



ANNUAL  
REPORT 2015  
**STATKRAFT**  
PERU



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## Letter from the Senior Vice President for South America

Dear shareholders,

It is with great pleasure that I present the Annual Report and Financial Statements of Statkraft Perú S.A. corresponding to the year ended December 31, 2015, as audited by Beltrán, Gris y Asociados Sociedad Civil de Responsabilidad Limitada - a member firm of Deloitte - which provide information on the company's processes and results.

In 2015, the operations of Statkraft Perú S.A. have benefited from the investments made to increase the capacity of its assets and the start-up of the Cheves hydropower plant. In 2015, the company generated 1,936.3 GWh, a figure higher than the output from the previous year, which was recorded at 1,728 GWh.

In 2015, the company reached a major milestone: the start of commercial operations of the Cheves Hydropower Plant in August. The plant was formally inaugurated in September in the presence of government and local authorities, company representatives and local villagers. Subsequently, the "Cheves Hydropower Plant Remote Control Project" was started and is scheduled to be completed in 2016.

Maintenance of company's equipment in 2015 was a major activity undertaken to ensure high availability of our plants and keep a risk-free workplace for workers. The cost-benefit maintenance strategy was consolidated this year, which included completing the scheduled maintenance of the Yaupi Hydropower Plant. This improvement, together with the rewinding of the two generators of the Cahua Hydropower Plant, will result in earnings amounting to more than USD 8 million in present value terms. The Cahua - SEPAEX transmission lines were also reinforced, which resulted in the elimination of frequent high-risk activities. As a consequence, the company recorded earnings for more than USD 2 million in present value terms.

In the commercial aspect, the strategy of Statkraft Perú S.A. is based on following up market conditions and continuously monitoring hydrological behavior in relevant basins. In 2015, the volume of energy sales amounted to 1,984 GWh, which represents a 9.8% increase compared to the sales volume recorded in 2014. The decisions to enter into agreements are made based on the risk assessment guidelines approved by the company's Board of Directors. In 2015, distribution companies accounted for 37.8%, and for free clients 62.2% of the total invoicing.

On the other hand, the system operator (COES) approved the impounding and discharge of the Junín lake (associated with the Malpaso HPP) in accordance with the methodology proposed by Statkraft Perú S.A. This activity also benefits the Peruvian electrical system.

With regards to the financial results, the revenues for energy, power and secondary transmission increased by 3.8%, from USD 105.7 million recorded in 2014 to USD 109.7 million as recorded at 2015 year-end mainly due to increased energy sales to distribution companies after the Cheves HPP started commercial operations and to increased revenues for transmission services. Revenues for tolls in the secondary transmission system (SST) decreased by 7% due to lower demand than forecast. Revenues for capacity and energy transfers in COES - SINAC decreased 39% compared to 2014 due to a lower energy price in the spot market, especially during the wet season.

In 2015, all third-party debts of Statkraft Peru and Empresa de Generación Eléctrica Cheves were repaid in advance with a loan for USD 450 million approved by the Board of Directors of Statkraft AS in December 2014. The company's structural debts were therefore paid off and the guarantees released.

The procurement process was also restructured from a reactive to a proactive supply. A supplier consolidation process was commenced, and the firm *Achilles* was engaged for the pre-qualification of our suppliers, which will be an indispensable requirement to qualify as a supplier of Statkraft. As a result of these changes, negotiation savings for USD 1.4 million were obtained, largely exceeding the savings in past years.

As part of the human talent management in 2015, Statkraft Peru fostered the professional development and growth of its employees through training and skill and competence reinforcement programs to optimally reach objectives and goals in each area. Worth noting are the Leadership and Superador programs that target leaders from all areas and technicians from the Operations Management. It should be noted that based on the results of the Compass annual survey, an employees' commitment index of 78% was reached, which is above average in the Group.

As part of the Corporate Social Responsibility work, activities were undertaken with 46 communities within the area of direct influence of the company's operations, which included the implementation of 32 local development projects with focus on education and capacity building, infrastructure, productive chains and health and nutritional programs. One of the major achievements is the articulation of alliances with different entities and governmental institutions, which contributed to social investments for approximately PEN 10 million. Additionally, more than 19,000 students from 65 educational institutions across the country were provided training.

Finally, in 2015, special focus was given to communicate and raise awareness on the Ethics and Anti-Corruption policy among employees, suppliers, communities within the area of direct influence and corporate partners.

Let me conclude by extending our appreciation to board members, executives and employees in all our premises for the commitment and responsibility with which they take on the challenges and objectives in the company. I also want to acknowledge the trust placed by investors on the way we are managing the company's processes to consolidate the growth of Statkraft Perú S.A. in the country.



**Laine Powell**

*Senior Vice President for South America*

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GENERAL  
INFORMATION



## 1.1. Liability statement

This document contains accurate and sufficient information on the development of business activities of Statkraft Perú S.A. during 2015.

Without prejudice to the liability of the issuer, the undersigned are liable for the contents hereof pursuant to applicable legal provisions.

Lima, June 2016.

**Juan Antonio Rozas Mory**  
Gerente General  
Statkraft Perú S.A.

**Alvaro Porturas Ingunza**  
Gerente de Administración y Finanzas  
Statkraft Perú S.A.

“  
*The merger of Statkraft Perú S.A. and Empresa de Generación Eléctrica Cheves S.A., both companies from the Statkraft Group, whereby the latter absorbed the former, came into effect on August 1, 2015.*  
”

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## 1.2. Corporate information

### a) Corporate name and address

Corporate name: Statkraft Perú S.A.

Address: Av. Felipe Pardo y Aliaga N° 652, Int. 203, San Isidro, Lima 27

Phone: (01) 700-8100

Fax: (01) 422-0348

“

*The main activity of the company is the generation and trading of energy and power to private and public companies in Peru.*”

”



#### **b) Incorporation and registration in Public Records**

The merger of Statkraft Perú S.A. and Empresa de Generación Eléctrica Cheves S.A., both companies from the Statkraft Group, whereby the latter absorbed the former, came into effect on August 1, 2015. Pursuant to article 351 of the General Corporations Act, as of the aforementioned date, all assets and liabilities of Statkraft Perú S.A. (Taxpayer ID Number 20502597061) were transferred to Empresa de Generación Eléctrica Cheves S.A. (Taxpayer ID Number 20269180731). As a consequence, Statkraft Perú S.A. (Taxpayer ID Number 20502597061) was dissolved. It should be noted that the change of the corporate name from Empresa de Generación Eléctrica Cheves S.A. (Taxpayer ID Number 20269180731) to Statkraft Perú S.A. was recorded in Public Records on October 16, 2015. As a consequence, the existing company is Statkraft Perú S.A. with Taxpayer ID Number 20269180731, as registered in Entry 00179957 of the Registry of Companies in and for Lima.

#### **c) Holding company**

The Company is an indirect subsidiary of Statkraft IH Holding AS from Norway, which owns 99.99% of capital shares through its subsidiary Statkraft Perú Holding S.A.C.

#### **d) Corporate purpose and term**

The main activity of the company is the generation and trading of energy and power to private and public companies in Peru. The company owns the Arcata, Cahua, Gallito Ciego, Malpaso, Pachachaca, La Oroya, Pariac, Yaupi and Cheves hydropower plants. In addition, the company may undertake all civil, industrial, commercial operations and any other operation associated with or conducive to, directly or indirectly, its main corporate purpose, provided that they are deemed necessary or convenient, and permitted to corporations.

The corporate purpose includes the provision of administration, support, assistance, management, consultancy, advisory services and any other corporate activity on financial, commercial, social responsibility, legal, human resources, budget control, occupational health and safety, administrative, accounting, logistics, product supply matters, and any other corporate activity in favor of third



parties or legal entities from any economic sector.

#### e) Capital stock

As at December 31, 2015, the capital is represented by 778,667,640 fully subscribed and paid-in ordinary shares, with a nominal value of PEN 1 each, all of which have been issued.

#### f) Shareholding structure

The shareholding structure of the company, as at December 31, 2015, is as follows: Statkraft Perú Holding S.A.C. holds 99.99% of the capital stock.

There are five minority shareholders of the remaining shares representing 0.01% of the capital stock.

#### g) Shares with voting rights

The shareholding structure of the company is outlined in Table 1.

**Table 1**

Shareholding	Number of shareholders	Ownership interest
Less than 1%	5	0,001
Between 1% and 5%	0	0,000
Between 5% and 10%	0	0,000
Mayor a 10%	1	99,99
<b>TOTAL</b>	<b>6</b>	<b>100,000</b>

There are no shares without voting rights or investment shares.

#### h) Interest in other companies of the Statkraft Group

As from January 23, 2015, Statkraft Perú S.A. holds an ownership interest of 99.9% in Inversiones Shaqsha S.A.C. By virtue of the public deed of reorganization dated May 11, 2015 issued before notary public Eduardo Laos de Lama, Statkraft Perú S.A. provided Inversiones Shaqsha S.A.C. with an equity block with positive net value composed of the assets of the Pariac Production Unit (4.95 MW). As

of December 31, 2015, such equity block amounted to PEN 11,561,082.00 (eleven million five hundred sixty one thousand eighty two soles).

#### **i) Authorizations and agreements for the undertaking of activities**

The company is in possession of all due authorizations from the Ministry of Energy and Mines, the National Water Authority and other Peruvian entities for the undertaking of its activities.

Additionally, the company is supervised and overseen by the Supervisory Agency for Energy and Mining Investment (OSINERGMIN), the National Labor Inspection Superintendence (SUNAFIL) and the Agency for Environmental Assessment and Enforcement (OEFA).

The company represents to be aware of the Water Rights and Infrastructure Easements Acknowledgement Agreement entered into by and between Empresa Minera del Centro del Perú S.A. (Centromin) and Empresa de Servicio de Agua Potable y Alcantarillado de Lima (Sedapal) on December 2, 1996, valid for 10 years. The company agrees to take the contractual position of Centromin in such agreement. On May 22, 2007, the company entered into the First Addendum in order to amend the Third Clause of the original agreement to extend the original term for 6 additional years. The company represents to know that, by virtue thereof, the Pachachaca and Oroya hydropower plants may be affected, and waives the right to the easement right or any compensation in case such plants are affected.

#### **j) Description of operations and development**

The line of business of Statkraft Perú S.A. is coded CIU 4010.

The company will remain in existence for an indefinite term.

#### **k) Company's evolution**

##### **Empresa de Generación Eléctrica Cahua S.A.**

In 2001, American company NRG acquired Nordic Power Invest del Perú S.A. and Empresa de Generación Eléctrica Cahua S.A. from Consortium Vattenfall-Skanska. On November 20, 2003, SN Power Perú Holding S.R.L. acquired Group NRG's investments in Empresa de Generación Eléctrica Cahua S.A. and Energía Pacasmayo S.R.L., companies which were merged on May 10, 2004, the former as the absorbing company.

##### **Electroandes S.A.**

On May 7, 2002, at a Shareholders' Meeting of Inversiones Elegia S.R.L., it was unanimously agreed to turn Inversiones Elegia S.R.L. into a corporation. At such meeting, it was agreed to modify the Articles of Association and to change the corporate name from Inversiones Elegia S.A. to Electroandes S.A. Also at the Shareholders' Meeting it was agreed to merge Inversiones Elegia S.A. with Empresa de Electricidad de los Andes S.A., and to transfer the assets and liabilities of Empresa de Electricidad de los Andes S.A., which was dissolved without going into liquidation as a result of the merger, to Electroandes S.A. The merger became effective on June 1, 2002. The merger came into effect on June 1, 2002.

On October 17, 2007, the shares of PSEG, majority shareholder of Electroandes S.A., were transferred to Inversiones Eléctricas de los Andes S.A.C., a Peruvian subsidiary of SN

Power Perú Holding S.R.L., which, in turn, is a local subsidiary of the SN Power Group. As a consequence, SN Power became the owner of 99.99% of the company's shares. On June 22, 2009, the merger between Transamerica Energy Company S.A.C. and Inversiones Eléctricas de los Andes S.A.C., both companies from the SN Power Group, was registered in the Public Records of Lima. As a result of such merger, Transamerica Energy Company S.A.C. was absorbed by Inversiones Eléctricas de los Andes S.A.C., the latter remaining as the majority shareholder of Electroandes S.A. Finally, on April 22, 2010, the merger by absorption of Inversiones Eléctricas de los Andes S.A.C. into SN Power Perú Holding S.R.L. was registered, the latter holding 99.99% of the company's interest.

#### **From SN Power Perú S.A. to Statkraft Perú S.A.**

On November 30, 2009, at the General Shareholders' Meeting of Electroandes S.A. and Empresa de Generación Eléctrica Cahua S.A. (absorbed company) the merger of both companies was approved, which came into effect on January 1, 2010.

At the same General Shareholders' Meeting of Electroandes S.A., the modification of its articles of association, including the change of the corporate name to SN Power Perú S.A., was agreed upon. As a result of the modification of the articles of association, registered on July 30, 2014, the name of the company changed to Statkraft Perú S.A.

#### **Empresa de Generación Eléctrica Cheves S.A.**

Company Perú Hydro S.A. was incorporated through public deed dated August 02,

1995. On September 13, 2002, a public deed was issued to change the corporate name of Perú Hydro S.A. to Empresa de Generación Eléctrica Cheves S.A. Its business purpose was associated to the Cheves Project and now to the Cheves Hydropower Plant, which started commercial operations on August 22, 2015.

#### **From Statkraft Perú S.A. to Empresa de Generación Eléctrica Cheves S.A.**

The merger of Statkraft Perú S.A. and Empresa de Generación Eléctrica Cheves S.A., whereby the latter absorbed the former, came into effect on August 1, 2015. Pursuant to article 351 of the General Corporations Act, as from the aforementioned date, all assets and liabilities of Statkraft Perú S.A. (Taxpayer ID Number 20502597061) were transferred to Empresa de Generación Eléctrica Cheves S.A. (Taxpayer ID Number 20269180731). On such date, Statkraft Perú S.A. (Taxpayer ID Number 20502597061) was dissolved, as recorded in the registries in SUNARP and SUNAT.

Subsequently, on October 16, 2015, the change of the corporate name from Empresa de Generación Eléctrica Cheves S.A. (Taxpayer ID Number 20269180731) to Statkraft Perú S.A. was registered in Public Records. At present, the existing company is Statkraft Perú S.A. with Taxpayer ID Number 20269180731.

#### **l) Special relations between the Government and the company**

On November 24, 2010, as investor making capital contributions to Empresa de Generación Eléctrica Cheves, the company entered into a Legal Stability Agreement. Such agree-

ment guarantees, during its effective term, inter alia, the stability of the income tax regime in force at the time the agreement was entered into, with respect to the dividends or profit sharing. The term of the agreement is subject to the effective period of the Supply Concession Agreement of Empresa de Generación Eléctrica Cheves S.A., and such concession was granted for 15 years, starting from the start of commercial operations of the Cheves Hydropower Plant.

**m) General description of main assets**

Statkraft Peru is a power generation company that is a member of the Committee for the Economic Operation of the National Interconnected System (COES-SINAC).

