/000
2015	-	-	-	13,619
2016	-	-	15,550	13,619
2017	4,556	15,309	15,550	13,619
2018	4,556	15,309	15,550	13,619
From 2019 to 2024	105,638	354,942	360,541	315,750
Total	114,750	385,560	407,191	370,226

The present value of payments for finance leases, included in financial obligations, is presented as follows:

	2014 S/000
Up to one year	874
More than one year	-
Total payable including financial charge	874
Financial charge to be applied to profit/loss of future periods	(18)
Total	856

(a) Finance leases:

For the sale of 17 vehicles for the operations of the Company. The agreement establishes the payment of monthly installments in dollars, an annual effective rate of 3.80% and a purchase option of US$1 at the end of the lease term. The agreement was secured by those vehicles and was paid in November 2015.

(b) Corporate bonds:

(b.1) The second issuance of the first serial of 35,000 bonds with a price of US$1,000 per bond was performed in November 2011. These resources were used for working capital. These bonds accrue annual interests of 6.375%, those interests have a semiannual maturity and the principal will be paid in November 2026 and is secured by the equity of the Company.

(b.2) The second issuance of the second serial of 40,000 bonds with a price of US$1,000 per bond was performed in February 2012. These resources were used for working capital. These bonds accrue annual interests of 5.8125%, those interests have a semiannual maturity and the principal will be paid in February 2024 and is secured by the equity of the Company.

During the effective term of corporate bonds, the Company will be subject to the following restrictions and responsibilities:

- In case one or more events of default occur and if such default is not corrected, the Company will not be able to apply profits for dividend allocation. Also, the Company will not be able to settle the payment of dividends either in cash or kind (except those arising from the capitalization of profit or reserves) or to pay any amount for those concepts.

- The Company agrees not to make substantial changes to the main line and nature of its business. Also, the Company may not carry out mergers, split/offs or acquisition of companies or businesses or corporate reorganizations that may reasonably cause a substantially adverse effect or change in its financial or economic situation.

- The Company agrees not to incur any debt if the division of its debt by net equity is higher than 1.5 as a result of such debt.

- The Company agrees to maintain insurance policies effective that cover its generation and transmission assets and that have coverage, deductibles and insured amounts that result reasonable and usual for private companies engaged in the generation and distribution of electrical energy.

Management considers that these restrictions and responsibilities required from the Company are being complied with appropriately as of December 31, 2016, 2015 and 2014.

13. TRADE ACCOUNTS PAYABLE

Trade accounts payable comprise the following:

	2016 US$000 (Note 2(b))	2016 S/000	2015 S/000	2014 S/000
Invoices	2,953	9,922	7,837	6,970
Goods and services received but not billed	3,090	10,382	12,057	9,237
Total	6,043	20,304	19,894	16,207

Trade accounts payable are mainly denominated in Peruvian soles, have current maturities, do not accrue interests and do not have specific guarantees.

14. OTHER ACCOUNTS PAYABLE

Other accounts payable comprise the following:

	2016 US$000 (Note 2(b))	2016 S/000	2015 S/000	2014 S/000
Financial liabilties:				
Guarantee deposits	165	555	849	334
Sundry items	5	16	1,059	1,885
Sub-total	170	571	1,908	2,219
Non-financial liabilities:				
Rural electricity contribution	125	421	402	70
Value-Added Tax	807	2,710	3,029	3,768
Other taxes	147	496	587	763
Sub-total	1,079	3,627	4,018	4,601
Total	1,249	4,198	5,926	6,820

Other accounts payable are mainly denominated in Peruvian soles and have current maturity.

15. LIABILITIES FOR EMPLOYEE BENEFITS

The liabilities for employee benefits comprise the following:

	2016 US$000	2016 S/000	2015 S/000	2014 S/000
Employee profit-sharing	2,539	8,531	9,480	15,385
Vacations	1,796	6,034	5,558	4,647
Bonuses to employees	2,797	9,399	4,422	3,684
Employee severance indemnities	148	497	462	454
Pension Fund Administration	101	338	360	305
ESSALUD	56	189	200	167
Sundry items	6	21	8	3
Total	7,443	25,009	20,490	24,645

The liabilities for employee benefits are mainly denominated in Peruvian soles and have current maturity.

16. PROVISIONS

The Company is subject to legal proceedings and claims which arise in the ordinary course of its business. The Company has recorded a provision for labor and administrative claims where the risk of loss is considered probable. The final resolution of these potential claims is not likely to have a material effect on the results of operations, cash flow or the financial position of the Company.

The movement of provisions comprises the following:

	Balance at the beginning of the year 2015 US$000	Addition US$000	Deduction US$000	Balance at the end of the year 2016 US$000 (Note 2(b))
Labor	506	398	(190)	714
Administrative	106	-	-	106
Provision for dismantling	1,379	952	(1,621)	710
Total	1,991	1,350	(1,811)	1,530

	Balance at the beginning of the year 2015 S/000	Addition S/000	Deduction S/000	Balance at the end of the year 2016 S/000
Labor	1,700	1,337	(637)	2,400
Administrative	355	-	-	355
Provision for dismantling	4,634	3,200	(5,448)	2,386
Total	6,689	4,537	(6,085)	5,141

	Balance at the beginning of the year 2014	Addition	Deduction	Balance at the end of the year 2015
	S/000	S/000	S/000	S/000
Labor	1,605	833	(738)	1,700
Administrative	355	-	-	355
Provision for dismantling	3,027	1,613	(6)	4,634
Total	4,987	2,446	(744)	6,689

(a) The Company is party to a sanctioning proceeding started by OSINERGMIN for the alleged non-compliance of its obligation to keep and maintain its facilities in suitable conditions for their operation, in connection with which OSINERGMIN imposed a fine of 187 UIT. The Company has questioned the amount of the fine and has recorded a provision for this contingency for S/355.

(b) The Company is party to certain labor proceedings in connection with which they could be subject to claims that amount to approximately S/13.3 million, for which the Company has provisioned the aggregate amount of S/2.4 million. These proceedings include claims related to vacations, arbitrary dismissals, payment of profit sharing, altered nature of labor intermediation agreements, among others.

17. EQUITY

(a) Issued capital stock

As of December 31, 2016, 2015 and 2014, issued capital stock is represented by 353,518,444 common shares with a face value of S/1.00 per share, duly authorized, issued and paid.

The Partners' Meeting, held on June 2, 2003, agreed to modify the corporate regime of the Company, from a corporation into a partnership limited by shares, which is composed by general partners who have a joint and several liability for social obligations and limited partners who only respond for the part of capital they have committed to contribute with. Additionally, it was agreed that Orazul Energy Peru Holdings S.R.L. will participate as a general partner and assume the administration of the Company, while other partners will participate as limited partners.

As of December 31, 2016, 2015 and 2014, the equity interest structure of the Company was as follows:

Limited partners	Shares	Participation
	N°	%
Orazul Energy Peru Holdings S.R.L.	353,398,768	99.97
Others	119,676	0.03
Total	353,518,444	100.00

(b) Legal reserve

According to the General Business Law, legal reserve is established by transferring a minimum of 10% of net profit from each period, after deducting accumulated losses, until it achieves an amount equivalent to the fifth part of capital. In the absence of undistributed profit or freely available reserves, the legal reserve shall be applied to offset losses, and must be replaced. The legal reserve can be capitalized but shall also be replaced.

The Annual Mandatory Partners’ Meeting held on March 27, 2015 agreed to transfer from the legal reserve to retained earning the amount of S/24,974, which corresponds to the part in excess to reach the fifth part of issued capital stock.

As of December 31, 2016, 2015 and 2014 it is no necessary to establish new increases on legal reserve, as the Company has accomplished the fifth part of its issued capital stock and inclusive the limit was exceeded on 2014.

(c) Retained earnings

According to Legislative Law 945 of December 23, 2003, which amended the Income Tax Law, domiciled legal entities that agree to the distribution of dividends or any other form of distribution of profits, will retain the rate applicable as described in Note 24 of the amount to be distributed, except when the distribution is made in favor of legal entities domiciled in Peru.

There are no restrictions for dividend remittance or capital repatriation to foreign investors.

(d) Dividend distribution

The Annual Mandatory Partner’s Meeting held on February 24, 2016 agreed to distribute dividend for S/101,600 (equivalent to US$30,238) and a distribution of S/146,000 (equivalent to US$43,452) was approved on March 29, 2016 session.

The Annual Mandatory Partners’ Meeting held on March 26, 2014 agreed to distribute dividends for S/122,628.

18. SALE OF ENERGY AND ELECTRICAL ENERGY TRANSMISSION SERVICES

For the years ended December 31, the sale of energy and electrical energy transmission services include the following credit balances:

	2016	2016	2015	2014
	US$000	S/000	S/000	S/000
Sale of energy	78,439	263,555	265,902	213,125
Sale of power	39,913	134,107	124,039	84,525
COES compensation	8,803	29,578	25,900	73,423
Other revenue	-	-	1,803	2,013
Sub total of energy	127,155	427,240	417,644	373,086
Electrical energy transmission	905	3,041	3,008	2,629
Sub total of electrical energy transmission	905	3,041	3,008	2,629
Total of sales	128,060	430,281	420,652	375,715

19. COSTS OF SALE OF ENERGY AND ELECTRICAL ENERGY TRANSMISSION SERVICES

For the years ended December 31, the costs of sale of energy and electrical energy transmission services include the following debit balances:

	2016 US$000 (Note 2(b))	2016 S/000	2015 S/000	2014 S/000
Supplies, spare parts and fuel	1,110	3,730	3,629	6,379
Purchase of energy	8,932	30,010	20,477	17,841
Transmission charges	26,344	88,516	80,026	55,426
Personnel charges	10,342	34,749	34,161	37,514
Services provided by third parties	6,272	21,075	21,066	23,978
Taxes	1,240	4,168	4,029	2,882
Sundry management charges	395	1,328	1,068	1,045
Estimates of the period:				
Depreciation (Note 11)	12,637	42,459	40,406	40,598
(Recovery) loss for obsolescence of inventories (Note 9)	55	185	(1,466)	2,741
Employee severance indemnities	518	1,740	1,663	1,656
Total	67,845	227,960	205,059	190,060

20. ADMINISTRATIVE EXPENSES

For the years ended December 31, administrative expenses include the following debit balances:

	2016 US$000 (Note 2(b))	2016 S/000	2015 S/000	2014 S/000
Personnel charges	9,314	31,294	25,290	28,207
Services provided by third parties	3,192	10,726	11,767	10,844
Taxes	1,910	6,416	6,627	7,214
Sundry management charges	1,925	6,467	4,974	4,297
Estimates of the period:				
Depreciation (Note 11)	256	861	1,163	1,212
Amortization	142	476	508	492
Recovery for impairment of accounts receivable (Note 6)	-	-	(1,157)	(1,299)
Employee severance indemnities	414	1,394	1,230	1,100
Total	17,153	57,634	50,402	52,067

21. SELLING EXPENSES

For the years ended December 31, selling expenses include the following debit balances:

	2016 US$000 (Note 2(b))	2016 S/000	2015 S/000	2014 S/000
Personnel charges	1,159	3,893	3,955	3,937
Services provided by third parties	171	575	697	2,061
Sundry management charges	11	38	37	71
Estimates of the period:				
Employee severance indemnities	63	212	192	158
Total	1,404	4,718	4,881	6,227

For the years ended December 31, personnel expenses include the following debit balances:

	2016 US$000 (Note 2(b))	2016 S/000	2015 S/000	2014 S/000
Salary	11,386	38,258	35,834	32,793
Bonuses	3,006	10,100	6,711	9,361
Profit sharing	2,726	9,158	9,852	17,082
Gratifications	1,693	5,688	5,279	4,920
Vacations	1,025	3,444	3,252	2,807
Others	979	3,288	2,478	2,695
Total (Notes 19, 20 and 21)	20,815	69,936	63,406	69,658

22. OTHER INCOME

For the years ended December 31, other income includes the following credit balances:

	2016 US$000 (Note 2(b))	2016 S/000	2015 S/000	2014 S/000
Operation and maintenance services income (Note 8)	6,415	21,556	17,703	16,434
Management and administration services income (Note 8)	4,786	16,082	15,394	14,051
Early termination of contracts income	4,788	16,087	-	-
Net profit from the sale of thermoelectric power plants	(847)	(2,845)	19,604	10,897
Others	1,385	4,651	5,376	4,947
Total	16,527	55,531	58,077	46,329

23. FINANCIAL EXPENSES

For the years ended December 31, financial expenses include the following debit balances:

	2016 US$000 (Note 2(b))	2016 S/000	2015 S/000	2014 S/000
Interests on obligations - corporate bonds	4,578	15,382	14,583	12,972
Default interests	22	74	-	1,891
Interests on obligations - financial leases	-	-	21	44
Other financial expenses	71	237	1,443	1,212
Total	4,671	15,693	16,047	16,119

24. INCOME TAX

(a) Income tax regime

(i) Tax rates

The income tax rate for legal entities domiciled in Peru shall be determined by applying the following rates on their net income:

Taxable periods	Rates
2014	30%
2015 -2016	28%
2017 and subsequent years	29.5%

Legal entities domiciled in Peru are subject to an additional rate, as shown below, on any amount that may be considered as indirect income, including amounts charged to expenses and unreported income; that is, expenses which may have benefited shareholders, interest holders, among others; other expenses not related to the business; expenses of shareholders, interest holders, among others, which are assumed by the legal entity.

Taxable periods	Rates
2014	4.1%
2015 -2016	6.8%
2017 and subsequent years	5%

(ii) Transfer pricing

In order to determine income tax and value-added tax (VAT) in Peru, legal entities engaged in transactions with related entities or with companies resident in territories with low or no taxation shall: (a) submit an annual tax return of their transactions with such companies if the amount of these transactions is greater than S/200, and (b) prepare a Transfer Pricing Technical Study, as well as supporting documentation for this study, if the amount of earned income exceeds S/6,000 and if transactions engaged with related entities exceed S/1,000.

Both obligations are mandatory in the event that at least one transaction to, from or through countries with low or no taxation has been made.

Transactions performed by taxpayers domiciled in the country with domiciled related entities should be included in the pertinent Transfer Pricing Technical Study.

The Company and Subsidiary have prepared the corresponding Transfer Pricing Technical Study for 2015 and 2014 and they are now preparing the corresponding study for 2016.

Management believes that no significant liabilities will arise for the consolidated financial statements as of December 31, 2016, 2015 and 2014, with regard to transfer pricing.

(iii) Significant changes to Income Tax regime in Peru

After December 31, 2016, 2015 and 2014, no significant changes have been made to the income tax regime in Peru which may impact these consolidated financial statements. The standards and interpretations effective as of December 31, 2016, 2015 and 2014 have been considered by Management when preparing these consolidated financial statements.

(iv) Tax situation

Income tax returns of years 2014 and 2015 of the Company, and the years 2013 to 2015 of ETENORTE, and the tax return to be submitted for 2016 have not been reviewed by the Tax Administration yet, which is empowered to conduct such reviews within four years immediately after the submittal date of pertinent tax returns.

Certain income tax return and temporary tax on net assets have been reviewed by the Tax Administration in previous years and their possible contingencies are disclosed in Note 26.

Due to possible interpretations that tax authorities may have on current applicable regulations each year, it is not possible to determine to date whether liabilities for the Company and Subsidiary will arise or not from the reviews to be conducted. Therefore, any high income tax or charge which may result from such tax reviews would be applied to profit or loss for the year when determined. Management believes that any additional tax payment would not be significant for the consolidated financial statements as of December 31, 2016, 2015 and 2014.

Temporary Tax on Net Assets

This tax is applicable to third category recipients subject to the general income tax regime. Since 2009, the tax rate of 0.4% is applicable to the amount of net assets exceeding S/1 million.

The actually paid amount can be used as credit against payments on account of the general income tax regime or against the payment of regularizations of income tax of the corresponding taxable period. As of December 31, 2016 and 2015 the Company and Subsidiary do not have an ITAN balance to be recovered.

(b) Income tax expense of the Company and Subsidiary comprises the following:

(i) Income tax expense of continuous operations:

	2016	**2016**	**2015**	**2014**
	US$000	**S/000**	**S/000**	**S/000**
Current income tax	15,035	50,518	56,125	43,695
Deferred income tax (Note 25)	5,725	19,235	(212)	(25,428)
Adjustment of income tax of previous periods	371	1,247	(3,416)	8,224
Total	21,131	71,000	52,497	26,491

(ii) Income tax expense of discontinued operations:

	2016	**2016**	**2015**	**2014**
	S/000	**S/000**	**S/000**	**S/000**
Current income tax	-	-	-	50,222
Deferred income tax	-	-	-	(38,496)
Total	-	-	-	11,726

The expense for current income tax corresponds to the tax to be paid, calculated by applying a 28% rate on taxable income (28% in 2015 and 30% in 2014), after deducting 5% of profit-sharing of employees.

(c) During the years ended December 31, 2016, 2015 and 2014, the effective rate of income tax expense is different from the tax rate applicable to profit before taxes. The nature of this difference is due to certain items related to the determination of taxable income, whose effects on applicable tax rate are presented below (in percentages on profit before taxes):

	2016		2016		2015		2014	
	Amount US$000	Percentage %	Amount S/000	Percentage %	Amount S/000	Percentage %	Amount S/000	Percentage %
Profit before income tax								
Continuous operations	53,480		179,693		198,122		155,754	
Discontinued operations (Note 10)	-		-		-		39,086	
Total	53,480	100.00	179,693	100.00	198,122	100.00	194,840	100.00
Income tax caculated as per tax rate	14,974	28.00	50,314	28.00	55,474	28.00	58,452	30.00
Tax effect on additions and deductions:								
Non-deductible expenses (net)	566	1.06	1,902	1.06	475	0.24	1,513	0.78
Adjustments recognized in the present year related to income tax of previous years	371	0.69	1,247	0.69	(3,416)	(1.72)	8,224	4.22
Effect of rate change	4,540	8.49	15,252	8.49	-	-	(22,072)	(11.33)
Sundry items	680	1.27	2,285	1.27	(36)	(0.02)	(7,900)	(4.05)
Current and deferred income tax as per effective rate (paragraphs (i) and (ii))	21,131	39.51	71,000	39.51	52,497	26.50	38,217	19.62

(d) The Compañy and Subsidiary hold receivable balances with the Tax Administration for S/3,843 (equivalent to US$1,144) as of December 31, 2016.

(e) The Company and Subsidiary hold payable balances with the Tax Administration for S/10,063 and S/39,284 as of December 31, 2015 and 2014, respectively.

25. DEFERRED INCOME TAX LIABILITY

The movement of net deferred income tax liability and the description of temporary differences that generated them are shown below:

	Balance as of 31.12.2015 US$000	Profit/loss for the year US$000 (Note 24)	Effect of change in tax rate US$000 (Note 24)	Balance as of 31.12.2016 US$000 (Note 2(b))
As of December 31, 2016:				
Liability:				
Difference in depreciation basis and rates of property, plant and equipment	46,232	226	4,698	51,156
Total	46,232	226	4,698	51,156
Asset:				
Impairment loss of property, plant and equipment	(2,493)	906	(105)	(1,692)
Provision for vacations	(463)	(61)	(6)	(530)
Impairment estimate of accounts receivable	(162)	-	(9)	(171)
Provision for dismantling of assets	(375)	180	(9)	(204)
Obsolescence estimate of inventory	(168)	-	(26)	(194)
Other provisions	(171)	(66)	(3)	(240)
Total	(3,832)	959	(158)	(3,031)
Total	42,400	1,185	4,540	48,125

	Balance as of 31.12.2015	Profit/loss for the year	Effect of change in tax rate	Balance as of 31.12.2016
	S/000	S/000 (Note 24)	S/000 (Note 24)	S/000
As of December 31, 2016:				
Liability:				
Difference in depreciation basis and rates of property, plant and equipment	155,341	758	15,785	171,884
Total	155,341	758	15,785	171,884
Asset:				
Impairment loss of property, plant and equipment	(8,375)	3,045	(355)	(5,685)
Provision for vacations	(1,556)	(204)	(20)	(1,780)
Impairment estimate of accounts receivable	(544)	-	(29)	(573)
Provision for dismantling of assets	(1,260)	605	(30)	(685)
Obsolescence estimate of inventory	(565)	-	(89)	(654)
Other provisions	(575)	(221)	(10)	(806)
Total	(12,875)	3,225	(533)	(10,183)
Total	142,466	3,983	15,252	161,701

	Balance as of 31.12.2014	Profit/loss for the year	Effect of change in tax rate	Balance as of 31.12.2015
	S/000	S/000 (Note 24)	S/000 (Note 24)	S/000
As of December 31, 2015:				
Liability:				
Difference in depreciation basis and rates of property, plant and equipment	155,992	(651)	-	155,341
Total	155,992	(651)	-	155,341
Asset:				
Impairment loss of property, plant and equipment	(8,549)	174	-	(8,375)
Provision for vacations	(1,301)	(255)	-	(1,556)
Impairment estimate of accounts receivable	(868)	324	-	(544)
Provision for dismantling of assets	(847)	(413)	-	(1,260)
Obsolescence estimate of inventory	(975)	410	-	(565)
Other provisions	(774)	199	-	(575)
Total	(13,314)	439	-	(12,875)
Deferred liability (net)	142,678	(212)	-	142,466

As of December 31, 2014:	Balance as of 31.12.2013 S/000	Profit/loss for the year S/000 (Note 24)	Effect of change in tax rate S/000 (Note 24)	Balance as of 31.12.2014 S/000
Liability:				
Difference in depreciation basis and rates of property, plant and equipment	181,270	(3,206)	(22,072)	155,992
Other temporary differences	2,909	(2,909)	-	-
Total	184,179	(6,115)	(22,072)	155,992
Asset:				
Impairment loss of property, plant and equipment	(12,220)	3,671	-	(8,549)
Provision for vacations	(1,406)	105	-	(1,301)
Impairment estimate of accounts receivable	(1,319)	451	-	(868)
Provision for dismantling of assets	(829)	(18)	-	(847)
Obsolescence estimate of inventory	(223)	(752)	-	(975)
Other provisions	(76)	(698)	-	(774)
Total	(16,073)	2,759	-	(13,314)
Total	168,106	(3,356)	(22,072)	142,678

26. CONTINGENCIES

The Company and Subsidiary has the following contingencies that are individually significant claims that, in the opinion of the Company and Subsidiary's Management and its legal advisors, have a possible perspective of loss. In this order, and based on the information available to the Company and Subsidiary, including the estimated time remaining until the completion of the litigation, the results of the evidence presented in the cases, and the evaluation of the Internal and external advisors, the Company and Subsidiary can not estimate a loss or range of loss reasonably possible with respect to certain issues described below:

(a) The review of income tax return of 2011 gave rise to the issuance of determination and fine resolutions for S/1,864 (US$555). In February 2015, the Company filed a claim against the Tax Administration and in August 2015, the Tax Administration declared the claim filed by the Company as groundless, so in September 2015, the Company filed an appeal against such resolutions before the Tax Court, which has not been resolved to date. The updated contingency is S/2,913 (US$867).

(b) Temporary tax on net assets return for the year 2013 was reviewed by the tax administration in 2014, which issued in May 2015 determination and fine resolutions for S/857 plus interests. In July 2015, the Company filed a claim with the Tax Administration; and in April 2016, the Tax Administration declared the claim filed by the Company as groundless. In May 2016, the Company filed an appeal against the SUNAT decision before the Tax Court, which has not been resolved to date. The updated contingency is S/1,334 (US$397).

(c) In Janauary 2017, OEFA has initiated a sanction proceeding against the Company regarding an alleged breach of the maximum permissible limits related to suspended solid particles applicable to the water discharged from the turbines at Central Carhuaquero IV, in connection with which the Company could be fined up to 5,000 UIT (equivalent in total to US$6,027).

As of December 31, 2016, 2015 and 2014, the Subsidiary Etenorte does not maintain contingencies.

27. COMMITMENTS AND GUARANTEES

Sale of energy

As of December 31, 2016, 2015 and 2014, main commitments of sale of energy of the Company are as follows:

Customers	Contracted power Kw	Start date - agreement	Termination date - agreemnet
Regulated	From 143 to 86,027	Between 2013 and 2014	Between 2019 and 2023
Free	From 5,000 to 60,000	Between 2014 and 2016	Bewteen 2017 and 2018

Guarantees

As of December 31, 2016, the shares issued by the Company and its Subsidiary are guaranteed to Banco de Crédito del Perú, to ensure the payment obligations assumed by its ultimate parent company in Peru, Orazul Energía Peru S.A.C., in relation to loan agreement signed on December 14, 2016 by Orazul Energía Peru S.A.C. and Banco de Crédito del Peru for US$450,000,000.

28. LEASES

AS LESSEE

On July 1, 2014, the Company and Inmuebles Limatambo S.A. entered into an operating lease agreement for the administrative offices of the Company. The effective term of the agreement is for 5 years, with price increases of 3% every year.

As of December 31, 2016, 2015 and 2014, future minimum lease installments are as follows:

	2016 US$000	2016 S/000	2015 S/000	2014 S/000
Less than one year	881	2,961	2,554	1,788
Between one (1) and five (5) years	1,826	6,137	8,804	4,779
Total	2,707	9,098	11,358	6,567

As of December 31, 2016, expenses for the lease of administrative offices amounted to S/2,828 (equivalent to US$842) (S/2,668 in 2015 and S/1,895 in 2014).

29. ENVIRONMENT

Pursuant to the provisions set forth in Supreme Decree No. 029-94-EM, Regulations for the Environmental Protection in Electrical Activities, the Company implemented in previous years its Environmental Management and Adaptation Program (PAMA), which was previously approved by competent authorities. On July 11, 2005, the Company received Official Letter No. 3042-2005-OSINERG-GFE, under which the Safety and Environmental Area of OSINERGMIN concludes that the Company has not have any pending commitment in its PAMA.

30. SUBSEQUENT EVENTS

We are not aware of any subsequent event that has occurred between the closing and approval date of these consolidated financial statements that could affect it significatively. However, there was a significant subsequent event that did not represent adjustments, which is disclosed for the convenience of the readers.

- On March 30, 2017, the Company's Management held a meeting with the holders of its corporate bonds issued under the first and second issuance of the second program to reach the following agreements:

  - Obtain a waiver of the leverage ratio and default events as a result of potential new financing.

  - Modify the terms of the supplementary contract of the first and second issuance of the second corporate bond program to include and regulate a procedure for a redemption option in favor of the Company.

  The agreements proposed in the meeting were satisfactorily approved by the bondholders.

- On April 5, 2017, the Company entered into a one-year unsecured credit facility agreement in a principal amount of up to US$15 million with Banco de Crédito del Perú and mature on April 5, 2018. This loan will bear a 1.90% fixed interest rate per annum, a one-month LIBOR plus a margin of 1%, or a two-month LIBOR plus a margin of 0.95% as chosen by the Company in the notice of disbursement. The proceeds that will be obtained from this credit facility agreement will be used to finance the working capital requirements. The loan also will contain customary covenants including limitations on change of control, sale of assets and creation of liens, with certain specified exceptions. As of the date of this report, the Company has no outstanding debt under this credit facility agreement.

Aguaytia Energy del Peru S.R.L. and Subsidiaries

Independent Auditors' Report

Consolidated Financial Statements
As of December 31, 2016, 2015 and 2014 and for the years ended December 31, 2016, 2015 and 2014

AGUAYTIA ENERGY DEL PERU S.R.L. AND SUBSIDIARIES

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Gris y Asociados S. Civil
de R.L.
Las Begonias 441, Piso 6
San Isidro, Lima 27
Perú

Tel: +51 (1)211 8585
Fax: +51 (1)211 8586
www.deloitte.com/pe

INDEPENDENT AUDITOR'S REPORT

To the Partners of
Aguaytia Energy del Peru S.R.L. and Subsidiaries

1. We have audited the accompanying consolidated financial statements of **Aguaytia Energy del Peru S.R.L**. **and Subsidiaries** which comprise the consolidated statements of financial position as of December 31, 2016, 2015 and 2014, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

2. Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards issued by International Accounting Standards Board, and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's responsibility

3. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing, approved for their application in Peru by the Consejo Directivo de la Junta de Decanos de Colegios de Contadores Publicos del Peru (Board of Deans of the Peruvian 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 consolidated financial statements are free from material misstatements.

4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company and Subsidiaries for the preparation and fair presentation of the consolidated 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 internal control of the Company and Subsidiaries. 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 consolidated financial statements.

5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

6. In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of **Aguaytia Energy del Peru S.R.L. and Subsidiaries** as of December 31, 2016, 2015 and 2014, their consolidated financial performance and consolidated cash flows for the years then ended, in accordance with International Financial Reporting Standards issued by International Accounting Standards Board.

Other matter

7. English translation of the consolidated financial statements

   This report and the consolidated financial statements referred to above have been translated into English for the convenience of English-speaking readers. As further explained in Note 1(d) to the accompanying consolidated financial statements, the consolidated financial statements are the English translation of those originally prepared by the Company in Spanish and presented in accordance with International Financial Reporting Standards ("IFRS") issued by International Accounting Standards Board. The effects of the differences between IFRS and the accounting principles generally accepted in the countries in which the financial statements are to be used have not been quantified.

Gris y Asociados S. Civil de R.L.

Countersigned by:

_______________________ (Partner)
Beatriz Quispe Soto
CPC Registration No. 29474

April 14, 2017

AGUAYTIA ENERGY DEL PERU S.R.L. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2016 , 2015 AND 2014
(In thousands of dollars US$000)

	Notes	2016	2015	2014
		US$000	US$000	US$000
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	5	27,845	90,425	49,515
Trade accounts receivable (net)	6	10,614	14,816	20,415
Other accounts receivable	7	1,780	431	1,077
Accounts receivable from related entities	8	86	1,154	-
Inventories (net)	9	4,716	4,693	5,198
Income tax asset	20 (e)	2,436	-	-
Total current assets		47,477	111,519	76,205
NON-CURRENT ASSETS:				
Other accounts receivable	7	925	925	1,175
Property, plant and equipment (net) - Gas investment	10	58,609	54,624	50,496
Property, plant and equipment (net) - Energy generation and transmission	11	82,538	87,273	93,964
Deferred income tax assets	21	2,067	1,740	6,198
Total non-current assets		144,139	144,562	151,833
TOTAL		191,616	256,081	228,038

	Notes	2016	2015	2014
		US$000	US$000	US$000
LIABILITIES AND EQUITY				
CURRENT LIABILITIES:				
Trade accounts payable	13	10,611	7,474	5,960
Other accounts payable	14	1,114	1,802	1,334
Accounts payable to related entities	8	16,680	294	1,279
Deferred income	15	485	155	155
Income tax liability	20 (d)	-	5,718	1,371
Total current liabilities		28,890	15,443	10,099
NON-CURRENT LIABILITIES:				
Financial obligations	12	-	15,822	15,765
Deferred income	15	309	463	618
Deferred income tax liabilities	21	2,403	5,870	6,957
Provisions		254	391	230
Total non-current liabilities		2,966	22,546	23,570
Total liabilities		31,856	37,989	33,669
EQUITY:				
Issued capital stock	16 (a)	145,155	145,155	145,155
Other capital reserves		2,056	2,056	2,056
Retained earnings	16 (b)	12,549	70,881	47,158
Total equity		159,760	218,092	194,369
TOTAL		191,616	256,081	228,038

The accompanying notes are an integral part of these consolidated financial statements

AGUAYTIA ENERGY DEL PERU S.R.L. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
(In thousands of dollars US$000)

	Notes	2016 US$000	2015 US$000	2014 US$000
Sale of energy and electrical energy transmission services		84,359	104,352	90,094
Sale of hydrocarbons		18,761	30,823	52,143
Total of sales	17	103,120	135,175	142,237
Costs of sale of energy and electrical energy transmission services		(51,772)	(57,944)	(56,926)
Cost of sales of hydrocarbons		(17,954)	(22,259)	(41,842)
Total of cost of sales	18	(69,726)	(80,203)	(98,768)
Gross profit		33,394	54,972	43,469
Administrative expenses	19	(16,462)	(12,341)	(8,508)
Other income		784	726	4,477
Other expenses		(233)	(775)	(274)
Financial income		388	491	516
Financial expenses		(828)	(812)	(797)
Exchange difference (net)	4 (a)	(526)	(690)	(1,473)
Profit before income tax		16,517	41,571	37,410
Income tax expense	20 (b)	(3,987)	(17,848)	(14,104)
Net profit for the year		12,530	23,723	23,306
Other comprehensive income for the year		-	-	-
Total comprehensive income for the year		12,530	23,723	23,306

The accompanying notes are an integral part of these consolidated financial statements

AGUAYTIA ENERGY DEL PERU S.R.L. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
(In thousands of dollars US$000)