Its generation capacity comes from eight hydropower plants: Yaupi (112.68 MW), Malpaso (48.02 MW), Cahua (43.11 MW), Gallito Ciego (38.15 MW), Pachachaca (9.65 MW), Oroya (9.48 MW), Cheves (171.68 MW) and Arcata (5.05 MW); located in the departments of Pasco, Junín, Lima, Cajamarca and Arequipa, with a combined effective capacity of 437.82 MW. Additionally, Statkraft Perú S.A. operates the Pariac Production Unit (4.95 MW), located in Ancash, owned by its subsidiary Inversiones Shaqsha S.A.C.

**Table 2**

<b>Hydropower Plant</b>	<b>Capacity</b>
Yaupi Hydropower Plant	112,68 MW
Malpaso Hydropower Plant	48,02 MW
Cahua Hydropower Plant	43,11 MW
Gallito Ciego Hydropower Plant	38,15 MW
Pachachaca Hydropower Plant	9,65 MW
La Oroya Hydropower Plant	9,48 MW
Cheves Hydropower Plant	171,68 MW
Arcata Hydropower Plant	5,05 MW
Pariac Hydropower Plant	4.95 MW



#### n) Number of employees

Table 3 shows the number of active employees from 2011 to December 2015. In 2015, temporary positions were hired, permanent positions were replaced and employees from Empresa de Generación Eléctrica Cheves were incorporated as a result of the merger of companies.

**Table 3** (including temporary positions)

2011	2012	2013	2014	2015
202	196	193	224	239



## 1.3. Organization

### a) Board of Directors

**Austin Laine Powell**, native of Austin, Texas (US). He has more than 20 years of experience in the electrical industry in Latin America. He has worked in Mexico, Guatemala, Dominican Republic, Colombia, Bolivia, Brazil, Argentina, Chile and Venezuela.

Since June 2013, he serves as the Senior Regional Vice President of Statkraft, in the International Hydro division, and is responsible for the activities in Brazil, Chile and Peru. Previously, he served as general manager in Tinguiririca Energía in Chile, a joint venture between SN Power and Pacific Hydro, and as general manager in SN Power Chile.

**Jon Anders Holtan**, of Norwegian nationality, is Director since March 2005. He is an economist with studies in Bergen, Copenhagen, Kiel and Trondheim, with specializations in International Economics, Finance and Energy. Since 2005 he has held several

management positions in Statkraft in several countries, and has worked mainly in market analysis for the Nordic and European markets, hydropower, risk management, power trading and commercial strategy development.

**Tron Engebretsen**, of Norwegian nationality, is Director since March 2014. He holds a master's degree in Electrical Engineering from NTH – Trondheim, Norway. He has held several management positions in Statkraft and SN Power since 1996, including Technical Manager in Statkraft, Communications Manager in Statkraft, O&M and Greenfield Director in Statkraft Nordics for 17 years, Executive Vice President (EVP) in SN Power and Senior Vice President (SVP) in International Hydro in Statkraft. He was responsible for operations abroad as from 2000 in Nepal, Laos and Turkey, and subsequently in SN Power until its restructuring in 2014.

**Marco Antonio Vargas Darville**, of Chilean nationality, is Director since January 2013. He holds a bachelor's degree in Business Administration and French from the Weber State University, with an MBA from the Brigham Young University. Since June 1, 2013, he serves as General Manager in Statkraft Chile, after joining the company in 2008 as an employee in SN Power, a Statkraft subsidiary. He previously worked for General Electric, Merrill Lynch and Union Bank of Switzerland.

**Fernando de la Puerta Montoya**, of Spanish nationality, is Deputy Director. He holds a master's degree in Business Administration and Law from the University of Madrid, Spain, and an MBA from the IESE School of Business in Barcelona, Spain. He has worked for the Statkraft Group for the last 6 years in different positions in Norway, Brazil and Panama, where he currently serves as Country Director. He previously worked for Iberdrola, ABN Amro Bank and Banco Santander.



## b) Management Team



● **Juan Antonio Rozas Mory**, Economist graduated from the Pontifical Catholic University of Peru. He holds an MBA from ESAN University, and a postgraduate degree in Project Evaluation from the Pontifical Catholic University of Chile. He has more than 15 years of experience in the Peruvian electrical sector, in the Development and Commercial areas. In 2008 he was appointed Commercial Manager of the company, and since August 1, 2014 he serves as Country Manager.



● **Milagros Paredes Paredes**, a Psychology graduate. She holds a master's degree on Corporate Communications, a master's degree on Strategic Management of the Human Factor and Consulting from the Peruvian University of Applied Sciences, and a specialization on Corporate Responsibility from the Harvard University. She has 20 years of experience in strategic leadership of internal and external stakeholder management in transnational companies. She currently serves as the Chief Corporate Affairs Officer.



● **Juan Manuel López Teves**, an Electrical Mechanical engineer from the National University of Engineering (UNI). He holds an MBA from the San Ignacio de Loyola University (USIL), and holds a master's degree on Energy Regulation from the Peruvian University of Applied Sciences (UPC). He has 28 years of experience in the Peruvian electrical sector in several positions related to project areas, rational energy usage, power trading and portfolio management. He currently serves as the Commercial Manager.



● **Alvaro Antonio Porturas Ingunza**, an Economics graduate from the University of Lima. He holds an MBA from the Pacific University and a specialization in finance from the University of Chicago Booth



School of Business. He has 19 years of experience leading work teams in the finance, planning, management control and project evaluations in companies (financial, hydrocarbon, retail, construction, and textile sectors). He currently serves as the Chief Financial Officer. He is also a professor of Corporate Finance in the University of Lima School of Business.



● **Alfredo Manuel Villaverde Ospina**, a Mechanical and Electrical engineer from the National University of Engineering. He holds an MBA from the Institute of Market Studies (IEB), a master's degree on power systems from the National University of Engineering. He has 19 years of experience leading work teams in O&M in the power business. He currently serves as Chief Operating Officer.



● **Verónica Arbulú**, Attorney from the University of Lima, has a diploma degree on Construction Law and a certificate of Management for Lawyers from the University of Yale. She has 11 years of experience in multinational and national companies from the infrastructure and energy sector. She currently serves as the Legal Manager.

**Federico Walbaum Cordero**, Business Administrator, has a post degree on Business Administration with specialization on Finance from the University of Harvard. He spent a good portion of his professional career in Europe, where he filled important positions in the finance area. He holds an Executive MBA from the IE Business School, and recently completed an Executive Development Program from the Wharton School of Business. He has more than 20 years of experience and the last years in the energy sector. He currently serves as Project General Manager.



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LINE OF  
**BUSINESS**



*Statkraft Perú S.A. is a power generation company that only uses water resources in its hydropower plants.*



## 2.1. Introduction

In Peru, the Electrical Concession Law (LCE No. 25844) stipulates that the activities in the electrical sector are to be divided into power generation, transmission and distribution (the latter two are regulated activities). Generation activities are conducted by companies that generate power through water, geothermal energy, wind, sun, fossil fuels or other resources. Statkraft Perú S.A. is a power generation company that only uses water resources in its hydropower plants.

Moreover, Statkraft Perú S.A. has assets that are part of the Secondary Transmission System; the transmission activities are conducted by companies that charge a toll fee for the energy that is conveyed through their lines and substations.

On the other hand, power distribution activities are conducted by companies that require and purchase electricity from generation companies, through bilateral agreements or tenders, before selling it to end users. These companies also charge a regulated toll fee for the use of the grids.

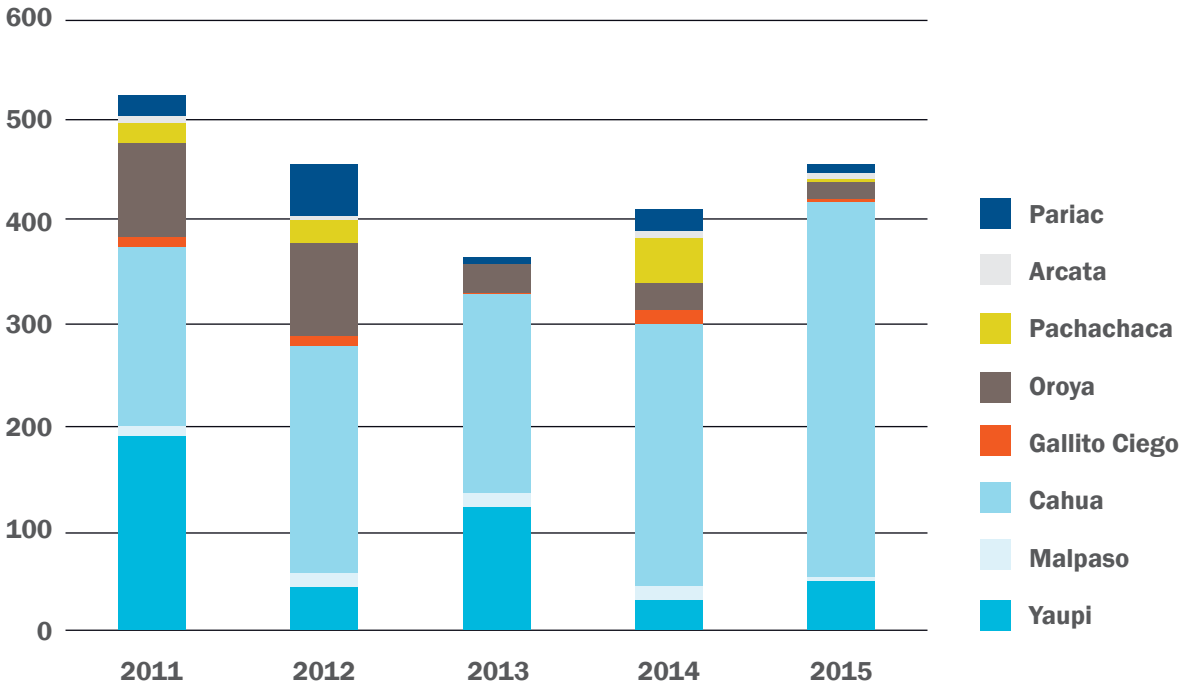
## 2.2. Operation Management

The gross power generation of Statkraft Peru in 2015 totaled 1,936.3 GWh, 11.9% lower than the generation in 2014. This increase in generation is primarily represented by the output from the Cheves Hydropower Plant, which officially started commercial operations on August 22. Additionally, operating processes have been optimized from the previous year, such as the improved water usage in the Yaupi Hydropower Plant, avoiding discharges for cascade generation with the Yuncán HPP of company Enersur; a record output of the last 45 years was recorded in Cahua HPP due to increased availability after completing the Profit Based Maintenance in previous years; and improvement of water usage in the Malpaso Hydropower Plant by discharging water from the Junín Lake up to a useful volume of 44 MMC.

In 2015, the mean capacity was 221.04 MW, and the company’s power output accounted for approximately 4.35% of the total output of all generation companies that are members of COES-SINAC. Statkraft Perú S.A. was ranked seventh in power production (source: COES)

Chart 1 shows the sustainable improvement in the operation management of Statkraft Perú, by keeping relatively constant the losses of revenues.

**Chart 1**  
**Loss of revenues (KUSD)**  
*Scheduled operating and external activities*



Source: prepared in-house

On the other hand, since the operation and maintenance philosophy is based on the “Overhaul”, “Condition Monitoring” and “Remote Control”, the “Superador” training program was continued in 2015

to reinforce the competences among technical personnel related to “condition monitoring” of generation and transmission assets. As a result, the times for intervention and/or maintenance of assets are optimized, thus maximizing the availability of the same and therefore increasing power generation.

### 2.2.1. Generation

In 2015, opportunities for improvement were identified for the optimum operation of plants by remote control. The joint power control system was implemented based on the efficiency of each generation unit in the Malpaso and Cahua plants. Additionally, the response of the primary regulation frequency system was improved as per procedure 21 of COES SINAC, and in the start-up sequence of the units in Yaupi HPP. These improvements at the power plants of medium capacity were achieved with the support of the operation and maintenance personnel, who had an outstanding performance.

#### a) Total volume of water used for generation

In 2015, the company used 4,037.7 Mm<sup>3</sup> of water from rivers and lakes for which it holds concession rights for power generation. In such process, after the water spins the turbines, it is returned to the river with the same volume and under the same conditions it was taken in.

**Table 4**

Hydropower plant	Turbinated volume (mmc)
Cheves	141.0
Yaupi	686.4
Malpaso	1,452.5
Cahua	592.0
Gallito Ciego	723.2
Pachachaca	118.6
La Oroya	150.5
Arcata	125.9
Pariac	47.6



#### b) Power generation per plant

In 2015 the company generated 1,936.3 GWh, which is higher than the generation from the previous year recorded at 206.3 GWh, primarily due to the start of commercial operations of the Cheves Hydropower Plant. It should be noted that the Gallito Ciego Hydropower Plant generated 69.8 GWh more than last year, and the Cahua Hydropower Plant recorded the maximum output of the last 45 years.

**Table 5**

Hydropower plant	2015 (GWh)
Cheves	203.6
Yaupi	807.9
Malpaso	272.9
Cahua	310.1
Gallito Ciego	170.9
Pachachaca	48.4
La Oroya	61.5
Arcata	31.2
Pariac	29.7
<b>TOTAL</b>	<b>1,728.3</b>

**c) Availability of power plants**

In 2015, Statkraft Peru had a weighted availability of 95.79%. In order to reach this availability, the company performs maintenance of its nine hydropower plants based on a Profit Based Maintenance Plan that ensures maximum availability and profitability in asset management. This plant integrates high quality tools, such as the 5S methodology, benefit-focused overhaul, RCM and risk management.

The plant availability in 2015 is shown in Table 6 below.

**Table 6**

Hidropower plant	% Availability
Cheves	91.16
Yaupi	99.18
Malpaso	99.61
Cahua	99.13
Gallito Ciego	99.26
Pachachaca	98.17
La Oroya	92.50
Arcata	87.94
Pariac	95.75

*Note: External events were not included in the calculation.*

Moving forward, the O&M team will integrate the condition monitoring to its management tools. This methodology uses a series of sensors installed in the plant components to measure oil quality, temperature, vibration and operating parameters. In this manner, plant operators are able to predict the failure probability and act proactively, thus reducing costs and losses due to asset unavailability.



### 2.2.2. Transmission

In 2015, in the transmission system, the following availability level was recorded in transmission lines and power transformers.