	Issued capital stock US$000 (Nota 16 (a))	Other capital reserves US$000	Retained earnings US$000 (Nota 16 (b))	Total equity US$000
BALANCE AS OF JANUARY 1, 2014	145,155	2,056	37,652	184,863
Total comprehensive income for the year	-	-	23,306	23,306
Dividends declared in cash	-	-	(13,800)	(13,800)
BALANCE AS OF DECEMBER 31, 2014	145,155	2,056	47,158	194,369
Total comprehensive income for the year	-	-	23,723	23,723
BALANCE AS OF DECEMBER 31, 2015	145,155	2,056	70,881	218,092
Total comprehensive income for the year	-	-	12,530	12,530
Dividends declared in cash	-	-	(70,862)	(70,862)
BALANCE AS OF DECEMBER 31, 2016	145,155	2,056	12,549	159,760

The accompanying notes are an integral part of these consolidated financial statements

AGUAYTIA ENERGY DEL PERU S.R.L. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASHFLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014
(In thousands of dollars US$000)

	2016	2015	2014
	US$000	US$000	US$000
OPERATING ACTIVITIES:			
Collection from:			
Sale of energy and electrical energy transmission services	85,803	92,200	95,937
Sale of hydrocarbons	14,990	32,333	49,756
Recovery of taxes	-	318	327
Other taxes	-	552	-
Interests and returns	388	491	546
Fuel prices stabilization fund	(52)	528	2
Other operating activities	787	448	328
Payments for/to:			
Royalties	(16,209)	(25,756)	(44,024)
Suppliers of goods and services	(48,213)	(32,368)	(57,372)
Income tax	(15,982)	(10,209)	(8,611)
Taxes	(1,316)	(19)	(560)
Interests	(604)	(599)	(581)
Other operating activities	(2,017)	(2,744)	(3,388)
Net cash and cash equivalents provided by operating activities	17,575	55,175	32,360
INVESTMENT ACTIVITIES:			
Payments for:			
Purchase of gas investments	(7,776)	(11,580)	(1,976)
Purchase of machinery and equipment	(1,658)	(2,685)	(2,413)
Net cash and cash equivalents used in investment activities	(9,434)	(14,265)	(4,389)
FINANCING ACTIVITIES:			
Collection from:			
Loans received from related entities	16,032	-	-
Payments for:			
Financial obligations	(15,891)	-	-
Dividends	(70,862)	-	(13,800)
Net cash and cash equivalents used in financing activities	(70,721)	-	(13,800)
NET (DECREASE) INCREASE OF CASH AND CASH EQUIVALENTS	(62,580)	40,910	14,171
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	90,425	49,515	35,344
CASH AND CASH EQUIVALENT AT THE END OF THE YEAR	27,845	90,425	49,515

The accompanying notes are an integral part of these consolidated financial statements

1. INCORPORATION, ECONOMIC ACTIVITY, APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS, MAIN AGREEMENTS, SUBSIDIARIES AND OPERATING REGULATIONS

(a) Incorporation

Aguaytia Energy del Peru S.R.L. (hereinafter, the Company) is a subsidiary of Aguaytia Energy LLC, which owns 97.22% of voting shares which are representative of its issued capital stock. The Company was incorporated in Peru on November 16, 1995 and commenced its operations in July 1998.

On December 20, 2016, Aguaytia Energy LLC.'s shares were acquired by Orazul Energia Peru S.A.C (ultimate parent Company in Peru of Aguaytia Energy LLC) and Orazul Energia (España) Holdings S.R.L., which are part of ISQ Global Infraestructure Fund. Since the acquisition date, the Company and subsidiaries no longer belong to Duke Energy Corporation Group; and Orazul Energia Peru S.A.C. obtained the control of the Company.

(b) Economic activity

The Company owns a natural gas field located in central rainforest of Peru (Block 31-C), from which it obtains dry natural gas and natural gas liquids; those gas liquids are then treated at the Fractionation Plant which produces liquefied petroleum gas (LPG) and natural gasoline. Dry natural gas is used by its Subsidiary, Termoselva S.R.L. (hereinafter Termoselva), for the generation of electrical energy. Natural gasoline is sold entirely to Maple Gas Corporation del Peru S.R.L. LPG is sold to wholesalers and distributors, which perform their activities in the central rainforest and highlands of the country.

The Company's legal domicile is Av. Dionisio Derteano 144, Floor 19, San Isidro, Lima, Peru. The Fractionation Plant is located at Carretera Federico Basadre Km. 10 Coronel Portillo, Ucayali, Peru and the gas extraction plant is located at Block 31-C, Padre Abad – Ucayali, Peru.

The Company and Subsidiaries (Note 1(g)) do not have employees for the execution of their economic and administrative activities. Those activities are performed by related entities with which they have entered into certain agreements, as explained below.

(c) Approval of the consolidated financial statements

The consolidated financial statements for the year ended December 31, 2016, prepared under International Financial Reporting Standards, were approved for issuance by the Company's Management on April 14, 2017.

The accompanying consolidated financial statements for the year ended December 31, 2015, prepared under International Financial Reporting Standards, were approved for issuance by the Company's Management on February 10, 2016.

The consolidated financial statements for the year ended December 31, 2014, prepared under International Financial Reporting Standards, were approved for issuance by the Company's Management on February 25, 2015.

Purpose of the consolidated financial statements

These consolidated financial statements were prepared by the Company for the process of issuing and offering of senior guaranteed notes of Orazul Energy Egenor S. en C. por A., a related entity.

(d) Additional Explanation for translation into English of the original consolidated financial statements issued in Spanish

These consolidated financial statements have been translated into English for convenience of the English-speaking readers and have been derived from the financial statements originally issued in Spanish. In the event of discrepancy, the Spanish language version prevails.

These financial statement were originally prepared and presented in accordance with International Financial Reporting Standards ("IFRS") issued by International Accounting Standards Board. The effects of the differences between IFRS and the accounting principles generally accepted in the countries in which the financial statements are to be used have not been quantified.

(e) License Agreement for the production of hydrocarbons (Block 31-C)

This agreement allows the Company to produce hydrocarbons in the area known as Block 31-C, where there are four producing wells and three gas reinjection wells. Other relevant aspects of the License Agreement are indicated as follows:

(i) The term of the License Agreement is for 30 years counted from the subscription date of the agreement (March 30, 1994), which can be extended up to 40 years upon agreement of the Company and Perupetro in behalf of the Peruvian Government.

(ii) The Company agreed to comply with a minimum work schedule, which was entirely completed in 1998. This schedule included, among others, drilling and operation of wells, gas extraction and injection, construction of a gas processing plant and facilities for fractioning natural gas liquids and energy generation.

(iii) Pursuant to the Organic Hydrocarbons Law and the Regulations for the Application of Royalties and Compensations, the Company pays a royalty on a biweekly basis and applies a percentage on the valuation of production of supervised hydrocarbons (natural gas and natural gas liquids), as defined in the License Agreement.

The expense for royalties in 2016 was US$16,209 (US$25,756 in 2015 and US$44,024 in 2014) and is presented in item cost of sales of the consolidated statement of profit or loss and other comprehensive income (Note 18).

In July 2013 the Company initiated a process of arbitration against Perupetro requesting a readjustment in the royalties that the Company paid for the exploitation of the resources produced from the block 31-C.

On December 28, 2016, the Court issued a final decision in which accepted the request of the Company to readjust the price of the natural gas royalty. The changes to these royalties will be in force since January 1, 2017.

(iv) Taxes

The Company entered into a Legal Stability Agreement on March 30, 1994 with the Peruvian government, under which the tax regime was guaranteed for gas operation and processing activities, as from the subscription date of the License Agreement until 2024, as well as according to specific standards established in this regard by the Organic Hydrocarbons Law and its amendments, during the term of the License Agreement.

(v) Other rights

On behalf the Peruvian government, the Central Reserve Bank of Peru guarantees the Company the availability and convertibility of U.S. dollars.

(f) Agreements entered into the Company and Subsidiaries with related entities and third parties

(f.1) Purchase agreement – sale of natural gasoline

The Company and Maple Gas Corporation del Peru S.R.L. (hereinafter Maple) entered into an agreement for the sale of natural gasoline in July 1996, which is effective during the whole term of the concession of block 31-C. Pursuant to this agreement, the Company sells all the production of natural gasoline to Maple. The market price is based on the international price of crude oil. The addendum dated February 14, 2013 changed the calculation of the price formula for natural gasoline volumes when exceeding or being below an established production level, pursuant to the initial agreement, from 2013 to 2017.

Sales of natural gasoline to Maple are recognized in the corresponding period when all criteria required by IAS 18 Revenue have been satisfied. However, when an uncertainty arises about the collectability of an amount already included in revenue, the uncollectible amount or the amount in respect of which recovery has ceased to be probable is recognised as an expense, rather than as an adjustment of the amount of revenue originally recognized.

(f.2) Operation and maintenance agreements

- The Company and Orazul Energy Egenor S. en C. por A. (before Duke Energy Egenor S. en C. por A.) a related entity, entered into an agreement in which Orazul Energy Egenor S. en C. por A. provides operation and maintenance services since March 1, 2010. The agreement can be renewed under the express consent of the parties each year (Note 8). The maturity of this agreement is on December 31, 2017.

- The Subsidiary Termoselva and Pic del Peru S.A.C. (hereinafter the Operator) entered into an operation and maintenance agreement for the Thermoelectric Power Plant. Pursuant to this agreement, Termoselva shall pay the Operator an annual management commission, an annual fee for the provision for personnel and also an annual availability premium. The agreement was terminated in August 2014 and was not renewed.

- The Subsidiary Termoselva and Orazul Energy Egenor S. en C. por A. (before Duke Energy Egenor S. en C. por A.), a related entity, entered into an agreement whereby, Orazul Energy Egenor S. en C. por A. provides operation and maintenance services since September 01, 2014, which can be renewed under the express consent of the parties each year (Note 8). The maturity of this agreement is on December 31, 2017.

- The Subsidiary Eteselva and Red de Energia del Peru (REP) entered into an operation and maintenance agreement for the facilities of Eteselva. Pursuant to this agreement, Eteselva shall pay REP on a monthly basis the twelfth part of annual fees established in the agreement. The agreement was terminated in December 2014 and was not renewed.

- The subsidiary Eteselva and Orazul Energy Egenor S. en C. por A. (before Duke Energy Egenor S. en C. por A.), a related entity, entered into an agreement whereby, Orazul Energy Egenor S. en C. por A. provides operation and maintenance services from January 1, 2015, which can be renewed under the express consent of the parties each year (Note 8). The maturity of this agreement is on December 31, 2017.

Operation and maintenance services received by the Company and Subsidiaries in 2016 amounted approximately to US$6,538 (US$5,656 in 2015 and US$5,769 in 2014, respectively) and are presented in item cost of sales of the consolidated statement of profit or loss and other comprehensive income (Note 18).

(g) Agreement for management and other services

The Company and Subsidiaries and Orazul Energy Egenor S. en C. por A. (before Duke Energy Egenor S. en C. por A.), a related entity, entered into an agreement for management and other services in February 2009, which can be renewed under the express consent of the parties each year (Note 8). The maturity of this agreement is on December 31, 2017.

(h) Subsidiaries

Subsidiaries are entities (including special purpose entities) in which the Company has the power over the investee; is exposed, or has rights, to variable returns from its involvement with the investee; and has the ability to use its power to affect its returns. This situation is usually observed by controlling the equity interest of more than half of voting shares.

Subsidiaries are entirely consolidated as from the date when their control was effectively transferred to the Company, and will cease to be so when the Company loses such control.

The Subsidiaries, as of December 31, 2016, 2015 and 2014, and the percentages of interest owned by the Company are detailed below:

Consolidated subsidiaries:	**Direct equity interest**		
	2016	**2015**	**2014**
	%	**%**	**%**
Termoselva S.R.L	99.99	99.99	99.99
Eteselva S.R.L.	99.99	99.99	99.99

Termoselva S.R.L.

The economic activity of this subsidiary is the generation of electrical energy within its concession area. In order to perform its operations, Termoselva operates its thermoelectric power plant in Ucayali exclusively with dry natural gas provided by the Gas Plant of the Company, with which it has entered into an agreement for the purchase of dry natural gas and sale of electrical energy to regulated and free customers in the Peruvian territory that are part of the National Interconnected Electrical System (SEIN, for its acronym in Spanish) which Termoselva participates in.

Eteselva S.R.L.

The economic activity of this subsidiary is electrical transmission services, for which it has a transmission line of 392.7 km., divided in three sections: (a) Line 251 that connects the Aguaytia substation in Ucayali with Tingo Maria Substation, (b) Line 252 that connects Tingo Maria substation in Huanuco to Vizcarra substation, and (c) Line 253 that connects Vizcarra substation in Ancash to Paramonga Substation in Lima. The latter has been defined by the Ministry of Energy and Mines as part of the Main Transmission Network of the National Interconnected Electrical System. Its main customer is related entity Termoselva, with which it has entered into an agreement for electricity transmission and reserve capacity.

Amounts of the financial statements of consolidated Subsidiaries

Certain amounts of the separate financial statements of Subsidiaries as of December 31, 2016, 2015 and 2014, prepared under International Financial Reporting Standards, before eliminations for consolidation purposes, are presented below:

Subsidiaries	**2016** US$000	**2015** US$000	**2014** US$000
Termoselva S.R.L.			
Total Assets	74,477	129,149	100,087
Total Liabilities	15,988	16,803	12,437
Equity	58,489	112,346	87,650
Net profit	18,143	24,696	18,237
Other comprehensive income	-	-	-
Eteselva S.R.L.			
Total Assets	34,166	56,539	56,763
Total Liabilities	2,657	5,564	4,859
Equity	31,509	50,975	51,904
Net profit (loss)	1,034	(929)	(276)
Other comprehensive income	-	-	-

(i) Operating regulations and legal standards that affect the hydrocarbons sector

Main operating regulations and legal standards of the hydrocarbons sector, where the Company develops its activities are as follows:

- Organic Hydrocarbons Law – Law No. 26221
- Supervising Entity of Investment in Energy and Mining (OSINERGMIN, for its acronym in Spanish), by virtue of Law No. 26734, amended by Law No. 28964.
- Fund for the stabilization of fuel prices – Emergency Decree No. 010-2004 and its Regulation Supreme Decree No. 142-2004-EF
- Law that creates the Energy Security System in Hydrocarbons and the Energy Social Inclusion Fund, (FISE, for its acronym in Spanish) - Law No. 29583.
- Law that guarantees energy security and promotes the development of the petrochemical pole southern Peru, Law No. 29970.

(j) Operating regulations and legal standards that affect the electrical sector

Main operating regulations and legal standards of the electrical sector, where the Subsidiaries Termoselva and Eteselva develop their activities are as follows:

- Electrical Concessions Law.

- Law to ensure the efficient development of electrical generation.

- Law that establishes a mechanism to ensure the electricity supply for the regulated market.

- Technical Quality Standard for Electrical Services.

- Anti-monopoly and Anti-oligopoly Law in the Electrical Sector.

- Supervisory Entity of Investment in Energy and Mining

- Break-even Law for the Budget of the Public Sector for Taxable Period 2014 (Law No. 30115), whose Tenth Supplementary Provision sets out the extension of the effective term of Emergency Decree No. 049-2008 until December 31, 2016 and extended up to October 1, 2017 by sixth article Sixth of Law 30513.

- Regulations for Environmental Protection during Electrical Activities (Supreme Decree No. 29-94-EM).

- Promotion of Investments for Electricity Generation by using Renewable Energy.

- Energy Security System in Hydrocarbons and the Energy Social Inclusion Fund (Law No. 29852), and its regulation, Supreme Decree No. 021-2012-EM.

- Supreme Decree No. 026-2016-EM, which approves the Regulation of the Wholesale Electricity Market.

- Law that guarantees energy security and promotes the development of the petrochemical pole southern Peru (Law No. 29970) and its Regulations, Supreme Decree No. 038-2013-EM and Supreme Decree No. 005-2014-EM.

- Law for the Promotion of Investments for Economic Growth and Sustainable Development (Law No. 30327), which establishes the simplification and incorporation of permits and procedures, as well as investment promotion measures.

- Legislative Decree that improves the Regulation of Electricity Distribution in order to promote the access to electrical energy in Peru (Legislative Decree No. 1221), which establishes amendments to the Electrical Concessions Law. It also establishes guidance for the development of Distributed Generation.

- Legislative Decree of the private investment promotion framework through private and public associations and projects (Legislative Decree No. 1224) and its Regulations approved by Supreme Decree No. 410-2015-EF, which establish process and methods to promote private investments for the development of public infrastructure, public services, services related to them, applied research and/or technological innovation projects and execution of asset projects.

The Company and Subsidiaries' Management considers that they have complied with applicable standards and regulations and that no contingencies will arise from such compliance.