**Table 7**

Transmission lines	% Own availability
Voltage from 30 to 60 kv	99.97
Voltage from 60 to 100 kv	99.93
Voltage over 100 kv	97.69
<b>TOTAL</b>	<b>99.12</b>

**Table 8**

Transmission lines	% Own availability
Set Bellavista	100.00
Set Paramonga existente	100.00
Set Oroya nueva	99.95
Set Paragsha I	99.98
Set San Cristobal	100.00
Set Huicra	99.99
Set Carhuamayo	100.00
Set Chumpe	99.98
Set Excelsior	100.00
Set San Juan	100.00
Set Cobriza I	99.94
Set Cobriza II	99.94
Set Morococha	99.95
Set Casapalca	100.00
Set Andaychagua	100.00
Set San Mateo	100.00
Set Antuquito	100.00
Set Casapalca Norte	99.97
Set Marh Tunel	100.00
Set Nueva Morococha	100.00
Set San Antonio	100.00
<b>TOTAL</b>	<b>99.92</b>

### 2.2.3 Maintenance

The main maintenance activities performed in 2015 at the hydropower plants and transmission assets were the following:

#### a) Generation

##### Yaupi HPP

- In February, the condition of the 5 generation units was inspected.
- In March, the aeration boxes were manufactured and installed in the turbines of generation units No.1 and No.3, thus increasing the total plant capacity by 1 MW.
- In June, the Pelton runner was repaired to replace the runner in unit No.5 during the Overhaul Phase I.
- In July, the nozzles and bearings of injectors of generation units in Yaupi HPP were recovered.
- In October, the inlet valve of generation unit No.5 was repaired (replacement of metal fixed and movable seals) and the erosion in the buckets of the runner in unit No.5 was repaired by welding.
- In November, the conveyance nipple located in generation unit No.5 was replaced with the fully repaired inlet valve. Additionally, the repaired runner was replaced with the spare runner.
- In December, the gate valve of the flushing system in the desander tunnel was replaced with a hydraulic-driven gate valve. Additionally, a hydraulic unit was installed for the butterfly valve located downstream of the gate valve.
- Oil with PCB from two transformers of the 13.8/12 kV transformer bank was removed.

##### Malpaso HPP

- In January, the condition of the 04 generation units in Malpaso HPP was inspected.
- In February, the partial discharges of generation units were monitored to determine their condition.
- In April, some hydraulic components of the hydraulic unit of the speed regulator from the 4 generation units were replaced.
- In June, major maintenance of the 04 generation units in Malpaso HPP was performed, which consisted in replacing the pipes and fittings of the main cooling system of the combined bearing, and replacing the safety valves of the lubrication system of the bushings of the turbine guide vanes.
- In July and December, the vibrational and thermographic monitoring of the 04 generation units was performed.
- In October, the rewinding of electrical motors (04) of the auxiliary system for oil recovery of the bearing on the turbine side was performed.
- In November, the corrective maintenance of the pumps of the auxiliary system for oil recovery of the bearing on the turbine side was performed.
- In December, the rewinding of electrical motors (04) of the gates in the Headrace Tunnel was performed.
- The hot thermal vacuum reconditioning of the TR4 power transformer oil was performed.

### Cahua HPP

- In May, the runners of the two generation units were replaced with uncoated runners.
- Maintenance was conducted on the Cahua intake invert.
- Inspection and maintenance of the valves of the outlet circuit in the upper ponds of the cooling system.
- A heat exchanger was installed in the TR2 power transformer.
- Between July and September, the rewinding of the stators in the two generators was completed.
- The drainage pump No.2 was replaced.
- The by-pass electrical valve of generation unit No.1 was replaced.
- The pump No.2 and the regulator valve in UH No.2 were replaced.
- The by-pass safety valve of generation unit No.2 was replaced.
- An assay on instrumentation and protection relays of generators was conducted.
- Functional tests of protection trips of generators, power transformers and 138 kV line were conducted.

### Gallito Ciego HPP

- An assay on instrumentation and protection relays of generators was conducted.
- In June and September, the thermographic and vibrational monitoring of the plant equipment was performed.
- Maintenance of the compensation dam was conducted.
- Functional tests of protection trips of generators, power transformers and 60 kV line were conducted.

### Pachachaca HPP

- In January, the rehabilitation of the aeration

valve rods of the O3 penstocks was conducted.

- In March, the components of the lubrication system of the speed regulator from the O3 generation units were inspected.
- In June, corrective maintenance of the lubrication system of the spherical joints from the O3 generation units was conducted.
- In July and December, the vibrational and thermographic monitoring of the O3 generation units was performed.
- An assay on instrumentation and protection relays of generators was conducted.
- Functional tests of protection trips of generators and power transformers were conducted.
- The power cables of generation units No.1 and No.2 were replaced.

### La Oroya HPP

- In January, February, July and September, the inspection and maintenance of the runner of side A of generation unit No.2 were conducted.
- In April, the nozzle and bearing of the injector of the turbine on side A of generation unit No.2 were replaced.
- In May, major maintenance of the 3 generation units was conducted.
- In June, the rehabilitation of the aeration valve rods of the penstock was conducted.
- In June, the bearing on side A of generation unit No.2 was replaced.
- In November, preventive maintenance of the 3 generation units was conducted.
- In December, the rings (seals) of the spherical joint on side B of generation unit No.3 were replaced.
- In July and December, the vibrational and thermographic monitoring of the O3 genera-



tion units was performed.

- Implementation of overflow and pressure protection of penstock in Oroya HPP.
- An assay on instrumentation and protection relays of generators was conducted.
- Functional tests of protection trips of generators and power transformer.

#### **Arcata HPP**

- The protection relay of the generator in Huayllacho HPP was replaced.
- In April, the turbine of unit No.1 of San Ignacio HPP was inspected.
- In May, corrective maintenance of the turbine shaft and bearings of San Ignacio was conducted.
- In July, the generators of San Ignacio, San Antonio, Misapuquio and Huayllacho HPPs were inspected.
- In September, maintenance of generator of U-1 of Misapuquio HPP was conducted.
- In December, maintenance of generator of U-2 of Misapuquio HPP was conducted.

#### **Pariac HPP**

- Functional tests of protection trips of generators were performed.
- In February, the turbine was inspected, and the skids of unit No.1 of HPP3 were replaced and installed.
- In April, corrective maintenance of unit No.1 of HPP3 was conducted.
- In June, corrective maintenance of unit No.1 of HPP3, units No.1 and No.2 of HPP4 was conducted.

#### **b) Transmission**

- The RTU D25 of the Cobriza I SS was replaced.
- The ground wire of segment A in transmission line L-6527 was replaced.
- The condition-based monitoring was implemented in the transmission lines and substations.

### 2.2.4 System operation

The following activities were performed in 2015 as part of the operation:

- Integration of the monitoring and control signals of the Cheves Hydropower Plant and 220 kV transmission line L-2281 Huacho - Cheves into the SCADA system of the main dispatch center (Lima) and back-up center (La Oroya), for remote operation.
- Review of pre-operating and operating studies of new generation projects affecting the Statkraft system from companies Acqua Energía S.R.L. (03 mini hydros in the Mantaro river - influence area of Malpaso HPP), Renovandes S.A.C. (La Virgen HPP), IPG S.A. (03 mini hydros in the Gorgor river - influence area of Cahua HPP), etc.
- Procurement of spare hardware of the SCADA system of the main and backup dispatch center (servers, workstations, hard drives, etc.) to ensure operating continuity until 2017.
- Evaluation and planning of the SCADA system upgrade scheduled for 2017 to ensure operating continuity until 2022.
- Evaluation and validation of the SCADA system for the integration of the generation plants of Statkraft Peru to the market of Automatic Regulation Frequency (AGC), fostered by COES - SINAC.

### 2.2.5 Expansion and refurbishment projects

#### a) Generation

In September, the Overhaul of Yaupi HPP was completed, which consisted in:

- Replacement of the lower rotovalves of

generation units No.1 and No.3.

- Removal of the inlet valve of generation unit No.5 and installation of conveyance nipple.
- Removal of the runner of generation unit No.5 and installation of the previously repaired spare runner.
- Replacement of the generating set corresponding to the auxiliary systems.
- Replacement of two heat exchangers of transformer bank No.2; replacement of the nitrogen control system of transformer bank No.1, and installation of firewalls between single-phase power transformers.
- Preventive maintenance of control, protection and instrumentation systems.
- Replacement of deteriorated control cables running from the powerhouse to the switchyard.
- Replacement of pressure sensors of supply valves of generation units.
- Replacement of flow switches of the cooling and lubrication system of generation units.
- Implementation and integration into SCADA of pressure sensors in penstocks of valve chambers.
- Assay on instrumentation and protection relays of generators.
- Functional tests of protection trips of generators, power transformers and 138kV line.

#### b) Mid-size hydropower plant remote control project

The tuning and improvement of logics of the remote control of Yaupi, Malpaso, Cahua and Gallito Ciego HPPs were conducted. The main activities were as follows:

- Cahua HPP: implementation and integration of flood alarm at the turbine rooms of units No.1 and No.2 into SCADA.
- Cahua HPP: the Overhaul Phase 3 was completed between August and November, which consisted in the rewinding of the two generators, including electrical tests and the setting of electrical parameters; such rewinding was performed after 47 years of operation.
- Cahua HPP: the following activities were conducted in parallel with the rewinding works: replacement of the hydraulic system piping of the speed regulator and inlet valve; maintenance and cleaning of cooling system piping and generator radiators; installation of manually driven valves of the inlet valve bypass circuit, and weld recovery of the turbine distributor and fixed vanes.
- Malpaso HPP: adjustment and improvement of brake application logics for the stop process of generators No.1, 2, 3 and 4.
- Malpaso HPP: installation of level sensors in turbine bearings and improvement of the start-up logics of the electrical pump of the oil recovery system in case of a mechanical pump failure.
- Malpaso HPP: replacement and integration into SCADA of flow sensors of the cooling system of bearings, generators and transformers.
- Gallito Ciego HPP: implementation of manual impounding level set points to facilitate remote operation.

### c) Transmission

- Installation of failure recording and spotting equipment pursuant to the Regulatory Procedure of COES and OSINERGMIN in the following facilities: Yaupi Hydropower Plant, transmission lines L-1701, L-1704, L-1702 and substations such as Oroya Nueva, Car-

huamayo, Paragsha I, Paramonga Existente and Cahua.

- Clearance of easement spans in transmission lines as of 2015, which resulted in the clearance of 38 spans. The main activities included the negotiation with land owners, the application of exceptions Type 1 - Type 2, in accordance with the National Electricity Code and the execution of transmission line variants.
- Overhaul of transmission line L-6527 segment A, which implied the change of the ground cable and respective hardware.
- In transmission lines L-1033/1102, 6 towers, 30 km of conductor, 7000 insulators and hardware from structure E82 to SEPAEX were replaced.
- In transmission line L-1101, 4 towers, 9 km of conductor, 1300 insulators and hardware from SEPANU to SEPAEX were replaced.

### d) Civil infrastructure

#### Yaupi HPP

- In January, the maintenance of the Yuncán - Yaupi road was conducted with machinery from the Municipality of Paucartambo, and Statkraft Peru contributed with fuel.
- In March and April, the cleaning of sediments in the Manto and Santa Isabel intakes, and the refurbishment of restrooms in Manto were conducted.
- In September, the inspection and cleaning of the headrace tunnel of the Yaupi HPP were conducted. Additionally, the topographical survey of the entire tunnel was updated.
- In September, the inspection and ultrasound measuring of the penstock thickness were conducted in Yaupi HPP.
- In September, the surge chamber was raised with concrete at the entrance of the Yaupi HPP tunnel.

- In September, the stop logs in the transfer channel of the Yuncán intake, which diverts water to the Yaupi HPP, were replaced.
- In August and September, the firewall construction works in Yaupi SS were completed.
- In October, the integral review of the Huangush Bajo dam was conducted.
- In November and December, the waterproofing of the shoulder and crest of the Huangush Bajo was completed.
- In October and November, the repair of the invert and cleaning of sediments in the Yuncán intake, as well as the removal of stop logs and cleaning of the Santa Isabel intake and protection fence of the Manto intake were conducted.

#### **Cahua HPP**

- In February, the construction of the underground pit to collect water for the cooling system of the Cahua HPP was completed.
- In September, the maintenance of the Cahua intake was conducted, thus improving the strength of the slab against the abrasion effects of the Pativilca river.
- In September, the maintenance of the heavy machinery (dozer, front loader and dump truck) was conducted.
- In November, a topographical survey was conducted for the registration of the Pushca and Huayllapa channels in Viconga in public records.

#### **Malpaso HPP**

- In May and June, the installation of perimeter fences and security house was conducted in Malpaso HPP.
- In November, the initial stage of the grubbing and riverbed cleaning of tributaries of the Chinchaycocha lake was executed.
- In December, the cleaning works of the

Upamayo river were completed.

#### **Arcata HPP**

- In February, the cleaning and repair of the channels of San Ignacio and San Antonio HPPs were conducted.
- In July, the cleaning of the surge chamber and headrace channel of Misapuquio HPP was conducted.
- In November and December, the pedestrian bridge in the Huisca Huisca area was constructed to reduce the risk of falls, and permit the crossing of people and animals.

#### **La Oroya HPP**

- In August, the repair and maintenance of the channel in La Oroya HPP were conducted.
- In September, the cleaning and bathymetric survey of the Mantaro rivebed in front of La Oroya HPP were conducted.
- In December, the works to replace the penstock of La Oroya HPP were commenced to guarantee the safety of our operations.

#### **Pachachaca HPP**

- In April, the fences on the access road to Yauli were relocated.
- In May, June, August, October and December, works were performed to seal the seepages and replace the rings of the stave pipe in Pachachaca HPP.

#### **Pariac HPP**

- In August, the penstock was dismantled and the surge chamber of the old HPP3 was demolished.
- In October, the maintenance and cleaning of channels in HPP4, HPP3 and HPP2 were conducted.
- In November, the ceilings, walls and the

access bridge to HPP3, were repaired.

- In November, part of the fencing in the channel in HPP4 was completed.

#### **Cheves HPP**

- In May, the design of the Checras dam was reviewed.
- In June, the Checras dam breakage analysis was conducted.
- From June onwards, the monitoring and analysis of the seepages and piezometric levels in the Checras, Huaura and Picunche dams were conducted.
- In August, the monitoring of the Cheves tunnel was conducted.
- In November, the works to repair the eroded areas of the Picunche dam slab were completed.
- In November, the perimeter fence of the Mirahuay camp was executed.
- In December, the processes to procure supplies (railings and Fondag concrete) for the major repair of the Picunche dam slab were commenced.

#### **Gallito Ciego HPP**

- In December, the cleaning of the compensation dam in Gallito Ciego HPP was conducted in order to reduce the risks in our operations.

#### **e) Operations of Cheves HPP**

The Cheves project started construction in December 2010 and started operations in August 2015. As from January 01, 2016, the Cheves HPP ceased to be deemed a project and was incorporated into the asset portfolio of Statkraft Perú S.A.