2. SIGNIFICANT ACCOUNTING POLICIES

Main accounting policies used by the Company and Subsidiaries for the preparation and presentation of these consolidated financial statements are presented below:

(a) Statement of compliance and basis of preparation and presentation

The accompanying consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), effective as of December 31, 2016, including the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) and Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC), adopted by the IASB. Historical cost basis was applied for these purposes. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Fair value is the price that would be received when selling an asset, or paid when transferring a liability in an organized transaction between market participants at a measurement date, regardless of the fact that such price is directly observable or considerable through another valuation technique. When estimating the fair value of an asset or liability, the Company and Subsidiaries considers the characteristics of such asset or liability in the event that market participants would want to consider them when setting a price at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined over such basis, except for shared-based payments (within the scope of IFRS 2), lease transactions (within the scope of IAS 17), and measurements somehow similar to fair value, but not fair value, such as net realizable value in IAS 2, or value in use in IAS 36.

Additionally, for financial reporting purposes, fair value measurements are categorized in three levels: 1, 2 or 3; depending on the degree in which the information for fair value measurements are observable, and their significance to fair value measurement in its entirety, as described below:

Level 1: Input is quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company may access to at the measurement date.

Level 2: Input is different than quoted prices included in Level 1, which are observable for the asset or liability, whether directly or indirectly.

Level 3: Input is not observable for the asset or liability.

(b) Functional and presentation currency

The Company and its Subsidiaries prepare and present its consolidated financial statements in U.S dollars, their functional currency determined by Management. The functional currency is the currency of the main economic environment in which an entity operates, which influences the selling prices of traded goods, among other factors.

(c) Foreign currency transactions

Operations performed in currencies other than the U.S dollars are considered as “foreign currency transactions”, and are recognized by applying exchange rates effective at the date of transactions. At the end of each reporting period, balances of monetary items denominated in foreign currency are translated at exchange rates effective at that date. Balances of non-monetary items which are recognized in terms of historical cost in foreign currency are translated using exchange rates effective at the date of transactions.

Exchange differences derived from monetary items are recognized in net profit or loss for the period when arisen.

(d) Basis of consolidation

The accompanying consolidated financial statements include the accounts of the Company and of those entities controlled by the Company (Subsidiaries), as indicated in Note 1 (h). The Company considers that control of an entity is achieved when the Company has the power to govern their financial and operating policies in order to obtain benefits from their activities.

All intercompany transactions have been eliminated for consolidation. When necessary, adjustments are made to the financial statements of the Subsidiaries to bring their accounting policies into line with those used by the controlling Company.

Total comprehensive income of the Subsidiaries is attributed to the Company's partners and to the non-controlling owners of the Subsidiaries even in cases when these interests result in a deficit balance.

(e) Financial instruments

Financial instruments are defined as contracts that give rise simultaneously to a financial asset in a company and a financial liability or equity instrument in another company. Financial assets and liabilities are recognized when the Company and Subsidiaries becomes part of the contractual agreements of the corresponding instrument.

Financial assets and liabilities are initially recognized at fair value plus transaction costs directly attributable to the acquisition or issue of financial assets and financial liabilities, except for those classified at fair value through profit or loss, which are initially recognized at fair value and whose transaction costs, directly attributable to their acquisition or issue, are immediately recognized in profit or loss for the period.

Financial assets

Conventional purchases or sales of financial assets are recognized and derecognized using the accounting method at the contracting date, in which the following are recognized at such date: a) the asset to be received and the liability to be paid, and b) the derecognition of the asset being sold, the recognition of the possible output of the sale or disposal by other means, and the recognition of an account receivable from the buyer.

Financial assets held by the Company and Subsidiaries are classified as loans and receivables. These assets are recorded at amortized cost using the effective interest rate less any accumulated loss for recognized impairment. Income from interests is recognized using the effective interest rate, except for those short-term accounts receivable whose recognition is not considered significant. The Company and Subsidiaries does not hold financial assets that require to be classified as: Financial assets at fair value through profit or loss; held-to-maturity investments or available-for-sale financial assets, nor has it carried out transactions during the period when those classifications have been required.

Financial liabilities

Financial liabilities and equity instruments are classified in accordance with the content of contractual arrangements entered into and considering the economic substance of the contract. An equity instrument is any contract that evidences a residual interest in the Company's equity once all its liabilities are deducted.

The financial liabilities held by the Company and Subsidiaries are classified as other financial liabilities, and are recorded at amortized cost after initial recognition using the effective interest rate method, recognizing the interest expense throughout the corresponding period.

(f) Inventories

Inventories (supplies and spare parts) are stated at the lower of cost and net realizable value. Net realizable value represents the estimated selling price for inventories less all costs necessary to make the sale. Cost is determined using the weighted-average method. The estimate for obsolescence is recognized for those inventories in poor conditions and is charged to profit or loss in the year when obsolescence is identified.

(g) Property plant and equipment - Gas investments

Gas investments are presented at cost, net of accumulated depreciation and any recognized impairment loss. Initial disbursements, as well as those subsequently incurred, related to goods whose cost can be estimated reliably, and it is probable that future economic benefits will be obtained from them, are recognized as gas investments.

Disbursements for maintenance and repairs are recognized as expenses in the year when incurred. Profits or losses arising from the sale or disposal of an item of gas investments are determined as the difference between the sales proceed and the carrying amount of the asset, which are recognized in profit or loss for the period when the sale is considered performed.

Important components and spare parts that the Company and Subsidiaries expect to use for more than one period and that are related to an item of gas investments are recognized as such at the date of acquisition.

Work in progress are presented at cost. The cost of these assets in process includes professional fees and other costs, for qualifying assets, borrowing costs. Those assets are subsequently reclassified to their category of gas investments once the construction or acquisition process is complete and they are ready for their intended use. These assets are depreciated from that moment, similarly to the rest of gas investments.

The depreciation of gas investments directly related to the gas extraction and production process and the transformation of gas liquids into natural gasoline and LPG is calculated using the units of production method. The Company determines the allocation factors of depreciation by dividing the monthly production level by proven reserves (until the termination of the concession of 30 years) of dry natural gas and natural gas liquids at the beginning of the period. Those factors are used for the determination of depreciation of each asset involved in the gas extraction and production process and the transformation of natural gas liquids into natural gasoline. The depreciation of gas investments indirectly related to the process is calculated using the straight-line method based on the estimated useful life of assets, represented by equivalent depreciation rates.

Annual depreciation is recognized as expense and is calculated considering the following:

- For gas investments, using the units of production method, depreciation factors applied to plants were:

	2016	**2015**	**2014**
	%	**%**	**%**
Gas and fractionation plant	5.0, 5.1 and 10.2	6.3, 6.4 and 13.3	5.2, 5.5 and 12.7

- For gas investments, using the straight-line basis, useful lives estimated for certain items are:

	Years
Vehicles	5
Furniture and fixtures	10
Sundry equipment	4 – 10

Estimates on useful lives, residual values, if applicable, and depreciation method are reviewed regularly at the end of each reporting period in order to ensure that the depreciation method and period are consistent with the expected pattern of economic benefits of items of gas investments, prospectively incorporating the effects of any change in these estimates against net profit or loss in the period they are made.

(h) Property, plant and equipment – Energy generation and transmission

Property, plant and equipment are presented at cost, net of accumulated depreciation and any recognized impairment loss. Initial disbursements, as well as those subsequently incurred, related to goods whose cost can be estimated reliably, and it is probable that future economic benefits will be obtained from them, are recognized as property, plant and equipment.

Disbursements for maintenance and repairs are recognized as expenses in the year when incurred. Profits or losses arising from the sale or disposal of an item of property, plant and equipment are determined as the difference between the sales proceed and the carrying amount of the asset, which are recognized in profit or loss for the period when the sale is considered performed.

Important components and spare parts that the Company and Subsidiaries expect to use for more than one period and that are related to an item of property, plant and equipment are recognized as such at the date of acquisition.

Works in progress are presented at cost. The cost of these assets in process includes professional fees and other costs, for qualifying assets, borrowing costs. Those assets are subsequently reclassified to their category of property, plant and equipment once the construction or acquisition process is complete and they are ready for their intended use. These assets are depreciated from that moment, similarly to the rest of property, plant and equipment.

Annual depreciation is recognized as expense for the period and is determined as follows:

Property, plant and equipment directly related to the electrical energy generation process, which exclusively uses dry natural gas from the field of the Company and Aguaytia substation, are depreciated on the estimated useful life of the gas field of the Company, under the units of production method.

Allocation factors of depreciation are determined by dividing the monthly production level by proven reserves of dry gas at the beginning of the period, provided by the Company. Such factor is determined for each asset involved in the electrical generation process.

As of December 31, 2016, 2015 and 2014, depreciation factors applied to property, plant and equipment related to the useful life of the gas field of the Parent Company ranged between 5.0% and 5.1%, between 6.3% and 6.4% and between 5.2% and 5.5%, respectively.

The substations and transmission lines: Tingo Maria, Vizcarra and Paramonga, are depreciated by the straight-line method, based on the estimated useful life of 20 years, represented by equivalent depreciation rates.

Property, plant and equipment that are not involved directly in the energy generation process are depreciated using the straight-line method based on the estimated useful life of assets, represented by equivalent depreciation rates.

Useful lives estimated for certain items are as follows:

	Years
Buildings and other constructions	Between 22 and 33
Machinery and equipment	Between 4 and 10
Furniture and fixtures	5
Sundry and computer equipment	Between 4 and 10

Estimates on useful lives, residual values, if applicable, and depreciation method are reviewed regularly at the end of each reporting period in order to ensure that the depreciation method and period are consistent with the expected pattern of economic benefits of items of property, plant and equivalent, prospectively incorporating the effects of any change in these estimates against net profit or loss in the period they are made.

(i) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(j) Impairment of long-term assets

The Company and Subsidiaries regularly review the carrying amounts of its long-lived assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). If it is not possible to estimate the recoverable amount of an individual asset, the Company and Subsidiaries estimate the recoverable amount of the cash-generating unit where the asset belongs. If a reasonable and consistent allocation basis is identified, corporate assets are also allocated to individual cash-generating units, or otherwise, to the smallest group of cash-generating units for which a reasonable and consistent allocation basis is identified.

The recoverable amount is the higher of fair value less their cost to sell and value in use. Value in use is determined based on estimated future cash flows which are discounted to their present value, by using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks inherent to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is immediately recognized as expense.

An impairment loss can be subsequently reversed and recorded as income in profit for the period up to the amount in which the increased carrying amount does not exceed the carrying amount that had been determined if an impairment loss had not been recognized for the asset (or cash-generating unit) in previous years.

(k) Provisions

Provisions are recognized only when the Company and Subsidiaries have a present obligation (legal or constructive) as a result of a past event, it is probable that the Company and Subsidiaries will have to use resources which include economic benefits in order to settle such obligation and the amount of the obligation can be estimated reliably.

The amount recognized as provision reflects the best estimate of the disbursement necessary to settle the current obligation at the date of the consolidated statement of financial position, considering risks and uncertainties surrounding most of the events and circumstances concurrent to its valuation. If the amount of the provision is measured using estimated cash flows to settle the obligation, the carrying amount is the present value of corresponding disbursements.

In case it is expected that a part or the total disbursement necessary to settle the provision may be refunded by a third party, the portion receivable is recognized as an asset when its recovery is virtually certain, and the amount of such portion can be determined reliably.

(l) Contingent liabilities and assets

Contingent liabilities are not recognized in the consolidated financial statements, but are only disclosed in a note thereto unless the possibility of an outflow of resources is remote. When the possibility of an outflow of resources to cover a contingent liability is remote, such disclosure is not required.

Contingent assets are not recognized in the consolidated financial statements, but are only disclosed in a note to the consolidated financial statements when it is probable that an inflow of resources will occur.

Items previously treated as contingent liabilities will be recognized in the consolidated financial statements in the period when a change in probabilities occurs, that is, when it is determined that an outflow of resources is probable to occur to cover such liability. Items previously treated as contingent assets will be recognized in the consolidated financial statements in the period when it is determined that an inflow of resources is virtually certain to occur.

(m) Revenue recognition, costs and expenses

Revenue is measured using the fair value of the consideration, received or receivable, derived therefrom. Such revenue is reduced by estimates such as discounts and other similar concepts.

Sale of products, provision of services and others

- Revenue from the sale of dry natural gas, LPG and natural gasoline is recognized in the period when the good is delivered, all risks and benefits inherent to ownership have been transferred to the buyer and it is probable that economic benefits related to the transaction will flow to the Company.

  Revenue from energy and power generation and energy transmission delivered but not billed at the end of each month is billed the following month, but is recognized as revenue based on estimated consumption of customers in the corresponding month.

- Other revenue is recognized as realized and is recorded in the periods which it relates.

Interests

- Revenue from interests is recognized when it is probable that the Company and Subsidiaries will receive the economic benefits associated with the transaction and the revenue amount can be measured reliably. Such revenue is accumulated on a regular basis by taking the outstanding principal balance and applicable effective interest rate.

Costs and expenses

- The cost for sale of dry natural gas, LPG and natural gasoline is recorded in profit or loss of the year when goods are delivered, simultaneously with revenue recognition. Expenses are recorded in the periods they relate to and are recognized in profit or loss of the year when accrued, regardless of the payment date.

- The cost of generation of electrical energy and energy transmission are recorded in profit or loss of the year when service is provided, simultaneously with revenue recognition. Expenses are recorded in the periods they relate to and are recognized in profit or loss of the year when accrued, regardless of the payment date.

- Other costs and expenses are recognized when accrued.

(n) Accounting in foreign currency

The consolidated financial statements of the Company have been prepared according to the accounting records which are carried at U.S. dollars, pursuant to article 87°, paragraph 5 of the Peruvian Tax Code, which will remain effective in accordance with the license agreement for the production of hydrocarbons (Block 31-C) (Note 1).

The Subsidiaries Termoselva and Eteselva have prepared their financial statements in U.S. dollars (functional currency) based on their accounting records carried at Peruvian soles.

(o) Income tax

Income tax expense comprises estimated current income tax payable plus deferred income tax.

Current income tax is determined by applying the tax rate established under effective tax laws on net taxable income of the year.

Deferred income tax corresponds to the tax amount expected to be recovered or paid on temporary differences between reported carrying amounts of assets and liabilities, and their corresponding tax bases. Deferred income tax liabilities are generally recognized for all taxable temporary differences. Deferred income tax assets are generally recognized for all deductible temporary differences and tax credits discounts and unused tax losses, to the extent that it is probable that the Company and Subsidiaries will have sufficient future taxable profit to make them effective. Those assets and liabilities are not recognized if temporary differences proceed from goodwill or initial recognition (except in a business combination) of other assets and liabilities in an operation that does not affect tax or accounting profit/loss.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is not probable that the Company and Subsidiaries hold sufficient future taxable profit to recover the entirety, or a part, of those assets.

Deferred income tax assets and liabilities are measured at tax rates expected to be applied when the asset is realized or the liability is settled, based on approved rates and tax laws, or whose approval process is virtually completed at the end of the reporting period. The measurement of such deferred taxes reflects tax consequences that could derive from the manner the Company and Subsidiaries expect to recover or settle the carrying amount of its assets and liabilities at the end of the reporting period.

Current and deferred income taxes are recognized as expense or income, and are included in the determination of net profit or loss for the period, except if those taxes relate to items recognized in other comprehensive income or directly in equity, in which case, current or deferred income taxes are also recognized in other comprehensive income or directly in equity, respectively.

(p) Cash and cash equivalents

Cash includes cash on hand and freely available deposits. Cash equivalents comprise short-term financial investments, maturing in less than 90 days as from the acquisition date, are readily convertible into a known cash amount and are not subject to a significant risk of changes in value.

(q) Critical accounting judgments and key sources of uncertainty

Responsibility over information and estimations made

The Company and Subsidiaries Management is responsible for the information contained in these consolidated financial statements. For the preparation of these consolidated financial statements, certain estimates have been used to quantify some assets, liabilities, revenue, expenses and commitments recorded therein, based on experience and other relevant factors. Final results may differ from those estimates.

These estimates are reviewed on an ongoing basis. Changes in accounting estimates are prospectively recognized by recording the effects of changes in the corresponding profit or loss accounts for the period when corresponding reviews are conducted.

The most important estimates considered for the preparation of the consolidated financial statements of the Company and Subsidiaries refer to:

- Determination of functional currency and record of foreign currency transactions (Note 2 (b) and (c)).
- Estimate for energy and power revenues delivered and not billed (Note 2 (m)).
- Energy and power purchases not billed provision (Note 2 (m)).
- Estimate for electric energy transmission revenues (Note 2 (m)).
- Useful life of property, plant and equipment - gas investments (Note 2 (g)).
- Useful life of property, plant and equipment - Energy generation and transmission (Note 2 (h)).
- Impairment losses on specific assets (Note 2 (f), (g), (h), (j)).
- Current and deferred income tax determination (Note 2 (o)).
- Probability of contingencies (Note 2 (l) and (l)).

Key sources of uncertainty in estimates

We present the following basic assumptions regarding the future and other key sources of uncertainty in estimates, at the end of the reporting period, which may imply adjustments in the carrying amounts of assets and liabilities during the next financial period.

<u>Non-current assets impairment</u>

In order to review if the assets have suffered an impairment, the Company and Subsidiaries compare the carrying amount of the assets with their recoverable value at least annually and whenever there are indicators, applying the accounting policy described in Note 2 (j).

The methodology used by the Company and Subsidiaries in estimating the recoverable amount of the assets is the value in use calculated from the present value of the expected future cash flows derived from the use of such assets.

The Company's Management has evaluated as a single Cash Generating Unit (CGU) all of its gas investment, thermoelectric power plant and transmission line on regard to the impairment assessment of the Company; taking into account the business strategies are interrelated and are mainly depend on Block 31-C.

Useful life of property, plant and equipment

As described in Note 2(g) and (h), the Company and Subsidiaries review the estimated useful life of its gas investment and property, plant and equipment. In 2016, the management determined with its internal and external specialist that there were no significant changes on regard to the useful life estimate of the assets related to gas investment, the thermoelectric plant and transmission lines. The key sources of uncertainty considered for estimation of useful life are expected physical wear and tear and technical or commercial obsolescence arising from changes in use or changes in the demand for assets.

Proven reserves

Depreciation is calculated using the units-of-production method on proved developed producing gas reserves. In arriving at rates under the units-of-production method, the quantities of recoverable natural gas is established based on estimates made by our geologists and engineers. We periodically review our proved reserve estimates and makes changes as needed to depreciation expenses to account for new wells drilled and other events which may have caused significant changes in our estimated proved developed producing reserves.

Provisions for litigation and contingencies

The final cost of settlement of claims, claims and litigation may vary due to estimates based on different interpretations of standards, opinions and final assessments of the amount of damages. Therefore, any variation in circumstances related to this type of contingencies could have a significant effect on the amount of the provision for contingencies recorded.

Income tax and liabilities for deferred income tax

The correct valuation of income tax expense depends on several factors, including estimates of the realization of deferred tax assets and liabilities and the accrual of income tax payments. Current collections and payments may differ materially from these estimates as a result of changes in tax rules, as well as unforeseen future transactions impacting the Company and Subsidiaries tax balances (Notes 20 and 21).

3. NEW STANDARDS AND INTERPRETATIONS INTERNATIONALLY ISSUED

(a) New IFRSs, interpretations and modifications to existent standards that did not significantly affect reported amounts and disclosures in current and previous years.

The following standards, interpretations and amendments to current standards were published with mandatory application for accounting periods beginning on or after January 1, 2016, but were not relevant to the Company and Subsidiaries operations:

- ***IFRS 14 Regulatory Deferral Accounts.*** Effective for annual periods beginning on or after January 1, 2016.

  IFRS 14 permits eligible first-time adopters of International Financial Reporting Standards to continue their previous GAAP rate-regulated accounting policies, with limited changes, at the time of initial adoption of IFRSs as well as in subsequent financial statements.

  The application of this IFRS has had no impact on the consolidated financial statements due to this IFRS is not applicable to the operation of the Company and Subsidiaries.

- ***Amendments to IFRS 11 Joint Arrangements.*** Effective for annual periods beginning on or after January 1, 2016.

  The amendments to IFRS 11 provide guidance on how to account for the acquisition of an interest in a joint operation in which the activities constitute a business as defined in IFRS 3 Business Combinations. Specifically, the amendments state that the relevant principles on accounting for business combinations in IFRS 3 and other standards (e.g. IAS 36 Impairment of Assets regarding impairment of a cash-generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

  A joint operator is also required to disclose the relevant information required by IFRS 3 and other standards for business combinations.

  The amendments apply prospectively to acquisitions of interests in joint operations (in which the activities of the joint operations constitute businesses as defined in IFRS 3) occurring from the beginning of annual periods beginning on or after January 1, 2016.

  The application of these amendments has had no impact on the consolidated financial statements as the Company and Subsidiaries does not hold joint arrangements.

- ***Amendments to IAS 1 Presentation of Financial Statements.*** Effective for annual periods beginning on or after January 1, 2016.

  The amendments were a response to comments of financial information preparers that there were difficulties in applying the judgment when preparing and presenting information in the financial statements, and included the following changes:

  - Clarification that information should not be obscured by aggregating or by providing immaterial information, materiality considerations apply to all parts of the financial statements, even when some standards require specific disclosures.

  - Clarification that the list of line items to be presented in the financial statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements and the clarification that an entity's share of other comprehensive income of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether (or not) it will subsequently be reclassified to profit or loss.

- Examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order so far listed in paragraph 114 of IAS 1.

The application of these amendments has had no impact on the consolidated financial statements as the Company and Subsidiaries did not have any transactions or information that would need further aggregated or desegregated disclosures that previously have been considered.

- ***Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization.*** Effective for annual periods beginning on or after January 1, 2016.

  The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

  - When the intangible asset is expressed as a measure of revenue, or
  - When it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

  As the Company and Subsidiaries already use the straight-line method for the depreciation for its property, plant and equipment, the application of these amendments has had no impact on these consolidated financial statements.

- ***Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants.*** Effective for annual periods beginning on or after January 1, 2016.

  The amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with IAS 16, instead of IAS 41. The produce growing on bearer plants continues to be accounted for in accordance with IAS 41. These amendments include the option that bearer plants can be measured using either the cost model or the revaluation model set out in IAS 16.

  Management considers that these amendments are not applicable to the Company and Subsidiary since they do not hold biological assets.

- ***Annual Improvements to IFRSs 2012 – 2014 Cycle.*** Effective for annual periods beginning on or after January 1, 2016.

  The annual improvements to IFRSs 2012 – 2014 cycle include a number of amendments to various IFRSs, which are summarized below:

  The amendments to IFRS 5 introduce specific guidance for when an entity reclassifies an asset (or disposal group) from held for sale to hold for distribution to owners (or vice versa). The amendments clarify that such a change should be considered as a continuation of the original plan of disposal and hence requirements set out in IFRS 5 regarding the change of sale plan do not apply. The amendments also clarify the guidance for when held-for-distribution accounting is discontinued.

The amendments to IFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets.

The amendments to IAS 19 clarify that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The assessment of the depth of a market for high quality corporate bonds should be at the currency level (the same currency as the benefits are to be paid). For currencies for which there is no deep market, the market yields at the end of the reporting period on government bonds denominated in that currency should be used instead.

Management considers that these amendments are not applicable to the Company and Subsidiaries due to there were no any such transaction in the current year.

- ***Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception.*** Effective for annual periods beginning on or after January 1, 2016.

  The amendments clarify that the exemption from preparing consolidated financial statements is available to a parent company that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with IFRS 10. The amendments also clarify that the requirement for an investment entity to consolidate a subsidiary providing services related to the former's investment activities applies only to subsidiaries that are not investment entities themselves.

  Management considers these amendments are not applicable to the Company and Subsidiaries are not an investment entity and does not have a parent, subsidiary, associate or joint venture classified as an investment entity.

- ***Amendments to IAS 27 Equity Method in Separate Financial Statements.*** Effective for annual periods beginning on or after January 1, 2016

  The amendments on IAS 27 allow to account for investment in subsidiaries, joint ventures and associates in it separates financial statements using the equity method in such statements.

  Management applied in advance the amendments to IAS 27 in its separate financial statements for the period ended December 31, 2014.

(b) New IFRSs and interpretations issued applicable after the date of submission of the consolidated financial statements

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

- ***IFRS 9 Financial Instruments. Effective for annual periods beginning on or after January 1, 2018*** IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013, to include new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include: a) impairment requirements for financial assets, and b) limited changes to the classification and measurement requirements by introducing a "fair value through other comprehensive income" (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9:

- IFRS 9 requires all recognized financial assets within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortized cost or fair value. Specifically, debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interests on the principal outstanding, are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specific dates to cash flows that are solely payments of principal and interests on the principal amount outstanding, are generally measured at fair value through other comprehensive income. All other debt and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, only with dividend income generally recognized in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of such liability is recognized in other comprehensive income, unless the recognition of the changes of credit risk of the liability in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated at fair value through profit or loss is recognized in profit and loss.

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit impairment loss model, as opposed to an incurred credit impairment loss model under IAS 39. The credit impairment loss model requires an entity to account for expected credit losses and changes in those losses at each presentation date of the financial statements to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

- The new general hedge accounting requirements retain three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an "economic relationship". Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Management believes that at the date of the consolidated financial statements it is not practicable to provide a reasonable estimate of the effect of the application of this standard until a detailed review has been completed.

- ***IFRS 15 Revenue from Contracts with Customers.*** Effective for periods beginning on or after January 1, 2018.

  IFRS 15, issued in May 2014, establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations when it becomes effective.

  The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. Specifically, this standard introduces a 5-step approach to revenue recognition:

  Step 1: Identify the contract with a customer.
  Step 2: Identify the performance obligations in the contract.
  Step 3: Determine the transaction price.
  Step 4: Allocate the transaction price to the performance obligations in the contract.
  Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

  Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, that is, when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

  The Company's Management believes that the application of IFRS 15, in the future, may have a material impact on reported amounts and disclosures of the consolidated financial statements of the Company and Subsidiaries. However, it is not feasible to provide a reasonable estimate of the impact of IFRS 15 until the Company and Subsidiaries conducts a detailed review.

- ***IFRS 16 Leases.*** Effective for annual periods beginning on or after January 1, 2019.

  IFRS 16 establishes how to recognize, measure, present and disclose leases. This standard introduces only one accounting model, and requires lessees to recognize one asset and one liability for all leases provided they are not hired for 12 months or less, or the underlying asset has a less significant value. Lessors will continue classifying leases as operating or financial, with no further changes as they have been doing so under IAS 17.

  Management believes that the application of IFRS 16, in the future, will not have an impact as the Company and Subsidiaries do not have currently any contract that is under the scope of IFRS 16.

- ***IFRIC 22 Foreign Currency Transactions and Advance Consideration.*** Effective for annual periods beginning on or after January 1, 2018.

  The interpretation addresses foreign currency transactions or parts of transactions where:

  - There is consideration that is denominated or priced in a foreign currency;

  - The entity recognizes a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and

  - The prepayment asset or deferred income liability is non-monetary.

The Interpretations Committee came to the following conclusion:

- The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability.

- If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

Management is evaluating the possible impact that this interpretation will have in the consolidated financial statements.

- ***Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture***. The date of effective application of these amendments has been determined to be indefinite.

  These amendments deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, these amendments state that profits or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, profits and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

  Management believes that the amendments to this standard are not applicable to the Company and Subsidiary since it does not have associates or joint ventures.

- ***Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses.*** Effective for annual periods beginning on or after January 1, 2017.

  This standard amends IAS 12 Income Tax and clarifies the following:

  - Unrealized losses on debt instruments measured at fair value but at cost for tax purposes give rise to deductible temporary differences, regardless of whether the holder of the debt instrument expects to recover the carrying amount of the debt instrument until maturity or by selling it.

  - The carrying amount of an asset does not limit the estimation of probable future taxable profits.

  - The estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.

  - An entity assesses a deferred tax asset in combination with other deferred tax assets. In circumstances in which local tax law restricts the utilization of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

  Management believes that this amendment will not have a material impact on the financial statements since the Company and Subsidiaries do not have unrealized losses on debt instruments.

- ***Amendments to IAS 7 Disclosure Initiative.*** Effective for annual periods beginning on or after January 1, 2017.

  These amendments require an entity to provide disclosures that enable users of consolidated financial statements to evaluate changes in liabilities arising from financing activities.

  Management is evaluating the possible impact that amendment will have on the consolidated financial statements.

- ***Clarifications to IFRS 15 Revenue from Contracts with Customers.*** Effective for annual periods beginning on or after January 1, 2018.

  These clarifications deal with three aspects of the standard (identification of performance obligations, principal versus agent considerations, and licenses) and provides a transition guidance for modified and finished contracts.

  Management is evaluating the possible impact that amendment will have on the consolidated financial statements.

- ***Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions.*** Effective for annual periods beginning on or after January 1, 2018.

  These amendments clarify the standard in relation to the accounting for cash-settled share-based payment transactions that include a performance conditions, the classification of share-based payment transactions settled with net of tax withholdings and the accounting for the modification of share-based payment transactions from cash-settled to equity-settled.

  Management believes that this amendment will not have a material impact on the consolidated financial statements since the Company and Subsidiaries does not have share-based payment plans.

- ***Amendments to IFRS 4. Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts.*** The overlay approach should be applied when IFRS 9 is used for the first time. The deferral approach should be applicable for annual periods beginning on or after January 1, 2018 and can only be available for three years after such date.

  These amendments provide two options for entities that issue insurance contracts within the scope of IFRS 4:

  - An option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income of expenses arising from designated financial assets (the “overlay approach”).

  - An optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4 (the "deferral approach").

  The application of both approaches is optional and an entity is permitted to stop applying them before the new insurance contracts standard is applied.

  Management believes that this amendment will not have a material impact on the consolidated financial statements since the Company and Subsidiaries does not issue contracts that can be classified as such within the scope of IFRS 4 Insurance Contracts.

- ***Amendments to IAS 40 Transfers of Investment Property.*** Effective for annual periods beginning on or after January 1, 2018.

  The amendments in IAS 40 Investment Property are:

  - Paragraph 57 has been amended to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use.

  - The list of evidence in paragraph 57(a) – (d) was designated as non-exhaustive list of examples instead of the previous exhaustive list.

  Management believes that this amendment is not applicable to the Company and Subsidiaries since do not have investment property.

- ***Annual Improvements to IFRSs 2014 – 2016 Cycle***

  The annual improvements to IFRSs 2014 – 2016 cycle include a number of amendments to various IFRSs, which are summarized below:

  - IFRS 1 – Deleted the short-term exemptions in paragraphs E3–E7 of IFRS 1, because they have now served their intended purpose.

  - IFRS 12 – Clarified the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10–B16, apply to an entity's interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

  - IAS 28 – Clarified that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

  The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after January 1, 2018. The amendments to IFRS 12 are effective for annual periods beginning on or after January 1, 2017.

  Management believes that the amendments to these standards are not applicable to the Company and Subsidiaries since do not execute those types of operations

4. FINANCIAL INSTRUMENTS AND FINANCIAL RISKS

Categories of financial instruments

The financial assets and liabilities of the Company and Subsidiaries comprise the following:

	2016 US$000	2015 US$000	2014 US$000
Financial assets:			
Receivables (including cash and cash equivalents)			
Cash and cash equivalents	27,845	90,425	49,515
Trade accounts receivable (net)	10,614	14,816	20,415
Other accounts receivable	890	431	953
Accounts receivable from related entities	86	1,154	-
Total	39,435	106,826	70,883
Financial liabilities:			
At amortized cost			
Financial obligations	-	15,822	15,765
Trade accounts payable	10,611	7,474	5,960
Other accounts payable	288	547	626
Accounts payable to related entities	16,680	294	1,279
Total	27,579	24,137	23,630

Financial risks

The Company and Subsidiaries are constantly exposed to credit, liquidity and market risks, which arise from the variation of exchange and interest rates. These risks are concentrated on hydrocarbons and electrical energy markets and are managed through specific policies and procedures established by the Financial Management. The Financial Management area is in charge of dealing with risks, and identifies, evaluates and covers financial risks.

(a) Market risk

(i) Exchange rate risk

The Company and Subsidiaries mainly bill in U.S. dollar which enables it to meet its obligations in that currency. The exchange rate risk in the Company and Subsidiaries mainly arises from cash and cash equivalents and others account receivables held in foreign currency. The Company and Subsidiaries do not use derivative financial instruments to cover its exposure to exchange rate risk.