In 2015 the following activities were performed:



*The Cheves project started construction in December 2010 and started operations in August 2015.*



#### **Major milestones**

- The “Operational Readiness Review” was conducted by Statkraft head office from January 26 to 29, where the Cheves HPP obtained satisfactory results.
- In July 2015, after some cracks appeared in the Checras dam, additional grouting was performed to seal the seepages, and activities were performed to stabilize and reinforce the affected slopes.
- On March 16, the filling of the Checras dam was started. Training on the Emergency Response Plan in case of breakage of the Checras dam was conducted with involvement of the neighboring communities, contractor and SKP personnel.
- On June 12, the energizing of the 220 kV line of the sub-station in Cheves HPP was conducted (backfeed).
- On June 19, 2015, the filling of the Picunche reservoir was commenced; on June 22, 2015, the maximum operating level of the Picunche dam was reached, El. 1277 masl.
- As from July 08 and having satisfied the requirements contained in procedure No.20 of COES-SINAC, the integration of the “220 kV Transmission Line L-2281 Huacho-Cheves Project” into SEIN was approved.
- On June 23, the first synchronization of generation unit No.1 (“Elizabeth”) with the





National Interconnected System (SEIN) was conducted, and on August 08, the first synchronization of generation unit No.2 “Marleny”) with SEIN. The 90-day trial operation of unit No.1 started as from August 24, and unit No.2 as from August 26, in accordance with the contract.

- In August 2015, the National Water Authority (ANA) granted the license for surface water usage for power generation purposes after verifying the civil infrastructure and in light of the favorable opinion of the Supervisory Agency for Investment in Energy and Mining (OSINERGMIN) about the Cheves Hydropower Plant.
- The most important milestone was the commercial start-up of Cheves HPP at 00:00 on Saturday August 22, 2015. Having satisfied

the requirements imposed by the technical procedures required by COES (Committee for Economic Operation of the National Interconnected System), the Cheves HPP officially started operations with an approved effective capacity of 86.24 MW and 85.44 MW for units No.1 and No.2 respectively, which add up to 171.68 MW.

- As from September 01, the energy generated by the Cheves HPP started to be sold to eight distribution companies according to a long-term power purchase agreement (PPA). A period to verify power generation compliance started.
- On September 15, 2015, the Cheves Hydro-power Plant was inaugurated. The inauguration ceremony was held at the Checra dam site, located in the province of Huaura, depart-

ment of Lima. The President of the Republic of Peru, Ollanta Humala Tasso; the Minister of Energy and Mines, Rosa María Ortiz; regional authorities; Board members; reporters; Statkraft Peru employees, and local and national guests attended the event.

**Generation**

- In 2015, the Cheves HPP generated 204.82 GWh.
- Operating procedures, operating controls and inspection routes were prepared.

**Maintenance**

- The equipment components were identified for the appraisal of the Cheves HPP assets.
- Preparation of the maintenance plan recommended by manufacturers and incorporation into the maintenance management system used by SKP: “JobTech.”
- The maintenance optimization methodology referred to as Reliability Centered Maintenance (RCM) was applied.
- The special tools and spare parts recommended by the equipment manufacturers were received in accordance with the contract.
- Application of the methodology to measure hydropower generation profitability measured as weighted maintenance objects (WMOs).

**Civil infrastructure**

- On April 03, an incident occurred during the tunnel filling process due to a failure of Adit No.1 of the headrace tunnel. This adit was permanently closed in May 2015.
- On June 28, the inspection of the headrace tunnel was conducted by an ASI Marine with a ROV (Remote Operated Vehicle), covering the entire length of approximately 10 km. After confirming adequate tunnel conditions, filling works were continued.

- The comprehensive review of the Checras dam (design, construction and operation), and the breakage analysis study of the dam were conducted.

**Safety**

- The safe haven with rescue gear was implemented.
- An ambulance was procured and a medical bay was implemented.
- The risk maps and evacuation routes of all facilities were prepared.
- The safety zones were identified and signaled.
- The implementation of the emergency lighting, firefighting detection and manual/automatic system was verified.
- The Permit to Work (PTW) system and lock-out/tag-out (LOTO) system were implemented.
- The following training was imparted: use of self-contained breathing apparatus (SCBA) inside the powerhouse tunnel, use of lock-out/tag-out equipment (LOTO), use of fire extinguishers and first aid.

**Social responsibility**

- In October, the qualitative and quantitative study on the “image and perceptions regarding the Cheves Project activities in the communities within the area of direct influence” was conducted.
- A stakeholder communication plan was prepared for the hydraulic and commissioning tests.
- A transition plan of the Community Relations strategy from the construction to the operation stage was designed and implemented.
- A communication plan applied to the operations of the Cheves Hydropower Plant was

prepared.

- Project execution: “Expansion of the Tingo Medicinal Spring Water Infrastructure” in the Huacho Community.
- Co-participation in the project execution: “Expansion of the Cabracancha Spring Water Infrastructure” in the Andajes Community.
- Preparation of the technical dossier for the project: “Installation of the Pichuanca technified irrigation system” in the Naván Community.
- Preparation of the technical dossier for the project: “Installation of the Quinchucro technified irrigation system” in the San Miguel de Puná Community.
- Project execution: “Implementation of the Huancatama irrigation system in the Muzga Community” with leveraged funds from the government.
- Project execution: “Installation of the Huaylamaqui enclosed channel” in the Muzga Community.
- Project execution: “Procurement of irrigation materials for the Chaulole sector” in the Muzga Community.
- Monitoring of the project operation: “Conchán Enclosed Channel” and “Pichupampa Reservoir” in the Huacar Community.
- Monitoring of the project operation: “Installation of the Uganán enclosed channel” in the Lacsanga Community.
- School and Christmas campaigns in the communities located within the areas of influence.
- On December 22, 2015, the Muzga Community acknowledged Statkraft Peru for the execution of social and sustainable development projects.
- In order to promote the products from the area of influence area promoted by the Corporate Responsibility projects, a produce fair was

implemented at Statkraft office in Lima with involvement of community members.

- Contractor Skanska employed 12 people from the area of influence for the operation of the Cheves Hydropower Plant.

### Human resources

- In 2015, the support of Statkraft Peru to the Cheves Project was decisive for the commercial start-up of the plant. 23 employees were assigned to the Handover process to receive On-the-Job training, provide support to the project during the construction activities and commissioning process, prepare and follow up on the project punch list, and ensure compliance with the Operation and Maintenance Agreement.
- In 2015, formal training was completed, which according to the agreement was to include 16 man-months; however, training sessions were requested to be held in Peru, to the extent possible, for training to be imparted to as many employees as possible. The final number of training hours was 23 man-months. Additionally, the On-the-Job training, which according to the contract was to include 16 man-months, was completed with 53 man-months.
- The transfer of the know-how acquired through On-the-Job training strengthened the technical and leadership competences. As a consequence, 23 people were tasked with new responsibilities.

### Project design improvements

- Hydrometric stations were implemented to measure the inflow in Huaura and Checra, and the outflow in Puente Alco downstream of the Picunche reservoir. Additionally, hydrometric stations were implemented for the discharge of the environmental flow in accordance

ce with the Environmental Impact Assessment and Environmental Flow Monitoring Plan.

- Pieces of equipment to measure solid build-up and flow were installed to monitor the condition of the headrace tunnel.
- The manual alarm system was installed, and the early alarm automatic system was designed in the villages within the area of direct influence as determined by the Checras Dam Flood Study and in accordance with the Emergency Response Plan.

### Camp

- Furniture, domestic appliances, office, kitchen and dining room equipment were installed in Mirahuay 3 camp.
- Implementation of the power supply system, waste water system, telecommunication system. Procurement of the potable water plant, and improvement of the water intake.
- Formalities were conducted to obtain municipal permits for the camp, hydrometric stations and authorizations for the potable water plant.
- Preparation of the security risk analysis of the camp and all facilities.
- The design of the workshop and storehouse, and the design of the surveillance video system were prepared.

### Handover process

- The handover process is the process followed to ensure the commercial start-up of Cheves HPP in an adequate manner, minimizing failures and start-up risks. At the same time, the process aimed at inserting the Cheves HPP into the operating model of Statkraft Perú S.A., in all aspects, as a new plant in the portfolio in addition to the eight hydropower plants that are already in operation.
- Of the approved budget (USD 3.8 MM) until

December 2015, USD 2.44 MM was executed, and the final cost amounted to USD 3.7 MM. As required by the Cheves Project, the activities implying improvements in the control system were performed after the handover of the Cheves HPP.

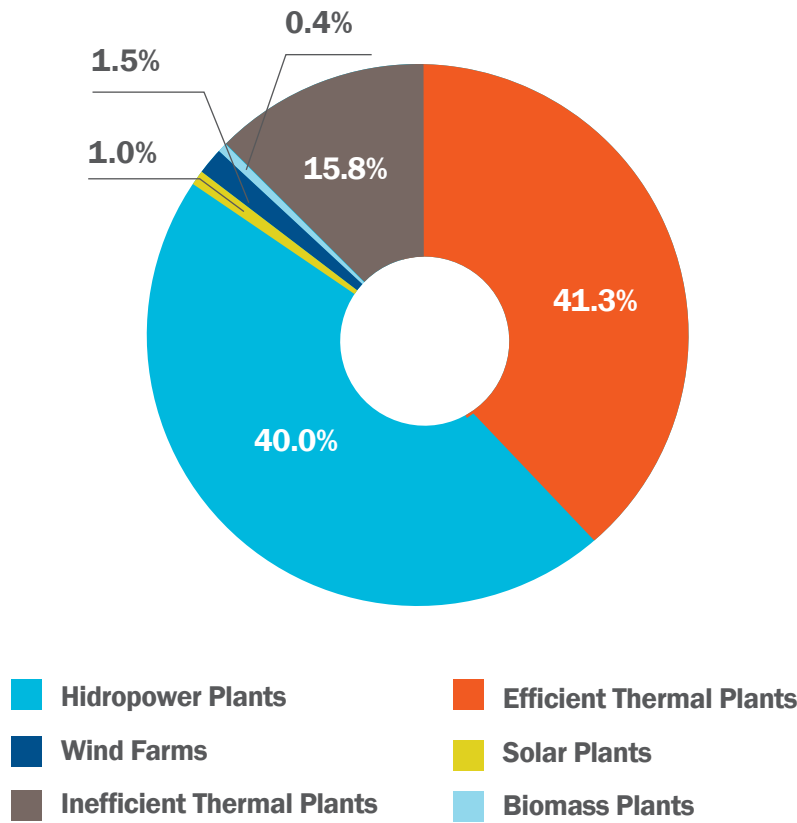
## 2.3 Commercial management

### 2.3.1 Characteristics of the Peruvian electrical sector

The Committee for the Economic Operation of the National Interconnected System (COES - SINAC) reported that in 2015 the energy demand in the National Interconnected Electrical System (SEIN) was 44,540 GWh. Such figure exceeds by 7.6% that from 2014, when a demand of 41,796 GWh was recorded. With respect to the capacity, the maximum demand was 6,274.6 MW, 9.4% higher than in 2014, which was 5,737.3 MW.

The effective capacity of generation units in SEIN amounted to 9,613.9 MW in 2015; 41.3% of which corresponds to thermal plants running on natural gas, 40.0% to hydropower plants, 1.0% to solar plants, 1.5% to wind farms, 0.4% to biomass plants, and the remaining percentage corresponds to generation plants running on other fuels (15.8%), such as coal, diesel 2 and residual oil. Compared to 2014, the percentage of plants running on this type of fuels increased due to the start-up of large-scale thermal plants operating as cold reserve, such as Recka thermal plant, Eten Cold Reserve Thermal Plant.

**Chart 2**  
**Distribution of capacity from generation units in SEIN**



Source: prepared in-house

In 2015, new generation facilities were incorporated to SEIN with the commercial start-up of the following plants:

- Canchayllo Hydropower Plant (5.0 MW), owned by company EGECSAC.
- Second stage of the Machupicchu Hydropower Plant (99.9 MW), owned by company EGEMSA.
- Cheves Hydropower Plant (171.7 MW), owned by Statkraft Perú S.A.
- Quitaracsca Hydropower Plant (118.0 MW), owned by Enersur S.A.
- Santa Teresa Hydropower Plant (99.7 MW), owned by Luz del Sur S.A.

“  
 In 2015 the energy demand in the National Interconnected Electrical System (SEIN) was 44,540 GWh.  
 ”



- La Gringa V Thermal Power Plant (3.2 MW), owned by company ECELIM.
- Recka Thermal Power Plant (181.3 MW), owned by mining company Cerro Verde.
- Eten Cold Reserve Thermal Power Plant (183.5 MW), owned by Consorcio Cobra Perú S.A.

Additionally, the validity of Emergency Decree No. 049-2008 “Emergency Decree that Ensures Continuity of the Electrical Service” was extended until December 31, 2016. Such decree modifies the regulatory framework of the sector, with the following changes:

- The short-term marginal costs are determined under two assumptions: i) there are no restrictions for natural gas transportation or power transmission, and ii) an administrative ceiling is set (equal to PEN 313.5/MWh) for the marginal cost. Both measures result in an artificially low price for transactions in the short-term market, referred to as the spot market.
- In order to cover for the operating costs of units not profiting as a result of the aforementioned methodology, additional charges are incorporated into the main system connection toll. Consequently, costs are transferred to end consumers.
- Withdrawals made by distribution companies under no agreement are allocated based on the positive balance of annual efficient firm energy of generation companies. The additional costs incurred by generation companies to process these withdrawals are incorporated into the main system connection toll, which results in costs being allocated to the demand. It should be noted that in 2015 no demand was allocated to Statkraft Peru without agreements.

Under these conditions, the average marginal cost in 2015 amounted to USD 14.50/MWh, 39.7% lower than 2014, which recorded USD 24.07/MWh. The highest monthly average of the marginal cost in 2015 was recorded in August, during the dry season, with USD 20.90/MWh.

In 2015, Directorial Resolution No.004-2014-ANA-DEPHM passed by the Bureau of Multi-sector Hydraulic Project Studies of the National Water Authority (ANA), which extended for 2 additional years the validity of Directorial Resolution No.004-2013-ANA-DEPHM, continued to be applied. With this resolution, the maximum and minimum elevations to be kept at the Junín Lake were approved. The maximum elevation was 13,419 masl, equivalent to a useful volume of 314.74 Hm<sup>3</sup>.

### 2.3.2 Commercial development of Statkraft Peru

#### a) Introduction

Statkraft Peru is a power generation company that trades energy and power with free and regulated clients. It is also involved in the short-term market operated by COES – SINAC, where generation companies bridge the gaps between the injections from plant production and the withdrawals to meet contractual commitments at short-term marginal costs. Additionally, the company earns revenues for transmission services from the secondary transmission networks it owns.

In 2015, the total volume of energy sold by Statkraft Peru (both to clients and to the spot market) totaled 1,984 GWh. This volume of energy sold represented a 9.8% increase

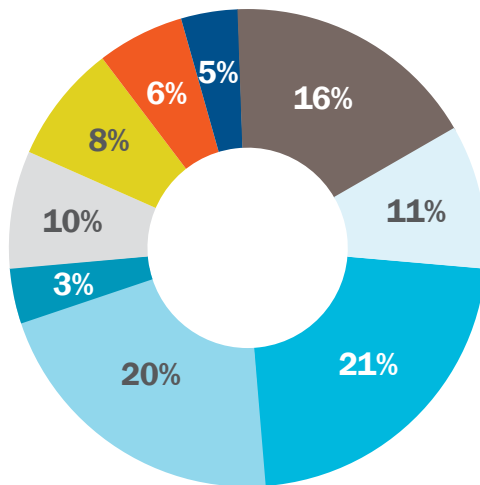
compared to the volume recorded in 2014 (1,806.4 GWh), due to the start of the long-term power purchase agreements associated with the Cheves HPP in September, with an energy volume recorded at 218.4 GWh.