The carrying amount of monetary assets and liabilities in foreign currency as of December 31, 2016, 2015 and 2014, reflected according to the basis of accounting described in Note 2 (c) to the consolidated financial statements, is presented below:

	2016	2015	2014
	S/000	S/000	S/000
Assets:			
Cash and cash equivalents	6,472	26,160	19,460
Other accounts receivable	3,930	3,725	6,717
Income tax asset	7,669	-	-
Total	18,071	29,885	26,177
Liabilities:			
Other accounts payable	2,947	2,200	1,638
Income tax liability	-	19,516	4,098
Total	2,947	21,716	5,736
Asset position (net)	15,124	8,169	20,441

The balances of financial assets and liabilities in foreign currency correspond to balances in Soles and are expressed in U.S dollars at the supply and demand exchange rates published by Superintendencia de Banca, Seguros y AFP – SBS (Superintendence of Banking, Insurance and Private Pension Fund Administrators), effective at those dates, which were US$0.2976 for selling and US$0.2983 for buying (US$0.2930 for selling and US$0.2934 for buying as of December 31, 2015; US$0.3346 for selling and US$0.3355 for buying as of December 31, 2014) per US$1.00.

As of December 31, 2016, the Company and Subsidiaries recorded foreign exchange profit for US$2,352 (US$1,706 in 2015 and US$1,708 in 2014) and foreign exchange losses for US$2,878 (US$2,396 in 2015 and US$3,181 in 2014), whose net amount is included in item exchange difference, net in the consolidated statement of profit or loss and other comprehensive income.

Management considers a sensitivity rate of 10% as reasonable in the evaluation of exchange rate risk. A sensitivity analysis assuming the revaluation/devaluation of the U.S dollar (US$), equivalent at the aforementioned rates, exclusively on balances of monetary assets and liabilities reflected above, is detailed in the following table:

	Increase (decrease in): Exchange rate	Effect on profit (loss) before income tax and equity
	%	US$000
2016:		
US$ / Soles	+10%	(451)
US$ / Soles	-10%	451
2015:		
US$ / Soles	+10%	(240)
US$ / Soles	-10%	240
2014:		
US$ / Soles	+10%	(686)
US$ / Soles	-10%	686

(ii) Price Risk

The Management analyzes price risks related to the sale of LPG and natural gasoline.

Regarding the sale of LPG, the Management believes that the price risk is mitigated considering the mechanism established by the Fund for the Stabilization of Fuel Prices for the domestic market, which seeks to compensate the high volatility of crude oil prices, so there are no significant risks as a result of variations of international prices of LPG.

Regarding the selling price of natural gasoline, the Company is exposed to commercial risks arising from changes in selling prices since they are determined in international markets. A sensitivity analysis of the Company is presented below, in light of the increase and decrease of 6% of average selling prices of natural gas and the impact on its gross income.

	Increase (decrease) in international price	**Effect on gross profit**
	%	**US$000**
2016:		
Selling price of natural gasoline	+6%	539
Selling price of natural gasoline	-6%	(539)
2015:		
Selling price of natural gasoline	+6%	1,000
Selling price of natural gasoline	-6%	(1,000)
2014:		
Selling price of natural gasoline	+6%	1,856
Selling price of natural gasoline	-6%	(1,856)

(iii) Interest rate risk

The Company and Subsidiaries do not have significant assets that accrue interests. Revenue and operating cash flows of the Company and Subsidiaries are independent of changes in market interest rates.

The policy of the Company and Subsidiaries is to maintain borrowings at fixed interest rates mainly. In this regard, long-term debts at fixed rates represent all total financial debt as of December 31, 2016, 2015 and 2014; therefore, any change in interest rates would not adversely affect profit or loss of the Company and Subsidiaries.

(b) Credit risk

Credit risk refers to the event that the other party fails to meet their contractual obligations, which causes a financial loss for the Company and Subsidiaries. Financial instruments that partially expose the Company and Subsidiaries to credit risk concentrations mainly comprise cash and cash equivalents and trade accounts receivable.

Regarding accounts receivable arise from the inability of debtors to meet their obligations. During 2016, the higher credit risk that faces the Company is the non-collectability on invoices issued to Maple for natural gasoline sales, which during 2016 represented the 6% of period revenue (2% in 2015). Management is assessing new strategies with the customer in order to collect the outstanding amounts and to overcome this situation.

The Company has adopted actions to avoid the increase in the exposition on the aforementioned accounts receivables, these actions consist of the construction and coming set up of a dispatch plant that will allow the sale of natural gasoline to other clients. The startup of the dispatch plant‘s operations is scheduled for planned in July of 2017.

Regarding deposits in banks, the Company and Subsidiaries place their liquidity excess in renowned financial institutions, establish conservative credit policies and constantly evaluate existing conditions in the market they operate. As a result, the Company and Subsidiaries do not estimate significant losses arising from this risk.

(c) Liquidity risk

Management is mainly responsible for dealing with liquidity risk for which it has established policies and procedures regarding short, medium and long term debts. The Company and Subsidiaries manage liquidity risk by monitoring their cash flows and the maturities of their financial assets and liabilities.

The contractual maturity of non-derivative financial assets is current as of December 31, 2016, 2015 and 2014.

The analysis of financial liabilities, including interest payable of the Company and Subsidiaries, classified per maturity, considering the remaining period to reach such maturity at the date of the consolidated statement of financial position, is presented below:

	Less than 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**	**Total**
	US$000	**US$000**	**US$000**	**US$000**
2016				
Trade accounts payable	10,611	-	-	10,611
Other accounts payable	288	-	-	288
Accounts payable to related entities	16,680	-	-	16,680
Total	27,579	-	-	27,579
2015				
Financial obligations	752	16,063	-	16,815
Trade accounts payable	7,474	-	-	7,474
Other accounts payable	547	-	-	547
Accounts payable to related entities	294	-	-	294
Total	9,067	16,063	-	25,130
2014				
Financial obligations	752	752	15,898	17,402
Trade accounts payable	5,960	-	-	5,960
Other accounts payable	626	-	-	626
Accounts payable to related entities	1,279	-	-	1,279
Total	8,617	752	15,898	25,267

Management handles the risk associated with the amounts included in each one of the categories mentioned above, which include maintaining good credit history with local banks in order to ensure sufficient credit lines and also pay its working capital with cash flows provided by its operations.

(d) Capital risk management

The objectives of the Company and Subsidiaries when managing capital, are to safeguard their ability to continue as going concern in order to generate returns to its partners and other interest groups.

The capital structure of the Company and Subsidiaries comprises net debt (financial obligations less cash and cash equivalents) and consolidated equity.

As of December 31, 2016, 2015 and 2014, cash and cash equivalents exceed the balances of net indebtedness at those dates, with which this risk is mitigated.

(e) Fair Value of financial instruments

Fair value is defined as the amount for which a financial instrument could be exchanged in a transaction between two willing parties, which should not be a forced sale or settlement, and the best evidence of its value is its price, if any.

As of December 31, 2016, 2015 and 2014, Management of the Company and Subsidiaries considers that the carrying amounts of their financial instruments are similar to their fair values estimated in the market, based on methodologies and assumptions indicated below:

- The item cash and cash equivalents does not represent a significant credit or interest rate risk, so it has been assumed that the carrying amount is similar to fair value.

- Accounts receivable and payable mature in less than one year, so it has been considered that their fair value is not significantly different than their carrying amount.

- Management considers that the fair values of other financial liabilities are similar to their carrying amount due to their short-term maturity. As of December 31, 2015 and 2014, the carrying amount of financial obligations are approximate that their fair value due to accrue interest at market interest rate.

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the following:

	2016 US$000	2015 US$000	2014 US$000
Cash on hands and banks (a)	10,845	77,925	49,515
Term deposits (b)	17,000	12,500	-
Total	27,845	90,425	49,515

(a) Cash on hands and cash in banks mainly comprise checking accounts and correspond to balances held in local and foreign banks, in Peruvian soles and U.S. dollars, and are freely available.

(b) As of December 31, 2016 and 2015, term deposits correspond to funds held by the Company and Subsidiaries in local banks, in U.S. dollars, which mature in between 7 and 13 days and accrue interests at an annual rate of 0.3% and 0.2% respectively.

6. TRADE ACCOUNTS RECEIVABLE (NET)

Trade accounts receivable (net) comprise the following:

	2016 US$000	2015 US$000	2014 US$000
Energy and power delivered not billed	6,294	8,300	6,797
Invoices	15,953	9,536	14,141
Total	22,247	17,836	20,938
Impairment estimate	(11,633)	(3,020)	(523)
Total	10,614	14,816	20,415

The average credit period granted to customers ranges between 15 and 35 days. Once the period indicated above expiry, overdue balances accrue interests. The interest is determined by the annual average of the active and passive rate in soles. As of December 31, 2016, the annual average rate is 10.31% (9.34% in 2015 and 9.26% in 2914) and 3.90% (4.11% in 2015 and 3.98% in 2014) for local and foreign currency, respectively.

As of December 31, 2016, the Company has accounts receivable within their maturity terms for US$6,742 (US$13,252 and US$13,490 as of December 31, 2015 and 2014, respectively).

As of December 31, 2016, Aguaytia and its subsidiary Termoselva hold trade accounts receivable overdue but not impaired for US$3,872 (US$1,564 and US$6,925 as of December 31, 2015 and 2014, respectively), for which no impairment estimate of accounts receivable has been determined since their credit quality has not varied significantly, and the Company's Management considers that those amounts are still recoverable.

The aging of these balances is summarized as follows:

	2016 US$000	2015 US$000	2014 US$000
Overdue for up to 30 days	3,480	1,348	3,285
Overdue between 31 and 90 days	392	216	3,640
Total	3,872	1,564	6,925

Energy and powered delivered but not billed

Energy and power delivered but not billed corresponds to the consideration for power and energy that the Economic Operation Committee of the National Interconnected System (COES-SINAC) monthly allocates to each generator and communicates to be billed to other generators or distributors, members of SINAC. Such energy and power basically corresponds to sales performed in December.

As of December 31, 2016, estimated energy delivered but not billed includes the amount of US$216 (US$213 as of December 31, 2015 and US$243 as of December 31, 2014 respectively) corresponding to consumptions of power and energy of customers (distribution companies) without contracts, under the scope of Law No. 29179 and Emergency Decree No. 049-2008, according to Note 1 (i) of the consolidated financial statements.

Energy and power delivered but not billed as of December 31, 2016, 2015 and 2014 was billed and collected substantially in January 2017, 2016 and 2015, respectively, except the impaired estimate amount, with no significant changes.

Impairment estimate of accounts receivable

The movement of the impairment estimate of accounts was as follows:

	2016	2015	2014
	US$000	US$000	US$000
Opening balance	3,020	523	750
Additions (Note 19)	8,940	2,773	-
Collections (Note 19)	(331)	(220)	(187)
Exchange difference	4	(56)	(40)
Closing balance	11,633	3,020	523

The impairment estimate of accounts receivable is determined according to policies established by Management. This estimate is recognized considering, among other factors, uncollected balances for more than 90 days, the possibilities to be collected, and the evidence of financial difficulties of the debtor that will increase, beyond normal, the uncollectible risk of uncollected balances, so that its amount has a level that Management estimates appropriate to cover possible losses in accounts receivable at the date of the consolidated statement of financial position. The estimate amount is recognized against profit or loss of the year. Subsequent collections are recognized against profit or loss of the year. Basic criteria to derecognize impaired financial assets against such valuation account are: (i) depletion of the collection process, including enforcement of guarantees, and (ii) the debtor's financial difficulties that evidence the inability to enforce the collection of accounts receivable.

The aging of accounts receivable and the status of customers are constantly monitored to ensure the appropriateness of the estimate in the consolidated financial statements. As a result, Management considers that the impairment estimate of accounts receivable covers sufficiently the risk of loss of doubtful accounts as of December 31, 2016, 2015 and 2014.

During 2016, the higher credit risk that faces the Company is the un-collectability on the invoices issued to Maple for natural gasoline sales. The impairment estimate for this customer was US$8,609 (US$2,553 in 2015) recognized in 2016 which include some invoices billed during 2016 and 2014.

7. OTHER ACCOUNTS RECEIVABLE

Other accounts receivable comprise the following:

	Current			Non-current		
	2016	2015	2014	2016	2015	2014
	US$000	US$000	US$000	US$000	US$000	US$000
Financial assets:						
Fund for the stabilization of fuel prices (c)	220	168	696	-	-	-
Sundry items	670	263	257	-	-	-
Subtotal	890	431	953	-	-	-
Non-financial assets:						
Credit on value added tax (a)	799	-	-	-	-	-
Claims to third parties -Credit on Temporary Taxes on net assets - ITAN (b)	91	-	124	448	448	630
Income tax asset (d)	-	-	-	477	477	545
Subtotal	890	-	124	925	925	1,175
Total	1,780	431	1,077	925	925	1,175

(a) As of December 31, 2016 the balance corresponds to credit on value added tax (VAT) which will be compensated on future periods.

(b) Claims to third parties correspond to temporary tax on net assets (ITAN):

(i) Eteselva: As of December 31, 2016 and 2015, this item refers to ITAN from 2006, and 2007. During 2008, Eteselva submitted a return request for years 2006 and 2007 to the Tax Administration, which was partially disallowed, and an appeal is currently being processed at the Tax Court. On January and June 2015, the Tax Administration refunded an amount of S/370 and S/351 equivalent to US$124 and US$111, respectively, corresponding to ITAN from 2010 and 2011, respectively.

(ii) Termoselva: As of December 31, 2016 and 2015, this item refers to ITAN from 2006 and 2007 for S/606 (equivalent to US$178) and S/343 (equivalent to US$101), respectively. During 2008, the Company submitted a return request for ITAN from 2006 and 2007 to the Tax Administration. After the tax review of those periods, the Tax Administration partially disallowed the return of ITAN, and an appeal is currently being processed at the Tax Court.

Subsidiaries Termoselva and Eteselva have the right to request the return within a period of 4 years after having submitted the pertinent tax return to the Tax Administration. Management considers that these ITAN balances will be recovered in the long term.

(c) This item corresponds to an account receivable from the Peruvian government in relation to the Fund for the stabilization of fuel prices (Note 1). The collection term of such fund unilaterally depends on the Peruvian government; however, Management considers that there is no impairment risk of accounts receivable since there is a fund held by the government which is intended exclusively for the pertinent payment.

(d) As of December 31, 2016, 2015 and 2014, this item comprises the balance in favor of income tax of Eteselva, regarding the payments on account made in 2005, whose total amount exceeded the provision for income tax of such year. In December 2010, the Management submitted a return request to the Tax Administration, which was disallowed. In October 2012, the Management filed an appeal before the Tax Court. Up to date, it's pending the resolution from the Tax Court.

8. BALANCES AND TRANSACTIONS WITH RELATED ENTITIES

The parent Company of the Company and Subsidiaries is Aguaytia Energy, LLC, which belonged to the group of Duke Energy Corporation Group (United States of America) until December 20, 2016.

As described in Note 1(a), from December 20, 2016 and on, the Company and Subsidiaries belongs to ISQ Global Infrastructure Fund Group (United States of America).

During 2016, 2015 and 2014, the Company and Subsidiaries performed the following significant transactions with related entities in the normal course of operations:

	2016	2015	2014
	US$000	US$000	US$000
Sales:			
Sale of electrical energy transmission (Note 1)			
Orazul Energy Egenor S. en C. por A. (before Duke Energy Egenor S. en C. por A.) (a)	139	14	312
Expenses:			
Orazul Energy Egenor S. en C. por A. (before Duke Energy Egenor S. en C. por A.) (a) by:			
Operation and maintenance services (Note 18)	(6,415)	(5,656)	(5,769)
Management services and other administration services (Note 19)	(4,786)	(4,824)	(4,926)
Purchase of active and reactive electrical energy	(355)	(339)	(3,069)
Dividends paid:			
Aguaytia Energy LLC (Note 16 (b))	(68,892)	-	(13,417)
Peru Energy Holding LLC (Note 16 (c))	(1,970)	-	(383)
Loans received:			
Orazul Energy Egenor S. en C. por A. (before Duke Energy Egenor S. en C. por A.) (a)	16,032	-	-

(a) Related entity
(b) Parent company
(c) Partner

These transactions, and other less relevant, resulted in the following balances receivable from and payable to the related entity:

	2016 US$000	2015 US$000	2014 US$000
Non-trade accounts receivable			
Orazul Energy Egenor S. en C. por A. (before Duke Energy Egenor S. en C. por A.) (a)	86	1,154	-
Non-trade accounts payable			
Orazul Energy Egenor S. en C. por A. (before Duke Energy Egenor S. en C. por A.) (a)			
Loans	16,032	-	-
Sundry services and reimbursements	648	294	1,279
Total	16,680	294	1,279

(a) Related entity

Non-trade accounts payable to Orazul Energy Egenor S. en C. por A. (before Duke Energy Egenor S. en C. por A.) correspond mainly to management, administrative and maintenance services for a total amount of US$633 (US$205 in 2015 and US$846 in 2014).