Similarly, it can be observed that 38% of the energy and capacity through power purchase agreements were invoiced to power distribution companies, 52% to free clients and the remaining 10% was sold to the spot market.

Chart 3 shows in detail the company’s invoicing of energy and capacity under agreements in 2015, broken down per clients.

“  
In 2015, the total volume of energy sold by Statkraft Peru totaled 1,984 GWh.”

**Chart 3**



- Cheves<sup>4</sup>**
- Doe Run Perú**
- Distriluz<sup>3</sup>**
- Milpo Group<sup>1</sup>**
- Yauricocha**
- Spot Market**
- Quenuales**
- Condestable**
- Otros<sup>2</sup>**

Source: prepared in-house

**(1) Milpo Group:** Cerro Lindo, Atacocha and El Porvenir.

**(2) Others:** Trevalli, BBVA, Poder Panadero, Chinalco, Esemptat, Electrodonas, Cochass and Villages, and Adinelsa.

**(3) Distriluz:** Corresponds to the 60 MW awarded with distribution companies Electrocentro, Electronoroeste, Electronorte, Hidrandina and Coelvisac (Hidrandina 2010 Auction).

**(4) Cheves’ Contracts:** Correspond to the 109 MW awarded with distribution companies Electrocentro, Electronoroeste, Electronorte, Hidrandina, Electropuno, Electrosureste, Electrosur and Seal (ProlInversión 2009 Auction).



“  
*Statkraft Peru  
deems the trading  
and customer  
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it provides and  
to maximize the  
company's  
contribution  
margin.*”

Revenues for tolls in the secondary transmission system (SST) decreased by 7.0% due to lower demand than the forecast. Since this difference is typically offset the following year in the annual SST income settlement, revenues for PEN 2,483,329 were provisioned in December 2015.

Revenues for capacity and energy transfers in COES - SINAC decreased 39% compared to 2014 due to a lower energy price in the spot market, especially during the wet season.

**a) Clients**

Statkraft Peru deems the trading and customer service to be of paramount importance to set apart the service it provides and to maximize the company's contribution margin.

As a result, the company has close relations and is in constant coordination with clients through electronic mails, phone and letters. The most relevant aspect regarding the interrelation with clients is the coordination of operational issues such as the maintenance of transmission systems, and the coordination of invoicing and accounting issues, including the timely submission of invoices and bank deposits in the company's accounts.

In 2015, the company had 23 clients in all, as shown in Table 9 according to the type of clients: free clients and distribution companies.



Table 9

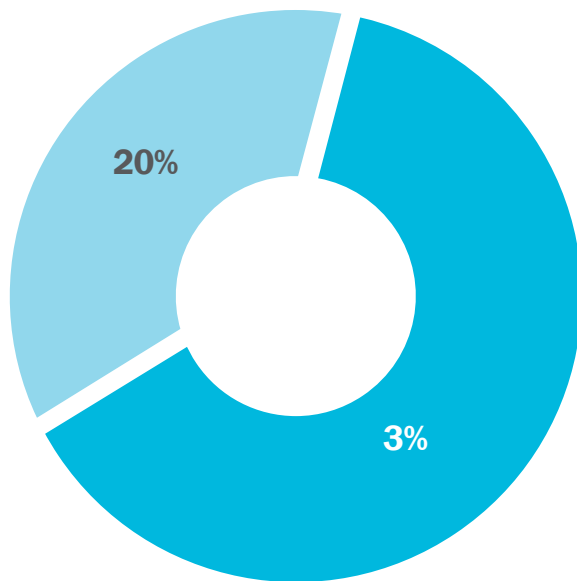
Type	Agreement	Period	
Free Clients	DOE RUN PERU S.R.L. - La Oroya Unit	01/01/2009 - 31/12/2018	
	DOE RUN PERU S.R.L. - Cobriza Unit	01/07/2009 - 31/12/2016	
	MINERA CHINALCO PERÚ S.A.	15/09/2005 - 31/12/2016	
	COMPAÑÍA MINERA MILPO S.A.A. - Cerro Lindo Unit	01/09/2010 - 31/12/2017	
	COMPAÑÍA MINERA ATACOCHA S.A.A.	01/02/2012 - 31/12/2017	
	MILPO ANDINA PERÚ S.A.C.	01/02/2014 - 31/12/2017	
	TREVALI PERU S.A.C.	01/02/2013 - 31/12/2018	
	EMPRESA MINERA LOS QUENUALES S.A.	01/01/2013 - 31/12/2017	
	COMPAÑÍA MINERA CONDESTABLE S.A.	09/02/2014 - 28/02/2019	
	SOCIEDAD MINERA CORONA S.A.	01/11/2013 - 31/10/2023	
	BBVA BANCO CONTINENTAL	01/12/2014 - 31/12/2019	
	PODER PANADERO S.C.R.L.	01/11/2015 - 31/10/2018	
	CENCOSUD RETAIL PERÚ S.A. (*)	01/07/2016 - 30/06/2019	
	TRES PALMERAS S.A. (*)		
	CINCO ROBLES S.A.C. (*)		
Distribution Companies	Empresa de Servicios Municipales de Pativilca (ESEMPAT)	01/09/2009 - 30/09/2015	
	ELECTRODUNAS	01/01/2015 - 31/04/2015	
	District Municipality of COCHAS	01/02/2009 - 31/12/2015	
	ELECTROCENTRO S.A. (Cheves)	01/09/2015 - 31/08/2030	
	ELECTRONOROESTE S.A. (Cheves)		
	ELECTRONORTE S.A. (Cheves)		
	HIDRANDINA S.A. (Cheves)		
	ELECTROPUNO S.A.A. (Cheves)		
	ELECTROSUR S.A. (Cheves)		
	ELECTROSURESTE S.A. (Cheves)		
	SEAL S.A. (Cheves)		
	COELVISAC		01/01/2013 - 31/12/2022
	ELECTROCENTRO		01/01/2013 - 31/12/2022
	ELECTRONOROESTE S.A.	01/01/2013 - 31/12/2022	
	ELECTRONORTE S.A.	01/01/2013 - 31/12/2022	
HIDRANDINA S.A.	01/01/2013 - 31/12/2022		

(\*) The agreement with Cencosud Group will start as from Jul 2016.  
(Cheves) are agreements awarded in auctions, starting in Sep 2015.

Free clients enter into contracts under a free price regime, whereas distribution companies –electricity utility suppliers- enter into supply contracts through: i) long-term auction processes, or ii) bilateral contracts, in which case the prices regulated by OSINERGMIN apply.

In 2015, the energy sold to distribution companies represented 37.8% of the sales through agreements, whereas the energy sold to free clients represented 62.2%, as shown in Chart 4.

**Chart 4**



■ Distribution Companies  
■ Free Clients

#### b) Commercial strategy

The electrical market is experiencing low marginal costs for consecutive years. This is

explained by the oversupply of existing generation, the auctions called by the government to increase production with hydropower and non-conventional renewable energy, and the low demand growth. Moreover, as described in section 2.3.1, the spot market has been intervened with Emergency Decree No.049-2008 and Law No.30115.

In this sense, the commercial strategy of Statkraft Peru takes into consideration the aforementioned context and risk assessment guidelines, which are put forward to the company's Board, as well as the monthly marginal cost forecasts in order to detect contract opportunities to add value to the contribution margin.

As a consequence, the commercial strategy of Statkraft Peru takes into consideration the total sales of maximum energy authorized in the commercial mandates, according to which the company is authorized to sell energy through bilateral agreements or auction processes.

In 2015, Statkraft Peru entered into a new agreement with PANADERO PODER for 1.2 MW, effective as from October 2015 to September 2018. Additionally, a new agreement was entered into with the Cencosud Perú Retail Group for 40.2 MW, effective as from July 2016 to June 2019. On the other hand, some agreements in the portfolio were renegotiated, such as the agreement with MILPO (50.2 MW), which was extended from May 2016 to December 2017, and the agreement with CHINALCO (0.9 MW), which was extended for an additional year. The energy supply for the commitments of Cheves HPP started as from September 2015. There are

eight PPAs for 109 MW.

In August 2015, the Risk Management area was implemented as part of the corporate management model in order to conduct metrics independently to measure, control and communicate the exposure of the commercial portfolio to credit and market risks.

By the end of 2015, progress was mainly recorded as follows:

- Implementation of new internal analysis models of Corporate Social Responsibility (CSR) and Credit Risk.
- CSR approval of portfolio counterparties and CSR analysis of new possible counterparties.
- Credit analysis of counterparties in the portfolio and new possible counterparties. Approximately 85% of counterparties were considered, which is equivalent to an international investment level.
- Development of a portfolio management reporting model, including: metrics of P/L, downside, contribution analysis, portfolio exposure, global credit exposure and exposure per counterparty (payment, replacement, debts), exposure per global volume and per counterparty, etc.

### c) Hydrological management

As part of the commercial strategy, the company constantly monitors the hydrological behavior of the basins where it operates. In 2015, the results, according to the hydrological classification, were as follows:

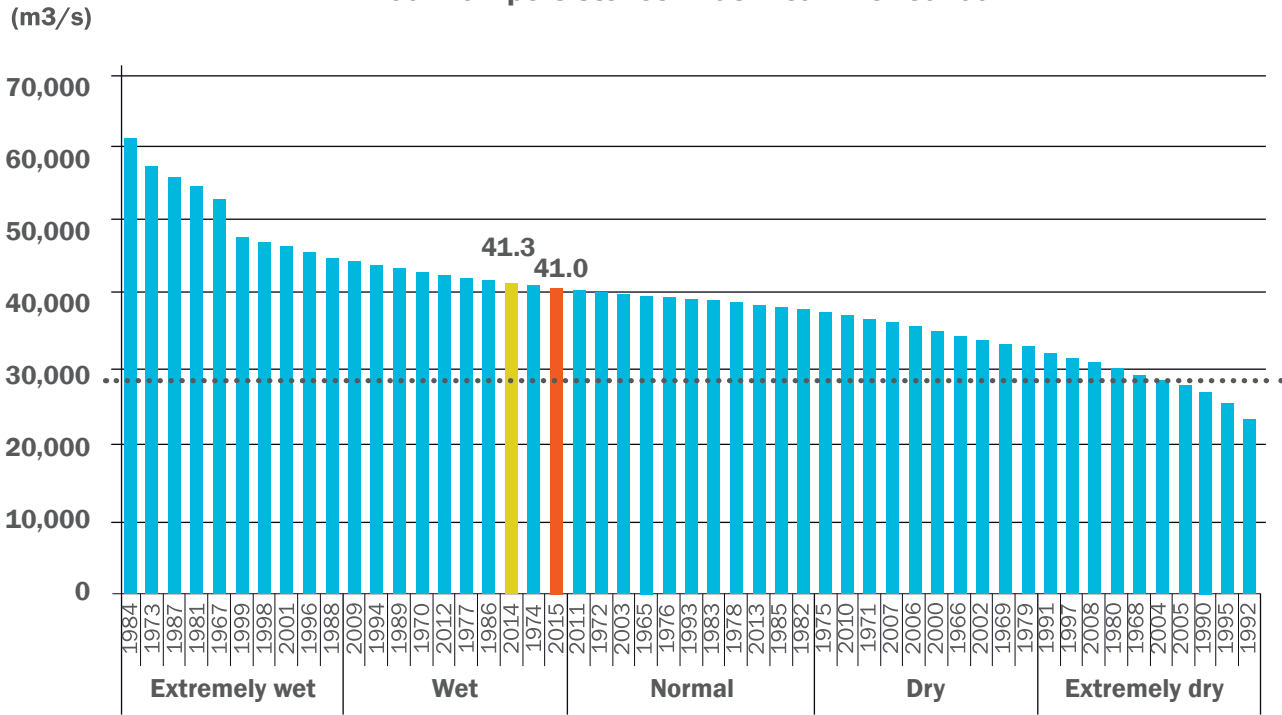
1. Paucartambo (Yaupi Hydropower Plant): **normal**, with a flow of 38.85 m<sup>3</sup>/s, lower than that in 2014 (44.17 m<sup>3</sup>/s).
2. Mantaro Alto (Malpaso Hydropower Plant): **normal**, with a flow of 27.796 m<sup>3</sup>/s, lower than that in 2014 (31.437 m<sup>3</sup>/s).
3. Pativilca (Cahua Hydropower Plant): **wet**, with a flow of 41.045 m<sup>3</sup>/s, slightly lower than that in 2014 (41.368 m<sup>3</sup>/s).
4. Jequetepeque (Gallito Ciego Hydropower Plant): **wet**, with a flow of 31.358 m<sup>3</sup>/s, greater than that in 2014 (18.652 m<sup>3</sup>/s).
5. Huaura (Cheves Hydropower Plant): **wet**, with a flow of 25.48 m<sup>3</sup>/s, slightly greater than that in 2014 (24.61 m<sup>3</sup>/s).

The classification of each basin is shown in charts 5 to 9.

“  
In August 2015,  
the Risk Management  
area was implemented as  
part of the  
corporate  
management  
model.”

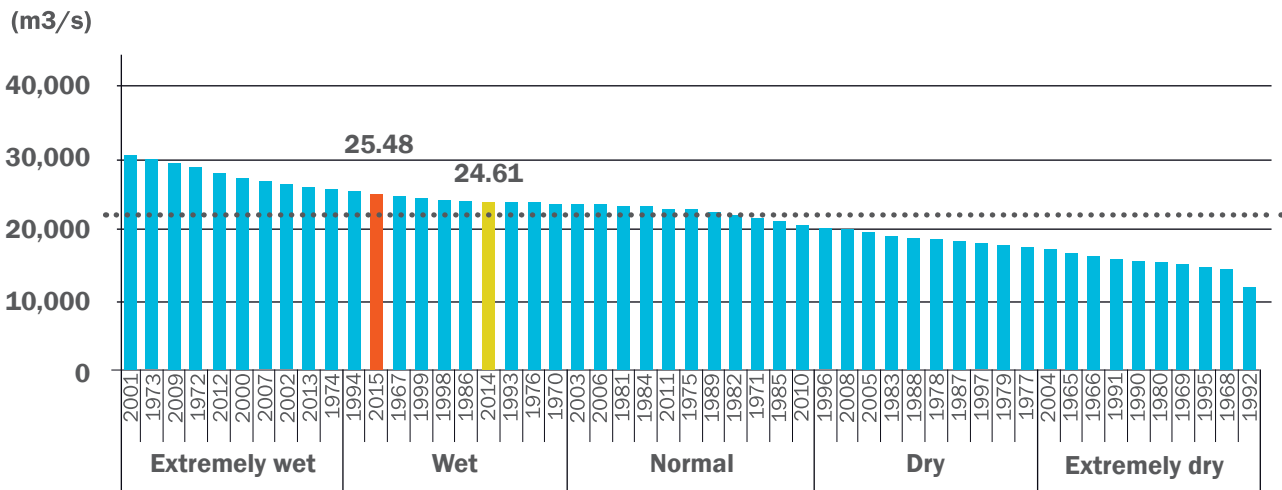


**Chart 5**  
Annual flow persistence - Pativilca River Cahua HPP



Source: prepared in-house

**Chart 6**  
Annual flow persistence - Huaura River Cheves HPP

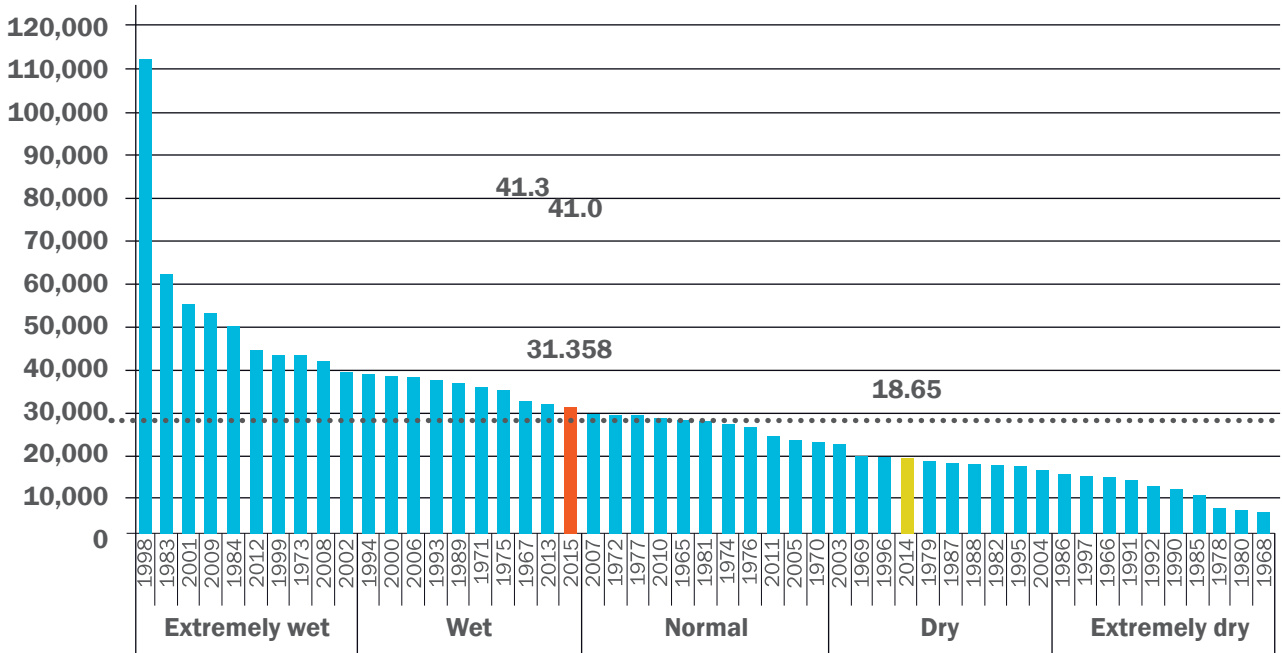


Source: prepared in-house

Chart 7

Annual flow persistence - Jequetepeque River Gallito Ciego HPP

(m3/s)

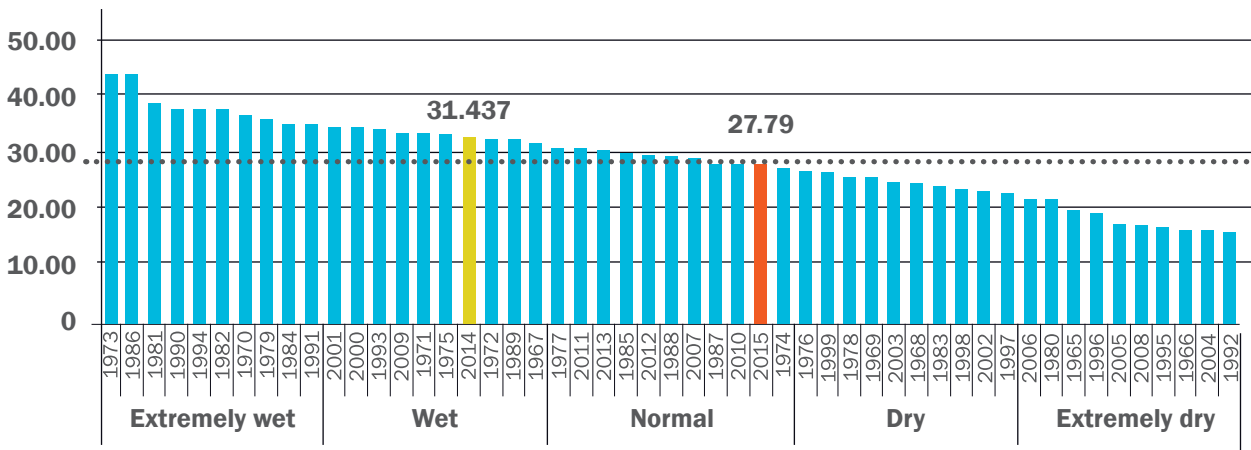


Source: prepared in-house

Chart 8

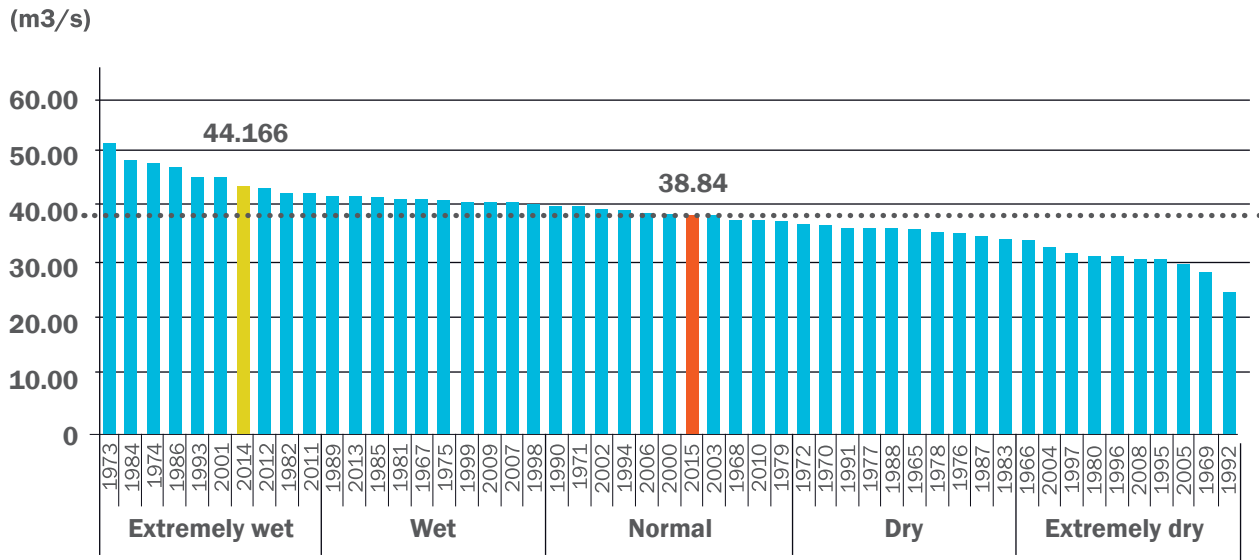
Annual runoff persistence - Mantaro Alto River Malpaso HPP

(m3/s)



Source: prepared in-house

**Chart 9**  
**Annual flor persistence - Paucartambo River Yaupi HPP**



Source: prepared in-house

## 2.4 Business development

### 2.4.1 Growth strategy

After the start-up of the Cheves HPP and with more than 443 MW of installed capacity of renewable energy, Statkraft Peru is entering a new phase focused on the consolidation of its portfolio, seeking efficiencies and an organizational realignment with focus on innovation in order to ensure the sustainable growth in the future.

The company's growth is associated with a quick adaptation to the changes in the industry by reviewing some internal and organizational processes to support such growth.

In this sense, it is necessary to prepare the organization by instilling an innovation culture and creating internal and external collaboration networks.

In the second half of 2015, the company analyzed growth opportunities and defined the following main lines of actions:

- New business development
- Mergers and acquisitions
- High-impact projects



## 2.4.2 Developed projects

In the first half of 2015, Statkraft Peru developed the feasibility studies for the Rapay project. However, Statkraft AS, owner of Statkraft Peru, decided not to execute the project under the current circumstances as the project was not deemed a strategic investment given the current market conditions.

As a consequence of this decision, in the second half of 2015, Statkraft Peru completed all studies that validated the project viability and closed the project. This situation will continue until a decision is made by the company and the head office to execute it.

It should be noted that Statkraft is committed to keep investing in Peru, especially in areas with economies of scale and sustainable growth in the long run.

“  
*Statkraft is committed to keep investing in Peru.*  
”



PROYECTO FRUTICOLA  
C.C. HUACAR  
VALLE HUAYRA SAYAN

MI TIA ENY  
ALNIBAR DE DURAZNO  
PACCHO - HUACAR - HUAYRA

MI TIA ENY  
ALNIBAR DE DURAZNO  
PACCHO - HUACAR

MI TIA ENY  
PULPF DE PURITO HUACAR  
HUACAR - HUAYRA

MI TIA ENY  
PULPF DE PURITO HUACAR  
PACCHO - HUACAR - HUAYRA

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ALNIBAR DE DURAZNO  
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MI TIA ENY  
ALNIBAR DE DURAZNO  
PACCHO - HUACAR

MI TIA ENY  
ALNIBAR DE DURAZNO  
PACCHO - HUACAR



3

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**BUSINESS  
SUSTAINABILITY**



*Statkraft Perú performs its activities giving priority to the safety and health of everyone working for and on behalf of the company.*



### 3.1. Occupational health and safety

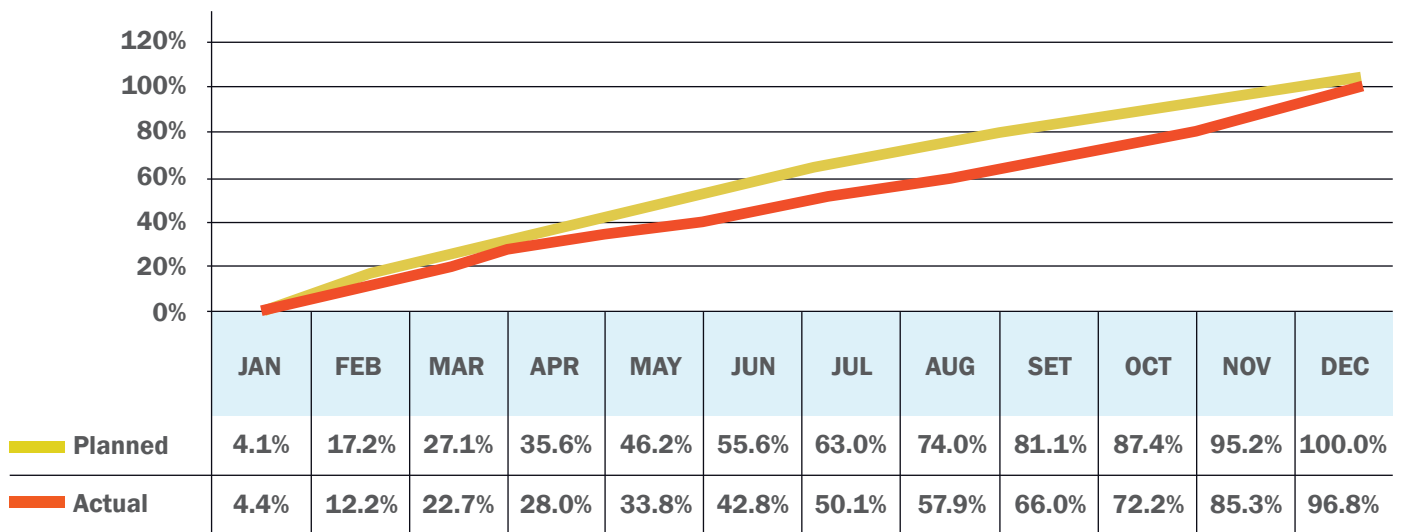
Statkraft Peru generates energy in compliance with project management, operation and development policies and in accordance with the corporate business principles of the head office. As a consequence, the company performs its activities giving priority to the safety and health of everyone working for and on behalf of the company, as well as the security of its facilities and assets.

#### a) Occupational health and safety program

As part of the company’s Occupational Health and Safety annual program, 421 activities, including inspections, training sessions, drills, safety meetings, etc., were conducted in 2015. The program activities were completed at 96.08%, with 1032.10 man-hours of training, as shown in Chart 10.

**Chart 10**  
Compliance with the 2015 HSS Annual Program  
(cumulative)

Progress percentage (%)



Source: prepared in-house

**b ) Accident rate, occupational diseases and lost time injuries**

- Recorded accidents:

The company monitors accidents as part of its Occupational Health and Safety Policy, and in compliance with Law No.29783, Law on Occupational Health and Safety, its amendments and regulation, and the Regulation of Safety and Health in Electrical Activities (RM No.111-2013-MEM/DM).

In 2015, no fatalities were recorded, but there were three minor accidents according to the

definition of the Regulation of Occupational Health and Safety in Electrical Activities of the Ministry of Labor and Employment Promotion. As a consequence, a frequency indicator of 2.35 was obtained, which means that there are 2.35 accidents per one million man-hours worked in the company. This percentage includes contractors.

The accident reported to the supervisory agency resulted in 85 days of medical leave for six employees, as shown in Table 10.

**Table 10 - Accidents recorded at 2015**

Category	Detail	Medical leave (days)
<b>Contractor</b>	During the closing of the jumper wire of Line L-1033/1102, the linesman from company C&M, who was in the upper portion of the tower, proceeded to remove the pulley from the structure and untied the rope fastening the pulley to the bracket. At that moment, the pulley fell on the middle bracket and hit the back of the linesman who was located in the third lower bracket of the tower.	<b>02</b>
<b>Contractor</b>	After removing the roof of a house in the camp, a crew composed of 5 workers from company SERMULYV (3 workers on the roof and 2 on the ground) started to take apart the suspended ceiling for the dismantling on block D (Yaupi camp). While the two workers were removing the bolts and braces of a room in the block, one of the workers walked on the suspended ceiling. At that moment, the structure gave in and the two workers fell together with the roof.	<b>60</b>
<b>Contractor with Statkraft personnel</b>	Pickup truck Toyota Fortuner with license plate B4P-217 from company GH COIN was transporting Statkraft to the Cahua HPP. At approximately km 131 of the North Pan-American Highway, at the junction with Ave. Perú in Huacho, a vehicle running a red light collided against the pickup truck, on the driver side rear door. As a consequence, the vehicle of contractor GH COIN flipped onto its side (right-hand doors ended up making contact with the floor) and skidded for approximately 30 m. The three Statkraft employees sustained minor injuries.	<b>23</b>
<b>TOTAL</b>		<b>85</b>

- Accident severity index:

The severity index (SI) provides information on the number of days lost due to accidents or occupational diseases reported per one million man-hours worked. In 2015, a total of 85 days lost were recorded.