On 2016, the Company and Subsidiaries subscribed financing agreements for US$16,032 with Orazul Energy Egenor S. en C. por A. (before Duke Energy Egenor S. en C. por A.); with maturity interest stablished between May and December 2017. Loans received were agreed at a 2.2% annual rate.

9. INVENTORIES (NET)

Inventories (net) comprise the following:

	2016 US$000	2015 US$000	2014 US$000
Supplies and spare parts	5,366	5,200	5,596
LPG	-	58	145
Fuel	12	-	8
Total	5,378	5,258	5,749
Obsolescence estimate	(662)	(565)	(551)
Total	4,716	4,693	5,198

The movement of the obsolescence estimate of inventories was as follows:

	2016	**2015**	**2014**
	US$000	**US$000**	**US$000**
Opening balance	565	551	464
Increase (Note 18)	132	278	87
Recovery (Note 18)	(35)	(264)	-
Closing balance	662	565	551

The obsolescence estimate of inventories was determined based on external technical reports. Management believes that this estimate covers the obsolescence risk appropriately as of December 31, 2016, 2015 and 2014.

10. PROPERTY, PLANT AND EQUIPMENT (NET) - GAS INVESTMENTS

The movement in the cost and accumulated depreciation of property, plant and equipment – gas investments during 2016, 2015 and 2014 was as follows:

	Gas and fractionation plant	Vehicles	Furniture and fixture	Sundry equipment	Works in progress	Total
	US$000	US$000	US$000	US$000	US$000	US$000
COST:						
As of January 2014	113,445	197	314	514	1,427	115,897
Additions	-	-	-		5,467	5,467
Transfers and others	3,523	-	(35)	37	(3,493)	32
As of December 31, 2014	116,968	197	279	551	3,401	121,396
Additions	-	-	-	-	8,089	8,089
Disposals	(21)	(47)	-	-	(85)	(153)
Transfers and others	2,991	-	-	197	(3,188)	-
As of December 31, 2015	119,938	150	279	748	8,217	129,332
Additions	-	-	-	-	7,776	7,776
Disposals	(20)	-	-	(9)	-	(29)
Transfers and others	7,822	-	70	88	(7,980)	-
As of December 31, 2016	127,740	150	349	827	8,013	137,079
ACCUMULATED DEPRECIATION:						
As of January 2014	66,824	151	262	323	-	67,560
						-
Additions	3,279	18	-	43	-	3,340
As of December 31, 2014	70,103	169	262	366	-	70,900
Additions	3,765	19	3	68	-	3,855
Disposals	-	(47)	-	-	-	(47)
As of December 31, 2015	73,868	141	265	434	-	74,708
Additions	3,677	9	12	87	-	3,785
Disposals	(17)	-	-	(6)	-	(23)
As of December 31, 2016	77,528	150	277	515	-	78,470
NET COST:						
As of December 31, 2016	50,212	-	72	312	8,013	58,609
As of December 31, 2015	46,070	9	14	314	8,217	54,624
As of December 31, 2014	46,865	28	17	185	3,401	50,496

(a) The charge for depreciation of property, plant and equipment - gas investments in 2016 for US$3,785 (US$3,855 in 2015 and US$3,340 in 2014) is presented in item cost of sales in the consolidated statement of profit or loss and other comprehensive income (Note 18).

11. PROPERTY, PLANT AND EQUIPMENT (NET) – ENERGY GENERATION AND TRANSMISSION

The movement in the cost and accumulated depreciation of property, plant and equipment – energy generation and transmission during 2016, 2015 and 2014 was as follows:

	Land	Buildings and other constructions	Machinery and equipment	Vehicles	Furniture and fixtures	Sundry equipment	Works in progress	Units in transit	Total
	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000
COST:									
As of January 1, 2014	218	3,573	162,866	52	450	853	14	10,525	178,551
Additions	-	-	-	-	-	-	2	4,296	4,298
Transfers	-	216	13,892	-	-	5	(11)	(14,108)	(6)
As of December 31, 2014	218	3,789	176,758	52	450	858	5	713	182,843
Additions	-	-	-	-	-	-	467	333	800
Transfers	-	40	294	-	50	13	(76)	(321)	-
As of December 31, 2015	218	3,829	177,052	52	500	871	396	725	183,643
Additions	-	-		-	-	-	1,658	-	1,658
Transfers	-	107	1,576	-	31	208	(1,922)	-	-
As of December 31, 2016	218	3,936	178,628	52	531	1,079	132	725	185,301
ACCUMULATED DEPRECIATION:									
As of January 1, 2014	-	1,054	80,238	52	342	413	-	-	82,099
Additions	-	115	6,577	-	21	67	-	-	6,780
As of December 31, 2014	-	1,169	86,815	52	363	480	-	-	88,879
Additions	-	121	7,276	-	25	69	-	-	7,491
As of December 31, 2015	-	1,290	94,091	52	388	549	-	-	96,370
Additions	-	128	6,160	-	27	78	-	-	6,393
As of December 31, 2016	-	1,418	100,251	52	415	627	-	-	102,763
NET COST:									
As of December 31, 2016	218	2,518	78,377	-	116	452	132	725	82,538
As of December 31, 2015	218	2,539	82,961	-	112	322	396	725	87,273
As of December 31, 2014	218	2,620	89,943	-	87	378	5	713	93,964

(a) The charge for depreciation of property, plant and equipment - energy generation and transmission in 2016 for US$6,393 (US$7,491 in 2015 and US$6,780 in 2014) is presented in item cost of sales in the consolidated statement of profit or loss and other comprehensive income (Note 18).

(b) As of December 31, 2016, 2015 and 2014, the Company's Management considers that there are situations that could indicate that the value of property, plant and equipment - energy generation and transmission and gas investments (Note 10) may be impaired such as the impairment of the accounts receivable from Maple and the reduction of the hydrocarbons sales; however the Company's Management evaluated and concluded that there is not an impairment that should be recorded in the financial statements.

(c) As of December 31, 2016, 2015 and 2014, the Company and Subsidiaries do not have commitments for the acquisition of property, plant and equipment - energy generation and transmission and gas investments (Note 10).

(d) According to the policies established by the Company's Management, as of December 31, 2016, 2015 and 2014, the Company has hired corporate insurance policies against strikes, riots, damages, vandalism and all risks to cover its property, plant and equipment - energy generation and transmission and gas investments (Note 10) and also the property, plant and equipment of its Subsidiaries. Management considers that those corporate insurance policies meet the standard used by equivalent companies of the industry and cover appropriately the risk of possible losses for any damage that may occur, considering the type of assets owned by the Subsidiaries.

12. FINANCIAL OBLIGATIONS

In November 2011, the Company and Subsidiaries obtained a loan from Citibank Peru (hereinafter the Bank) for US$15,895 in order to pay the first, second and third issuance of securitization bonds. This loan accrued interests at LIBOR plus 1.75% and matured in March 2012. In March 2012, Management of the Company and Subsidiaries entered into a new financing agreement with the Bank and changed the original short-term maturity to 5 years and the variable interest rate to an annual fixed interest rate of 4.65%, so the quarterly maturity regarding the interest and principal will be paid on March 25, 2017.

In November 2014, the Company signed the first addendum with the Bank to change the annual interest rate from 4.65% to 4.30%. All other obligations remained the same with no changes.

The loan constitutes a direct, unconditional unsubordinated and unsecured obligation of the Company and Subsidiaries, which has a payment priority on other loans and the same conditions, except those obligations whose preference is determined by law.

The Company and Subsidiaries, each as guarantor, unconditionally guarantee the timely payment at maturity of the obligations engaged with the Bank for each one of them, and assume the role of both main debtor and cross guarantor. In case one of the Companies does not pay any obligation at maturity, the other Companies will severally pay such obligation. Each guarantor understands, accepts and confirms that after the occurrence of an event of default, the Bank can use this guarantee against any of the guarantors.

During the effective term of the loan, the Company and Subsidiaries will be subject mainly to the following restrictions and responsibilities:

- For each quarter, maintain a financial debt at an EBITDA not greater than 2.

- Maintain a debt service coverage ratio not less than (i) even 1.5 for each quarter ending on the period from the disbursement date to the 15th installment, and (ii) 0.7 for each subsequent quarter.

- Refrain from granting security interests and/or levies on its present properties or the ones to be acquired in the future, nor grating cash flow rights, except existing levies before the effective date of the loan, or levies on certain assets that have been granted in the normal course of operations, and in compliance with common practices of the Company and Subsidiaries that do not exceed anytime the amount of US$10,000.

- Refrain from incurring a new debt, in case the Company and Subsidiaries fail to comply with their contractual obligations with the Bank.

- Merger or consolidation, unless the Company and Subsidiaries act as acquirers or the merger is performed between related entities.

- Sell, lease, transfer or dispose any asset or grant any option or any other right to acquire, lease or buy any asset, except (i) the sale of inventories in the normal course of operations, (ii) the sale of other unused or useful goods for the economic activities of borrowers, (iii) transfers or disposals of property with a fair value that does not exceed in a period 25% of the consolidated equity of the Company and Subsidiaries at the end of their last year.

- Refrain from distributing dividends or other distribution of assets, in case the Company and Subsidiaries are undergoing a bankruptcy proceeding.

During November 2016, the Company decided to pre-pay the remaining balance owed to Citibank Peru and in Management’s opinion, all the restrictive clauses and responsibilities on which management was obliged to, were properly accomplished until the payment date.

13. TRADE ACCOUNTS PAYABLE

Trade accounts payable comprise the following:

	2016	**2015**	**2014**
	US$000	**US$000**	**US$000**
Invoices	6,356	4,846	3,332
Goods and services received but not billed	4,255	2,628	2,628
Total	10,611	7,474	5,960

Trade accounts payable are mainly denominated in U.S. dollars, have current maturities, do not accrue interests and do not have specific guarantees.

14. OTHER ACCOUNTS PAYABLE

Other accounts payable comprise the following:

	2016	2015	2014
	US$000	**US$000**	**US$000**
Financial liabilities:			
Guarantee deposits	-	-	20
Sundry items	288	547	606
Sub-total	288	547	626
Non-financial liabilities:			
Value-Added Tax	765	1,089	537
Other taxes	61	166	171
Sub-total	826	1,255	708
Total	1,114	1,802	1,334

Other accounts payable are mainly denominated in Peruvian soles and have current maturity.

15. DEFERRED INCOME

In December 1999, the Company entered into an Interconnection Agreement with Compañia Minera Antamina S.A. (hereinafter Antamina) for US$3,092. Then, as part of the simple reorganization performed by the Company, in May 2001, the Parent Company assigned the rights and obligations derived therefrom to its Subsidiary Eteselva.

Pursuant to the Interconnection Agreement, Antamina receives for use the interconnection line to Vizcarra substation for a period of 20 years counted from January 1, 2000. As consideration, Antamina transferred the property of the electrical interconnection works at Huallanca substation, performed by Antamina.

The cost of received assets and future income for the assignment of use to Antamina were initially recognized as fixed assets and deferred income, respectively. Fixed assets are recorded at cost and are depreciated under the straight-line method in a period of 20 years. Deferred income is recognized as income from electrical energy transmission in the consolidated statement of profit or loss and other comprehensive income based on the straight-line method in a period of 20 years.

An amount of US$155 is recorded each year as revenues in the item electrical energy transmission (Note 17).

16. EQUITY

(a) Issued capital stock

As of December 31, 2016, 2015 and 2014, issued capital stock is represented by 1,889,286 shares with a face value of S/240 (equivalent to US$76.83) per share, duly authorized, issued and paid.

As of December 31, 2016, 2015 and 2014, the equity interest structure of the Company was as follows:

Partners	Shares N°	Participation %
Aguaytia Energy LLC	1,836,836	97%
Peru Energy Holdings LLC	52,450	3%
Total	1,889,286	100%

(b) Retained earnings

According to Legislative Law 945 of December 23, 2003, which amended the Income Tax Law, domiciled legal entities that agree to the distribution of dividends or any other form of distribution of profits, will retain the rate applicable as described in Note 20 of the amount to be distributed, except when the distribution is made in favor of legal entities domiciled in Peru.

There are no restrictions for dividend remittance or capital repatriation to foreign investors.

(c) Dividend distribution

The Annual Mandatory Partners' Meeting held on March 29, 2016 agreed to distribute dividends for US$70,862, which were paid in such year (Note 8).

The Annual Mandatory Partners' Meeting held on April 1, 2014 agreed to distribute dividends for US$13,800, which were paid in such year (Note 8).

17. SALE OF ENERGY, ELECTRICAL ENERGY TRANSMISSION SERVICES AND SALE OF HYDROCARBONS

For the years ended December 31, the sale of energy, electrical energy transmission services and sale of hydrocarbons include the following:

	2016	2015	2014
	US$000	**US$000**	**US$000**
Sale of energy	48,209	56,238	57,126
Sale of power	25,301	27,135	25,236
COES compensation	116	3,108	138
Other revenue	6,854	12,265	-
Sub total of energy	80,480	98,746	82,500
Electrical energy transmission	3,879	5,606	7,594
Sub total of electrical energy transmission	3,879	5,606	7,594
Sale of hydrocarbons:			
LPG	10,162	14,152	21,215
Natural gasoline (a)	8,599	16,671	30,928
Sub total of hydrocarbons	18,761	30,823	52,143
Total of sales	103,120	135,175	142,237

(a) The main customer has financial difficulties and a bad debt reserve has been accounted for (Note 1 (f) and Note 19).

18. COST OF SALE OF ENERGY, ELECTRICAL ENERGY TRANSMISSION SERVICES AND HYDROCARBONS

For the years ended December 31, cost of sale of energy, electrical energy transmission services and hydrocarbons includes the following debit balances:

	2016	2015	2014
	US$000	**US$000**	**US$000**
Royalties for natural gas liquids (Note 1)	5,740	11,330	31,220
Royalties for dry natural gas (Note 1)	10,469	14,426	12,804
Transmission lines services with third parties	14,716	16,255	13,756
Services by third parties	1,977	2,377	6,132
Purchase of energy	16,036	16,063	15,156
Operating and maintenance expenses with related entities (Notes 1 y 8)	6,415	5,656	5,769
Operating and maintenance expenses with third parties (Note 1)	63	1,617	1,072
Sundry management charges	4,035	1,119	2,652
Estimates of the period:			
Depreciation (Notes 10 y 11)	10,178	11,346	10,120
Obsolescence of inventories (Note 9)	97	14	87
Total	69,726	80,203	98,768

19. ADMINISTRATIVE EXPENSES

For the years ended December 31, administrative expenses include the following debit balances:

	2016	2015	2014
	US$000	**US$000**	**US$000**
Services provided by related entities (Note 8)	4,786	4,824	4,926
Services provided by third parties	1,539	2,666	1,615
Sundry management charges	1,528	2,298	2,154
Estimates of the period:			
Impairment estimate of accounts receivable (Note 6)	8,609	2,553	(187)
Total	16,462	12,341	8,508

20. INCOME TAX

(a) *Income tax regime*

Gas operation and processing activities

As described in Note 1, gas operation and processing activities are subject to the tax regime effective as of March 30, 1994, by virtue of the Legal Stability Agreement entered into by the Company. The income tax rate applicable to the Company at the execution date of the Agreement is 30%, which will remain effective during the term of the License Agreement, also mentioned in Note 1. The Company's Management and its legal advisors believe that, as the Legal Stability Agreement remains effective, changes made to tax regulations are not applicable to the Company, after the execution date of the Agreement, for the determination of income tax.

Electrical energy generation and transmission activities

Electrical energy generation and transmission activities performed by Termoselva and Eteselva, respectively, are subject to the general tax regime, whose main aspects are detailed below:

(i) Tax rates

The income tax rate for legal entities domiciled in Peru shall be determined by applying the following rates on their net income:

Taxable periods	**Rates**
2014	30%
2015 – 2016	28%
2017 and subsequent years	29.5%

Legal entities domiciled in Peru are subject to an additional rate, as shown below, on any amount that may be considered as indirect income, including amounts charged to expenses and unreported income; that is, expenses which may have benefited shareholders, interest holders, among others; other expenses not related to the business; expenses of shareholders, interest holders, among others, which are assumed by the legal entity.

Taxable periods	**Rates**
2014	4.1%
2015 – 2016	6.8%
2017 and subsequent years	5%

(ii) Transfer pricing

In order to determine income tax and value-added tax (VAT) in Peru, legal entities engaged in transactions with related entities or with companies resident in territories with low or no taxation shall: (a) submit an annual tax return of their transactions with such companies if the amount of these transactions is greater than S/200 (equivalent to US$60), and (b) prepare a Transfer Pricing Technical Study, as well as supporting documentation for this study, if the amount of earned income exceeds S/6,000 (equivalent to US$1,788) and if transactions engaged with related entities exceed S/1,000 (equivalent to US$298).