In 2014, a severity index of 66.5 was recorded, including contractors.

- Occupational diseases:

The occupational diseases rate (TEP) provides information on the number of occupational diseases reported per one million man-hours worked. In 2015, no diseases were reported as a result of the activities performed by the company or contractors.

- Absence rate:

The absence rate (TA) provides information on the days lost throughout the year with respect to the expected work days.

### c) Security

Since one of the pillars and commitments contained in Statkraft Peru's HSS Policy is the adequate protection of personnel and assets against natural disasters and security threats, Statkraft Peru develops a strategic plan for security of the facilities and safety of the employees, especially in remote areas that are difficult to access.

The following incidents without time lost, for which there were no bodily injuries but there were material damages, can be considered.

**Table 11**  
**Security incidents recorded in 2015**

Category	Detail	Medical leave (days)
<b>Statkraft and Contractor</b>	On December 2, at approximately 22:20, a group composed of 10 men broke into the Mirahuay camp 3 of Cheves HPP. The event occurred when some employees of Statkraft Peru and contractors were at the camp. The robbers first subdued and seized the security guard at gunpoint, and then threatened the other people who were inside their houses. Robbers then went from house to house and finally seized Statkraft Peru and contractor employees in the last house. They forced the security guard to make the hourly report to the control center. Some people were even battered by the robbers. It is believed that robbers fled the scene at 23:10, leaving employees on the floor with their hands tied. As a result of this event, an employee of Statkraft Peru was taken to Huacho to receive medical care for mild injuries.	0

#### d) Security Audit 2015

A security audit was conducted in Statkraft Peru from November 02 to 12, 2015 by the head office in order to assess whether the Security Management System is properly designed and rolled out in Peru. In this regard, the documentation was reviewed and site visits were paid to Malpaso HPP, Yaupi HPP, Cahua HPP and Cheves HPP.

The audit report focused on deviations. These were some conclusions of the audit:

- The community relations in Peru seem well taken care of at all the sites visited and could be an example to follow.
- The overall focus on security risk seems good. There is a general acknowledgement of the risk being low as the plants are remote, low-manned and the consequences in case of one plant is destroyed would most likely not affect the Peruvian Government (which is believed to be the main target for local interests/potential attackers).

the CFO.

In the finance areas, the management priorities were the financing to complete the construction of the Cheves Hydropower Plant, the merger between the former Statkraft Peru and Empresa de Generación Eléctrica Cheves, and the joint definition with the head office of the financial restructuring plan of the merged company.

The activities performed by the areas composing the Administration and Finance Management are described in further detail below.

#### a) Accounting

In 2015, the process to search for efficiencies continued:

- The process of advances to be rendered was systematized through a new system that integrated into a single flow the different processes managed by General Services, Treasury, Accounting and Planning, which resulted in less man-hours engaged in these processes, thus improving the administration and allocation of operating expenses and follow-up on the status of each process. Similarly, the procedure for advances to be rendered was published in accordance with corporate guidelines, and training was imparted on the new system to all employees.
- On August 01, the merger of Statkraft Perú S.A. and Empresa de Generación Eléctrica Cheves S.A. was completed, whereby the former transferred all its equity to the latter, without winding up or liquidation. As a result, the tax shield was optimized through the incorporation of the operations of the new Cheves Hydropower Plant, and it was possible to apply the accelerated depreciation of new

## 3.2. Administration and Finance Management

In 2015, the Administration and Finance Management restructured the organization chart of its areas to streamline their activities and optimize the alignment of roles with The Statkraft Way. In this sense, the Procurement, Control & Reporting and Treasury Units were incorporated to the existing Accounting and General Services Units, with direct reporting to

assets and use the Sales Tax (IGV) credit in a more efficient manner for the construction of the Cheves Hydropower Plant.

As a consequence of this merger, the implementation of the new company in the SAP system was successfully completed, which included the componentization of all assets of the new Cheves Hydropower Plant for subsequent depreciation.

- Arrangement continued to be made for the advanced recovery from the Government of more than USD 8 million of the General Sales Tax (IGV) of Empresa de Generación Eléctrica Cheves S.A. From July 2010 to July 2015, a cumulative sum of USD 80 million in cash has been recovered.
- In December, after 10 years, the Tax Tribunal ruled in favor of the company regarding a disagreement with SUNAT for a difference in the value of fixed assets of the Cahua Hydropower Plant. This means that the expense provision for USD 1 million for this concept was reverted, which had a positive impact in the Financial Statement.

#### **b) Finance**

As previously mentioned, the merger between Statkraft Perú S.A. and Empresa de Generación Eléctrica Cheves S.A. was completed in 2015, whereby the latter absorbed the former, and the company was renamed Statkraft Peru. For the merger process to be executed as expedient and efficient as possible, it was concluded that the best way to conduct it was with the prepayment of all secured debts the company maintained with third parties in order to release all guarantees and liens over the assets and rights of both parties in a

timely and uneventful manner.

To this end, in December 2014, the board of directors of Statkraft AS approved a credit for USD 450 million to prepay the loans with the International Finance Corporation (IFC) for USD 280 million in February 2015 and Banco de Crédito del Perú (BCP) in June 2015 for USD 170 million. As a consequence, the structural debts of Statkraft Peru and the Cheves Hydropower Plant were repaid and the guarantees released.

Upon completion of the merger on August 1, 2015, the best options were evaluated to define the new financial structure of the company, which resulted in the capitalization process for USD 500 million of intercompany debt, leaving a debt balance of USD 108 million to be repaid in the mid-term. In this regard and with the support of the Legal area, the formal requirements to conduct this process were established together with the head office in 2016.

#### **c) Administration and services**

In the first half of 2015, the General Services area continued with phase II of the camp improvement project with the construction of a new dining area and a training room at the Cahua Hydropower Plant, in early March. Additionally, between July and August, the houses, hotels and dining areas of La Oroya and Yaupi were refurbished, which provided employees with adequate infrastructure and furniture.

In addition to these activities, 34 houses in La Oroya were donated to the workers who were occupying them in order to generate significant savings for the company's operation.

A tender process was conducted for mobile telephony, setting this process in order and obtaining more efficiency.

#### d) Procurement

In 2015, the area was restructured, which resulted in improved communication and more agile processes. Additionally, a tactical plan was designed based on 5 pillars: regulatory framework, methodology, supplier management, process visualization, and service level agreements and human talent; all in line with the methodology of the head office. As a result, a reactive supply became a reactive one. Similarly, a supplier consolidation process was commenced, and the firm Achilles was engaged for the pre-qualification of the suppliers, which will be an indispensable requirement to be a supplier of Statkraft. As a result of these changes, savings for contract negotiations were obtained for USD 1,400,000, largely exceeding the savings in past years.

### 3.3. Information and Communication Technology

In 2015, the Information and Communication Technology area took part in the start-up of the Cheves Hydropower Plant and the implementation of the Global IT Infrastructure (Magnet II), where all requirements for the timely completion of both projects within the required scope were satisfied.

#### a) Cheves Hydropower Plant

A major milestone was the interconnection of

the Powerhouse with the Dispatch Center in Lima, which permitted the Operations team to perform stress tests for transmission of signals to COES, which contributed to the issuance of the operating permit. Additionally, other basic technological services were made available, such as computers, Internet, electronic mail, WiFi, landline and mobile communication, radio, etc.

This was made possible thanks to the following:

- The optic fiber network between Huacho and Cheves, and the interconnection with Lima were designed and implemented.
- The network between Mirahuay and the portal building was interconnected.
- The data network was implemented in Checras, Huaura, Picunche and Powerhouse.
- The cellphone signal amplifiers were designed and implemented in Checras, Picunche, Tingo, Pampa Libre, Huaura, Portal Building, Powerhouse and Security House.
- The microwave system was relocated in the Mirahuay camp.
- An IP telephony system was integrated into the telephony network of Statkraft Peru.

#### b) Global IT Infrastructure (Magnet II)

The technological infrastructure of the head office (Oslo) was implemented at the office in Lima and at La Oroya, Cahua and Yaupi hydropower plants, which provided employees with a new system of electronic mail (Outlook), messaging (Skype for Business), videoconference and Intranet (Stream). Before implementing this project, some changes had to be made in the networks in Peru, the risks of which were controlled so as not to affect the operating continuity of the services. The works were performed in a transparent manner

for all users. 60% of the works were performed by company's personnel, which represented major savings for Statkraft Peru. By the end of the year, approximately 140 users have new computers with corporate services installed, and may be used at any Statkraft office in the world.

Other relevant improvements in the organization were the following:

- Implementation of an ERP System, which facilitated the merger of Statkraft Perú S.A. and Empresa de Generación Eléctrica Cheves S.A., in compliance with all local regulations.
- Implementation of the "Advances to be Rendered" business application, which permits the company to recover the Sales Tax (IGV) for all expenses incurred by employees when undertaking operating activities at the plants.
- Optimization of the communication service - with a bandwidth of up to 4MB - with the expansion of the optic fiber networks and microwave systems in Cahua HPP and the San Mateo, Shelby, Sepaex, Sepanu and Paragsha Sub-Stations.
- Refurbishment of the power systems of communication rooms in Oroya, Cahua and Yaupi HPPs, improving the autonomy in case of a power outage from 4 to 36 hours.
- Implementation of a new structured cabling system at La Oroya HPP, improving the data network with a more orderly network point distribution throughout the plant.
- Optimization of the SDDP application used by the commercial area to estimate energy prices, making parallel execution available, which permitted reducing response times from 4 hours to only 50 minutes.
- Involvement in the Yaupi HPP Overhaul with the implementation of power redundancy

systems for the communication room in Yaupi and Yuncán. Additionally, the VHF radio system was implemented with IP technology.

- Implementation of the new OTT Hydras3 system, which permits the Hydrology area to collect complete information in real time on hydrological measurement parameters from the higher areas at the plants.
- Optimization of communications to plants as a result of the configuration of the automatic switching between fiber, microwave and third-party links for the contingency link to start up automatically in case of a failure in La Oroya, Yaupi, Cahua, Gallito Ciego, Cheves, Pachachaca, Pariac and Casapalca HPPs, with which the annual availability levels rose from 90% to 99.5%.
- Implementation of the new IP telephony system in Cahua HPP, with integration to the telephony network of Statkraft

Additionally, a cost per service model in 2015 was developed, which resulted in budget savings of approximately 35%.

Finally, in September, the head office officially announced that the Information and Communication Technology department in Peru was to become the Regional IT Service Hub for Peru, Chile and Brazil. As a result of this announcement, the activities to perform this role within the Statkraft organization were started.





### 3.4. Talent management

#### Introduction

Statkraft Peru, in compliance with its corporate policies and business principles, does not tolerate any form of discrimination based on race, religion, gender, age, nationality or origin at all levels and in all processes involving people management.

The company performs regular reviews and benchmarking of positions and new hires to ensure that they are consistent with the company's challenges, and that the contract scheme is the most adequate in each case and in observance with statutory requirements.

In 2015, given the regulatory labor context and the market supply conditions, the human talent management in Statkraft Peru focused on three aspects: a) strengthening of the organizational culture; b) consolidation of multi-functional skills; and c) leadership development.

As part of the Human Resources strategy, the company created opportu-

“  
*Statkraft Peru does not tolerate any form of discrimination based on race, religion, gender, age, nationality or origin.*  
”

nities for development per segments: technical training, comprehensive formation, leadership, and individual development plans. Retention tools, of monetary and non-monetary nature, were also implemented.

### 3.4.1 Employees' classification

The employees of Statkraft Peru are in the 21 to 65 age range, and the majority are male (83%). The latter is explained by the high demand of engineering professionals or technicians, where there is lower female population.

The characteristics of company's employees in 2015 compared to the previous year, based on gender, workplace and age, are shown below.

#### a) Classification of employees per category and gender

**Table 12**

Categories	2014		2015	
	Female	Male	Female	Male
Managers	1	5	2	5
Leaders	13	47	10	41
Employees	23	135	29	152
<b>TOTAL</b>	<b>37</b>	<b>187</b>	<b>41</b>	<b>198</b>

As shown in Table 12, there is female presence in the three categories. In total, female employees account for 17% of all company's employees.

## b) Classification of employees per workplace and gender

Table 13

Locations	2014		2015	
	Female	Male	Female	Male
Arcata	0	9	0	7
Cahua	0	15	0	18
Gallito Ciego	0	3	0	3
Lima	35	65	39	69
Malpaso	0	4	0	3
La Oroya	0	49	1	59
Pachachaca	0	3	0	3
Pariac	0	7	0	7
Yaupi	0	7	0	7
Cheves	2	18	1	22
Rapay	0	4	0	0
Other areas of interest	0	3	0	0
<b>TOTAL</b>	<b>37</b>	<b>187</b>	<b>41</b>	<b>198</b>

Table 13 shows that the premise with the greatest number of employees is Lima, where 35% of employees are female.

## c) Number of employees per age

Table 14

Age	2014	2015
20 to 30 years old	62	59
31 to 40 years old	64	76
41 to 50 years old	41	40
51 to 60 years old	49	51
61 years old or older	8	13
<b>TOTAL</b>	<b>224</b>	<b>239</b>

The greatest concentration of employees per age range is in the 31 to 40 years old segment, followed by the 20 to 30 years old segment, as shown in Table 14.

## d) Number of employees per time of service

Table 15

Employees' time of service	2014	2015
From 0 to 5 years	119	125
From 6 to 10 years	29	33
From 11 to 15 years	14	12
From 16 to 20 years	11	11
From 21 to 25 years	10	7
From 26 to 30 years	19	20
From 31 to 35 years	13	18
From 36 to 40 years	7	10
More than 41 years	2	3
<b>TOTAL</b>	<b>224</b>	<b>239</b>

As observed in Table 15, the greatest concentration of employees per time of service is in the 0 to 5 years segment, i.e. personnel joining the company between 2011 and 2015. However, 24% of personnel have been working in the company for more than 20 years, i.e. personnel remaining in the company after the merger between Electroandes and Cahua.

### e) Characteristics of remuneration per gender

Statkraft Peru makes no gender distinction when determining and assigning economic compensation of employees. The compensation of each position is defined based on the duties assigned, the complexity of the position, and the area of influence; as a consequence, a distinction is made between the main areas and the business support areas.

- In the Management Team –six managers, including the Country Manager–, female managers account for 29% of the total. Without taking the Country Manager into consideration, the salary gap between men and women is 5%, i.e. the salary of female managers is higher in that percentage.
- Among heads of areas, the economic compensation earned by men is equivalent to that of women. Heads are mostly men and the work they perform is in important areas of influence for the company.
- In the rest of labor categories, the salary gap between men and women is 2%, i.e. compensation of women is 2% higher than that of men.

## 3.4.2 Training

Of the 1.5% of the payroll cost allocated by the company for training of employees, more than 80% of the budget was used.