Both obligations are mandatory in the event that at least one transaction to, from or through countries with low or no taxation has been made.

Transactions performed by taxpayers domiciled in the country with domiciled related entities should be included in the pertinent Transfer Pricing Technical Study.

The Company and Subsidiaries have prepared the corresponding Transfer Pricing Technical Study for 2015 and 2014 and they are now preparing the corresponding study for 2016.

Management believes that no significant liabilities will arise for the consolidated financial statements as of December 31, 2016, 2015 and 2014, with regard to transfer pricing.

(iii) Significant changes to Income Tax regime in Peru

After December 31, 2016, 2015 and 2014, no significant changes have been made to the income tax regime in Peru which may impact these consolidated financial statements. The standards and interpretations effective as of December 31, 2016, 2015 and 2014 have been considered by Management when preparing these consolidated financial statements.

(iv) Tax situation

The situation of the Company and each Subsidiary are described below:

Aguaytia

Income tax returns of years 2013, 2014, 2015 and the tax return to be submitted for 2016 have not been reviewed by the Tax Administration yet, which is empowered to conduct such reviews within four years immediately after the submittal date of pertinent tax returns.

On January 29, 2014, the Tax Administration sent an initial requirement for the review of income tax from 2011. On July 8, 2015, the Tax Administration completed the review process and did not have any observation, giving the review as closed.

Termoselva

Income tax returns of years 2014, 2015 and the tax return to be submitted for 2016 have not been reviewed by the Tax Administration yet, which is empowered to conduct such reviews within four years immediately after the submittal date of pertinent tax returns.

On May 31, 2016 the Tax Administration started the review of income tax from 2013. At said review is currently in progress.

Eteselva

Income tax returns of years 2013, 2014, 2015 and the tax return to be submitted for 2016 have not been reviewed by the Tax Administration yet, which is empowered to conduct such reviews within four years immediately after the submittal date of pertinent tax returns.

Due to possible interpretations that tax authorities may have on current applicable regulations each year, it is not possible to determine to date whether liabilities for the Company and Subsidiaries will arise or not from the reviews to be conducted. Therefore, any income tax or charge which may result from such tax reviews would be applied to results for the year when determined. Company and Subsidiaries Management believes that any additional tax payment would not be significant for the consolidated financial statements as of December 31, 2016, 2015 and 2014.

Temporary Tax on Net Assets

This tax is applicable to third category recipients subject to the general income tax regime. Since 2009, the tax rate of 0.4% is applicable to the amount of net assets exceeding S/1 million.

The actually paid amount can be used as credit against payments on account of the general income tax regime or against the payment of regularizations of income tax of the corresponding taxable period.

Only Termoselva and Eteselva are subjected to pay the temporary tax on net assets.

(b) Income tax expense comprises the following:

	2016	2015	2014
	US$000	US$000	US$000
Current income tax	8,265	14,318	10,837
Deferred income tax	(3,840)	3,292	3,267
Adjustment on income tax from previous periods	(438)	238	-
Total	3,987	17,848	14,104

The expense for current income tax corresponds to the income tax to be paid, calculated by applying a 30% rate for the Company and 28% for Subsidiaries in 2016 and 2015 (30% in 2014) over taxable income.

(c) During the years ended December 31, 2016, 2015 and 2014, the effective rate of income tax expense is different from the tax rate applicable to profit before taxes. The nature of this difference is due to certain items related to the determination of taxable income, whose effects on applicable tax rate are presented below (in percentages on profit before taxes):

	2016		2015		2014	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
	US$000	%	US$000	%	US$000	%
Profit before income tax	16,517	100.00	41,571	100.00	37,410	100.00
Income tax calculated as per tax rate	4,955	30.00	12,471	30.00	11,223	30.00
Tax effect on additions and deductions:						
Non-deductible expenses (net)	364	2.20	(24)	(0.06)	(617)	(1.65)
Effect for the difference between functional currency and local currency for tax purposes	(399)	(2.42)	4,343	10.45	2,762	7.38
Adjustment recognized in the present year related to income tax of previous years	(729)	(4.41)	238	0.57	-	-
Effect of rate change	34	0.21	-	-	(339)	(0.91)
Other adjustments	(238)	(1.44)	820	1.97	1,075	2.87
Current and deferred income tax as per effective rate	3,987	24.14	17,848	42.93	14,104	37.70

(d) Compensation of tax loss carry forward

According to Legislative Decree No. 774 (applicable for Aguaytia Hydrocarbon operations), it will be possible to compensate the tax loss from Peruvian sources determined registered on a taxable period, imputing it on a year basis, until the amount is extinguished, to the taxable income that are obtained in the next four subsequent years completed from the year following of its generation period. The balance that is not compensated after this period, can be carry forward to the following years.

As of December 31, 2016, the Company has a tax loss carryforward of US$5,808 and which was generated in 2016 period.

(e) The Company and Subsidiaries hold receivable balances with the Tax Administration for US$2,436 as of December 31, 2016 (payable balances for US$5,718 and US$1,371 as of December 31, 2015 and 2014, respectively).

21. DEFERRED INCOME TAX

The movement of net deferred income tax and the description of temporary differences that generated them are shown below:

Temporary differences	**Balance as of December 31, 2015**	**Profit/loss for the period**	**Effect of rate change**	**Balance as of December 31, 2016**
	US$000	**US$000**	**US$000**	**US$000**
Deferred liability:				
Difference in basis and depreciation rates of gas investment and property, plant and equipment	6,861	(204)	-	6,657
Deferred assets:				
Difference in basis and depreciation rates of property, plant and equipment	(1,352)	(71)	(34)	(1,457)
Tax loss	-	(1,801)	-	(1,801)
Effect originated by difference between functional currency and currency for tax purposes in Non-monetary assets	(156)	(288)	-	(444)
Obsolescence estimate of inventory	(160)	(3)	-	(163)
Impairment estimate of accounts receivable	(905)	(1,477)	-	(2,382)
Other temporary differences	(158)	84	-	(74)
Deferred liability (net)	4,130	(3,760)	(34)	336

Temporary differences	**Balance as of December 31, 2014**	**Profit/loss for the period**	**Balance as of December 31, 2015**
	US$000	**US$000**	**US$000**
Deferred liability:			
Difference in basis and depreciation rates of gas investment and property, plant and equipment	7,129	(268)	6,861
Deferred assets:			
Difference in basis and depreciation rates of property, plant and equipments	(3,303)	1,951	(1,352)
Effect originated by difference between functional currency and currency for tax purposes in Non-monetary assets	(2,641)	2,485	(156)
Obsolescence estimate of inventory	(198)	38	(160)
Impairment estimate of accounts receivable	(147)	(758)	(905)
Other temporary differences	(81)	(77)	(158)
Deferred liability (net)	759	3,371	4,130

Temporary differences	Balance as of January 1, 2014	Profit/loss for the period	Effect of rate change	Balance as of December 31, 2014
	US$000	US$000	US$000 (Note 20)	US$000
Deferred liability:				
Difference in basis and depreciation rates of gas investment and property, plant and equipment	7,396	(267)	-	7,129
Deferred assets:				
Difference in basis and depreciation rates of property, plant and equipment	(5,380)	1,739	338	(3,303)
Effect originated by difference between functional currency and currency for tax purposes in Non-monetary assets	(4,011)	1,370		(2,641)
Obsolescence estimate of inventory	(243)	45	-	(198)
Impairment estimate of accounts receivable	(225)	78	-	(147)
Other temporary differences	(278)	196	1	(81)
Deferred liability (net)	(2,741)	3,161	339	759

Variation for 2016 period on deferred income tax liability amounts to US$3,794 (US$3,371 in 2015 and US$3,500 in 2014) is recognized in the results and presented on the exchange difference, net for US$46 (US$79 in 2015 and US$233 in 2014) and as income tax expense for US$3,840 (US$3,292 in 2015 and US$3,267 in 2014).

22. CONTINGENCIES

The Company and Subsidiaries has the following contingencies that are individually significant claims that, in the opinion of the Company and Subsidiaries' Management and its legal advisors, have a possible perspective of loss. In this order, and based on the information available to the Company and Subsidiaries, including the estimated time remaining until the completion of the litigation, the results of the evidence presented in the cases, and the evaluation of the Internal and external advisors, the Company and Subsidiaries cannot estimate a loss or range of loss reasonably possible (except for the sanctioning administrative proceedings between Aguaytia and OSINERGMIN by US$688) with respect to certain issues described below:

Aguaytia:

(a) Aguaytía is party to a sanctioning administrative proceeding initiated by OSINERGMIN for not having a Supervisory Control and Data Acquisition (“SCADA”) system in place at Block 31-C in connection with which OSINERGMIN has imposed a fine of 5,674.38 UIT (equivalent to US$6,840). Aguaytía has initiated one proceeding in local court to dispute the amount of the fine and another proceeding to determine whether Aguaytía committed the infraction in connection with which the fine is being imposed.

(b) Aguaytía is also party to two additional sanctioning administrative proceedings initiated by OSINERGMIN. The first proceeding is for three infractions related to not having a sufficient fire protection system in its natural gas processing plant, and for four infractions related to presenting OSINERGMIN with inaccurate information in affidavits. The second proceeding is for six infractions related to not having a sufficient fire protection system in its fractioning plant, two infractions related to presenting OSINERGMIN with inaccurate information in affidavits and one infraction related to not having a pressurized, explosion-proof control room in the fractionation plant. In March 2017, OSINERGMIN delivered final investigation and fine calculation reports in which it recommended the imposition of fines of up to 650.13 UIT (equivalent to US$784) in the aggregate for the gas plant and 436.23 UIT (equivalent to US$526) in the aggregate for the fractioning plant. In both proceedings, Aguaytía has recognized its responsibility regarding the infractions and, in addition, has requested to be the beneficiary of the “prompt payment” benefit, which would entitle Aguaytía to a fine reduction of up to 30% for recognizing its responsibility and 25% for prompt payment. Therefore, if Aguaytia takes the “prompt payment” benefit, the total liability to be paid would be US$688.

Eteselva:

(c) Eteselva is party to a sanction proceeding initiated in 2016 related to alleged breaches of the Technical Standard for the Exchange of Information in Real Time with the SEIN (La Norma Técnica para el Intercambio de Información en Tiempo Real para la Operación del Sistema Eléctrico Interconectado Nacional) in connection with which it could be fined up to 1,000 UIT (equivalent to US$1,205). Eteselva is party to a second proceeding related to non-compliance with the monitoring and trimming of the trees across a transmission line, which occasioned six disconnection events during 2016, in connection with which it could be fined up to 1,000 UIT (equivalent to US$1,205). Finally, Eteselva is party to a third sanction proceeding initiated in 2017, related to alleged breaches of the Technical Standard for the Coordination of the Operation in Real Time with the Interconnected Systems (La Norma Técnica para la Coordinación de la Operación en Tiempo Real de los Sistemas Interconectados) and the Internal Safety and Health at Work Regulations (Reglamento de Seguridad y Salud en el Trabajo con Electricidad) in connection with which it could be fined up to 1,150 UIT (equivalent to US$1,386).

Termoselva:

(d) Termoselva is party to a sanction proceeding initiated by OSINERGMIN for an alleged breach of Technical Standard for the Exchange of Information in Real Time with the SEIN in connection with which it could be fined up to 1,000 UIT (equivalent to US$1,205).

23. NON-MONETARY TRANSACTIONS IN THE CONSOLIDATED STATEMENT OF CASH FLOWS

Investment activities that did not result in disbursements of cash and cash equivalents in the year of acquisition and affected assets and liabilities for the years ended December 31 are summarized below:

	2016	**2015**	**2014**
	S/000	**S/000**	**S/000**
Acquisition financed with trade payable:			
Property, plant and equipment (net) - Gas investment	-	-	3,491
Property, plant and equipment (net) - Energy generation and transmission	-	-	1,885
Acquisition paid in the following years:			
Property, plant and equipment (net) - Gas investment	-	3,491	-
Property, plant and equipment (net) - Energy generation and transmission	-	1,885	-

24. COMMITMENTS AND GUARANTEES

Sale of energy

As of December 31, 2016, 2015 and 2014, main commitments of sale of energy in charge of Termoselva are as follows:

Clients	Contracted Power (kw)	Start Date of Agreement	Termination Date of Agreement
Regulated	From 74 to 103,233	Between 2013 and 2014	Between 2022 and 2023
Free	From 1,000 to 10,000	2013	Between 2015 and 2017

Guarantees

The Company and Subsidiaries, each as guarantor, unconditionally guaranteed the timely payment at maturity of the obligations engaged with Citibank Peru (Note 12), and assumed the role of both main debtor and cross guarantor. In case one of the Companies would have stopped paying does not pay any obligation at maturity, the other Companies would have paid severally debt such obligation. As of December 31, 2016, the Company and its subsidiaries have paid the financial obligations balance and finalized the guarantees associated to it.

As of December 31, 2016, the shares issued by the Company and its Subsidiaries are guaranteed to Banco de Crédito del Perú, to ensure the payment obligations assumed by its ultimate parent company in Peru, Orazul Energía Peru SAC, in relation to loan agreement signed on December 14, 2016 by Orazul Energía Peru SAC and Banco de Crédito del Peru for US$450,000,000.

25. ENVINROMENT

The Company and Subsidiaries have an Environmental Impact Assessment for Block 31-C, which was approved by Official Letter No. 248-95-EM/DGH in August 1995. Pursuant to the provisions set forth in Supreme Decree No. 015-2006-EM, Regulations for Environmental Protection in Hydrocarbons Activities and Supreme Decree No. 029-94-EM, Regulations for Environmental Protection in Electrical Activities, the Company and Subsidiaries submit a report from the previous period every year, signed by an environmental auditor, in which they report their compliance with the current environmental law and include recommendations of the EIA and Environmental Management and Adaptation Program (PAMA), if any. The Company and Subsidiaries also submit a consolidated report on controls performed on waste emissions and/or disposals.

26. SUBSEQUENT EVENTS

We are not aware of any subsequent event that has occurred between the closing and approval date of these consolidated financial statements that could affect it significatively. However, there was a significant subsequent event that did not represent adjustments, which is disclosed for the convenience of the readers.

- On April 5, 2017, the Company entered into a one-year unsecured credit facility agreement in a principal amount of up to US$10 million with Banco de Crédito del Perú and mature on April 5, 2018. This loan will bear a 1.90% fixed interest rate per annum, a one-month LIBOR plus a margin of 1%, or a two-month LIBOR plus a margin of 0.95% as chosen by the Company in the notice of disbursement. The proceeds that will be obtained from this credit facility agreement will be used to finance the working capital requirements. The loan also will contain customary covenants including limitations on change of control, sale of assets and creation of liens, with certain specified exceptions. As of the date of this report, the Company has no outstanding debt under this credit facility agreement.

ISSUER

Orazul Energy Egenor S. en C. por A.
Dionisio Derteano N. 144, floor 19
San Isidro, Lima 27, Perú

TRUSTEE, REGISTRAR, PAYING AGENT AND TRANSFER AGENT

Citibank, N.A.
388 Greenwich Street
New York, New York 10013
United States of America

LEGAL ADVISORS TO THE ISSUER

As to New York law
Milbank, Tweed, Hadley & McCloy LLP
28 Liberty Street
New York, New York 10005
United States of America

As to Peruvian law
Rodrigo, Elías & Medrano Abogados S. Civil de R.L.
Av. San Felipe 758
Jesús María
Lima—Perú

LEGAL ADVISORS TO THE INITIAL PURCHASERS

As to New York law
Gibson, Dunn & Crutcher LLP
200 Park Avenue
New York, New York 10166
United States of America

As to Peruvian law
J&A Garrigues Perú S. Civil de R.L.
Av. Víctor Andrés Belaúnde No. 332, Oficina 701
San Isidro
Lima—Perú

INDEPENDENT AUDITORS

Gris y Asociados S. Civil de R.L.,
a member firm of Deloitte Touche Tohmatsu Limited
Av. Las Begonias 441, Piso 9
San Isidro
Lima—Perú

U.S.$550,000,000

Orazul Energy Egenor S. en C. por A.

5.625% Senior Notes due 2027

OFFERING MEMORANDUM

April 25, 2017

Global Coordinators and Joint Bookrunners

Deutsche Bank Securities **Credicorp Capital**

Joint Bookrunners

Citigroup **Morgan Stanley** **Scotiabank**

Co-Manager

Interbank