### a) Training plan and policy

As part of the business principles of Statkraft Peru, the company fosters employees' development; one such practice is through the training module, whose policy establishes that a budget be allocated per management to be invested in training courses in accor-

dance with the priorities and objectives of the year, considering long-term goals. Such policy stipulates that each employee is to proactively look for learning opportunities through different educational activities such as courses (external, virtual, in house), internal or external internships, projects or activities included in the on-the-job training. All these activities have to be approved by the line manager and Human Resources.

The purpose of this policy is to provide tools for the development of know-how, skills and competences of employees, which contributes to the business goals and personal and professional growth, thus preparing internal talent for horizontal or vertical development opportunities.

### b) Training programs

Training in Statkraft Peru is classified based on an evaluation of the learning needs as follows:

- Internal courses, where one employee prepares the course with the support of Human Resources and imparts it to his/her peers. Courses with a technical focus were imparted in the Commercial and Operations managements, as well as refresher Excel courses in the Administration and Finance management.
- External courses, where a supplier provides classroom or virtual training. Employees request the courses they want to take, and the request is approved by their managers and finally by the Human Resources area, after evaluating the need for training, as well as the methodology and suggested institution. This training method accounted for most of the training investment.
- In-house courses, where an external su-

supplier imparts group training customized to the specific needs of an area. 20% of the budget used for training was for customized courses.

- English coaching: since English is the global language used in Statkraft, a transnational company, a coach was made available to employees to prepare them and provide them with feedback regarding the different activities where such language is needed: videoconferences, electronic mails, work meetings, presentations inside and outside the company, trips to the head office, etc.
- Internal internships: in order to foster inter-area cooperation and create synergies, the company promotes internal internships, where with the approval of the requirement and the preparation of a learning plan, 2 representatives of different areas that coordinate frequently between them exchange roles. The final result is a better understanding of the processes and operations so that both, through joint efforts, add value to the company.

### c) Performance management

The performance management policy of Statkraft Peru sets the objectives to be reached by employees and the competences that they are to develop during the year. Line managers are responsible for monitoring and evaluating the performance of his/her direct reports, for helping them to set realistic goals and providing them with feedback and guidelines to improve their personal competences. Individual or shared goals are prepared depending on the corporate goals of each area, which results in a climate of inter-area cooperation.

In 2015, the achievement and progress of objectives, goals and competences were followed up. All employees (100%) attended the per-

formance management program, and two-way feedback was provided between the manager and the employee.

The result of the Performance Management in the company was 86%, with the score ranging from 0 to 100. This score compensates the efforts put by employees in addition to those expected from the position. The results are used to design and evaluate the development activities to be performed in the year.

### 3.4.3 Collective bargaining with the union

Statkraft Peru accepts and promotes free association of its employees to the workers' union, composed of 53 employees representing 59% of the technical personnel.

The relations with union representatives are positive, and monthly meetings are held with a common agenda. A special committee has also been set up with employees from the different areas in the company to evaluate and resolve issues raised at the meetings, with the involvement of all areas in the companies on union management issues.

## 3.5. Communication management

Communication in Statkraft Peru is part of the identification and analysis of its stakeholders and their needs, and follows the corporate and commercial strategy of the company. The communication is in line with the guidelines of the Communication and Branding Policy of the

head office, which stresses the importance of dialogue and involvement of the company’s stakeholders, as well as the transparency and integrity in the engagement with the media and government.

### 3.5.1 Stakeholders of Statkraft Peru

The company has identified nine stakeholders, as shown in chart 11.

“  
Communication in Statkraft Peru is part of the identification and analysis of its stakeholders and their needs.”

**Chart 11**  
**Stakeholders**



Table 16 shows in detail all stakeholders of Statkraft and their composition.

**Table 16**

Definition of stakeholders	Sub-stakeholders	
<b>Stakeholder 1: Head office and subsidiaries</b>		
	Sub-stakeholder 1	Statkraft A.S.
	Sub-stakeholder 2	Shaqsha S.A.C.
<b>Stakeholder 2: Shareholders and investors</b>		
Individuals and legal entities owning shares in Statkraft Peru, and the Board that looks after their interest	Sub-stakeholder 1	Statkraft Perú Holding S.A.C. (99.99%)
	Sub-stakeholder 2	Other (0.01%)
<b>Stakeholder 3: Employees</b>		
Employees (directors, line managers, advisory and support personnel) hired for indefinite term, fixed term and through internship contracts	Sub-stakeholder 1	Managers
	Sub-stakeholder 2	Sub-managers / heads of area
	Sub-stakeholder 3	Supervisors / coordinators
	Sub-stakeholder 4	Analysts / assistants / engineers
	Sub-stakeholder 5	Technicians / aids
<b>Stakeholder 4: Suppliers and contractors</b>		
Companies providing goods and services to Statkraft Peru	Sub-stakeholder 1	Suppliers providing critical services for the company. Without these services, the plants could not be operated.
	Sub-stakeholder 2	Non-critical suppliers providing support services to the company, and although important, the operation of plants would not be affected.
<b>Stakeholder 5: Clients</b>		
Companies and individuals requesting products to Statkraft Peru	Sub-stakeholder 1	Free clients (DOE RUN PERU S.R.L., Minera Chinalco Perú S.A., Compañía Minera MILPO S.A.A., Compañía Minera Atacocha S.A.A., Trevali Perú S.A.C., Empresa Minera Los Quenuales S.A., Compañía Condestable S.A., Sociedad Minera Condestable S.A., Sociedad Minera Corona S.A., BBVA Banco Continental, Poder Panadero S.C.R.L., Tres Palmeras S.A., Cinco Robles) S.A.C.
	Sub-stakeholder 2	Distribution companies (Empresa de Servicios Municipales de Pativilca (ESEMPAT), Electrodonas, District Municipality of COCHAS, Electrocentro S.A., Electronoreste S.A., Electronorte S.A., Hidrandina S.A., Electropuno S.A.A., ElectroSur S.A., ElectroSureste S.A., SEAL S.A., Coelvisac)



Sub-stakeholder 3	Clients in communities (Cahua and Macashca)
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**Stakeholder 6: Neighboring communities**

Village from the areas of direct influence of operations or construction projects of Statkraft Peru	Sub-stakeholder 1	The 43 communities geographically located in the areas of our hydropower plants or reservoirs.
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**Stakeholder 7: Competition**

Composed of domestic power generation companies that are the direct competitors of Statkraft Peru.	Sub-stakeholder 1	Agroindustrial Paramonga S.A.A., Agropecuaria Aurora S.A.A, Aguas y Energía Perú S.A., Chinango S.A.C., Compañía Eléctrica El Platanal S.A, Duke Energy Egenor S. en C. por A., Edegel S.A.A., Eléctrica Santa Rosa S.A.A, Eléctrica Yanapampa S.A.A., Empresa Concesionaria Energía Limpia S.A.C, Empresa de Generación Eléctrica de Junín S.A.C, Empresa de Generación Huanza S.A, Empresa de Generación Eléctrica Canchayllo S.A.C, Empresa de Generación Eléctrica de Arequipa S.A., Empresa de Generación Eléctrica del Sur S.A., Empresa de Generación Eléctrica Machupicchu S.A., Empresa de Generación Huallaga S.A, Empresa de Generación Eléctrica San Gabán S.A., Empresa Electricidad del Perú S.A., Empresa Eléctrica de Piura S.A., Energía Eólica S.A, Enersur S.A., Esco Compañía de Servicios de Energía S.A.C, Empresa Eléctrica Río Doble S.A, Fenix Power Perú S.A., Generadora Energía Del Perú S.A., Gts Majes S.A.C., Gts Repartición S.A.C., Hidrocañete S.A., Hidroeléctrica Huancho S.A.C., Hidroeléctrica Santa Cruz S.A.C, Illapu Energy S.A., Kallpa Generación S.A., Maja Energía S.A.C., Moquegua Fv S.A.C, Panamericana Solar S.A.C., Parque Eólico Tres Hermanas S.A.C, Parque Eólico Marcona S.R.L., Petramas S.A.C, Planta de Reserva Fría de Generación de Eten S.A., S de Piura S.A.C., Sdf Energía S.A.C., Shougang Generación Eléctrica S.A.A., Sindicato Energético S.A., Tacna Solar S.A.C., Termoselva S.R.L., Termochilca S.A.C.
	Sub-stakeholder 2	Ministry of the Environment (MINAM).
	Sub-stakeholder 3	Junín Regional Government.
	Sub-stakeholder 4	Lima Regional Government.
	Sub-stakeholder 5	Pasco Regional Government.
	Sub-stakeholder 6	Arequipa Regional Government.
	Sub-stakeholder 7	Ministry of Energy and Mines (MEM) – General Bureau of Energy Environmental Affairs.
	Sub-stakeholder 8	Supervisory Agency for Energy and Mining Investment (Osingermin).
	Sub-stakeholder 9	National Water Authority (ANA) and Local Water Authorities (ALA) in the areas where we operate

Sub-stakeholder 10	General Bureau of Environmental Health (DIGESA) – DISA Callao.
Sub-stakeholder 11	Agency for Environmental Assessment and Enforcement (OEFA).
Sub-stakeholder 12	National Service of Natural Protected Areas (SERNANP).

### Stakeholder 8: Government

Governmental entities, bodies regulating and supervising compliance with legal standards as well as payment of national taxes and duties. They have the authority to impose sanctions, issue regulations that imply higher costs for the company, and issue licenses and collect taxes.

Sub-stakeholder 1	Regulatory and supervisory entities (MEM, MINAM, MEF, OSINERGMIN).
Sub-stakeholder 2	COES.
Sub-stakeholder 3	Congresspersons of the energy commission.
Sub-stakeholder 4	CONASEV, SUNAT.
Sub-stakeholder 5	Other institutions (Ministry of Labor, ESSALUD).

### Stakeholder 9: Organized civil society

Civil society organizations, e.g. NGOs, associations and media, of relevance for Statkraft Peru, whether with favorable or negative opinion towards the company's activities.

Sub-stakeholder 1	Associations (SNMPE, AFIN, Peruvian Nordic Chamber of Commerce).
Sub-stakeholder 2	NGOs and other organizations (Perú 2021, Fundades).
Sub-stakeholder 3	National press specialized on economic and energy matters.
Sub-stakeholder 4	Local press composed of journalists and media from the area of direct influence of the Statkraft Peru's operations.

## 3.5.2 Communication alignment

Communication in Statkraft Peru seeks to manage all different stakeholders of the company, and is therefore divided into three interrelated processes:

- Internal communication:** For employees.
- Corporate communication:** For the external audience, mainly the civil society, clients, government and media.
- Community communication:** For the communities within the areas of influence and local media.

In 2015, some of the communication channels

that were previously used were kept, and other channels were created to improve the communication and interaction with the internal public and external audience. For the internal audience (employees), the corporate intranet of the head office started being used ("Stream") in lieu of the local intranet. The social network "Facebook" started to be used with the creation of an internal group for exclusive use of employees.

With regards to the external audience, a corporate communication strategy continued to be implemented to ensure visibility of the Statkraft Peru brand, and the start-up of the Cheves Hydropower Plant. Moreover, the corpo-

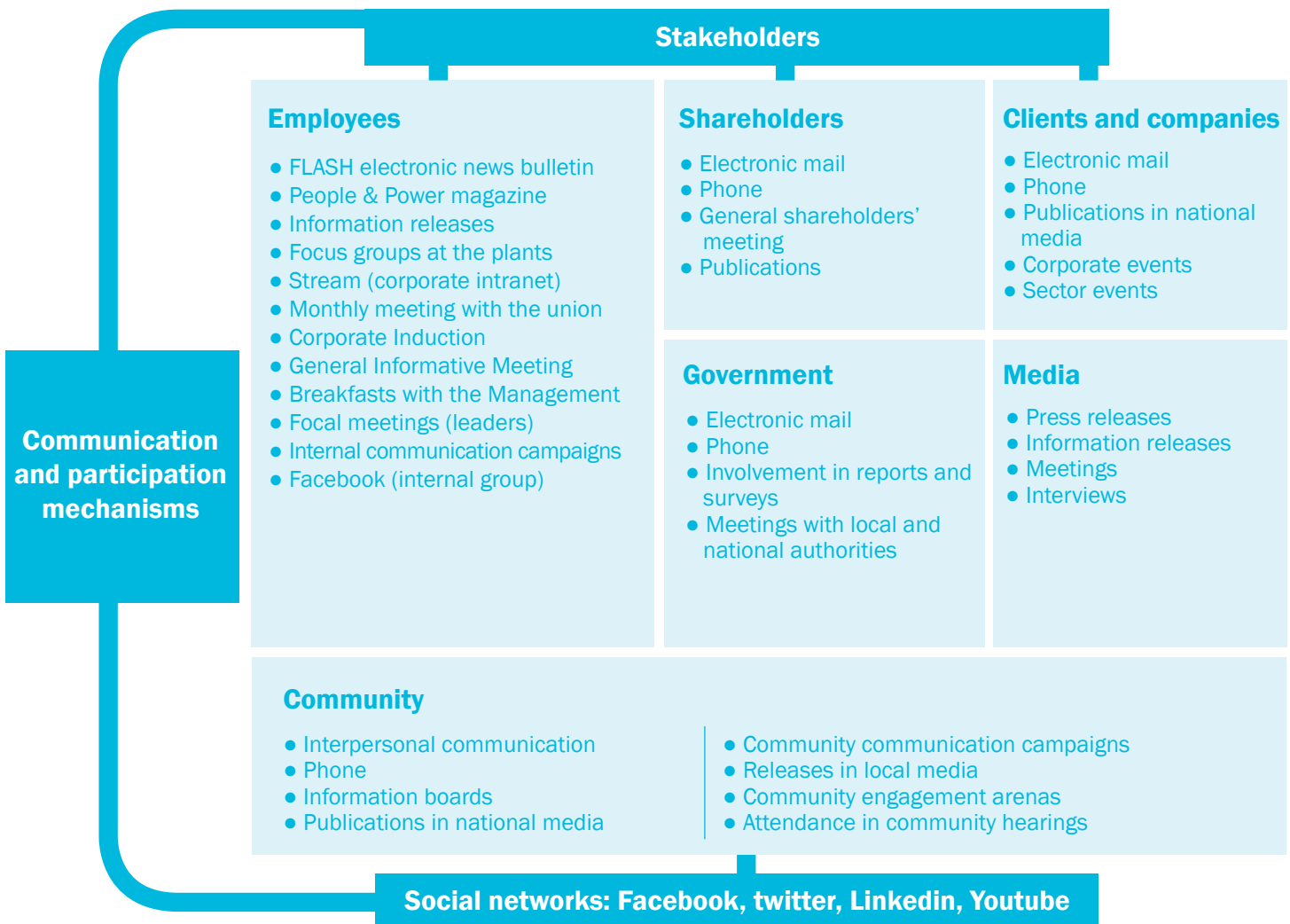
rate communication strategy managed and contributed to the engagement of government entities and opinion leaders in order to help the company gain visibility and engage company’s leaders with the authorities of the institutions given priority by Statkraft Peru. In 2015, social networks started being used at the local level, creating local accounts for Facebook and Twitter, and contributing with local content for Statkraft global account in LinkedIn and YouTube.

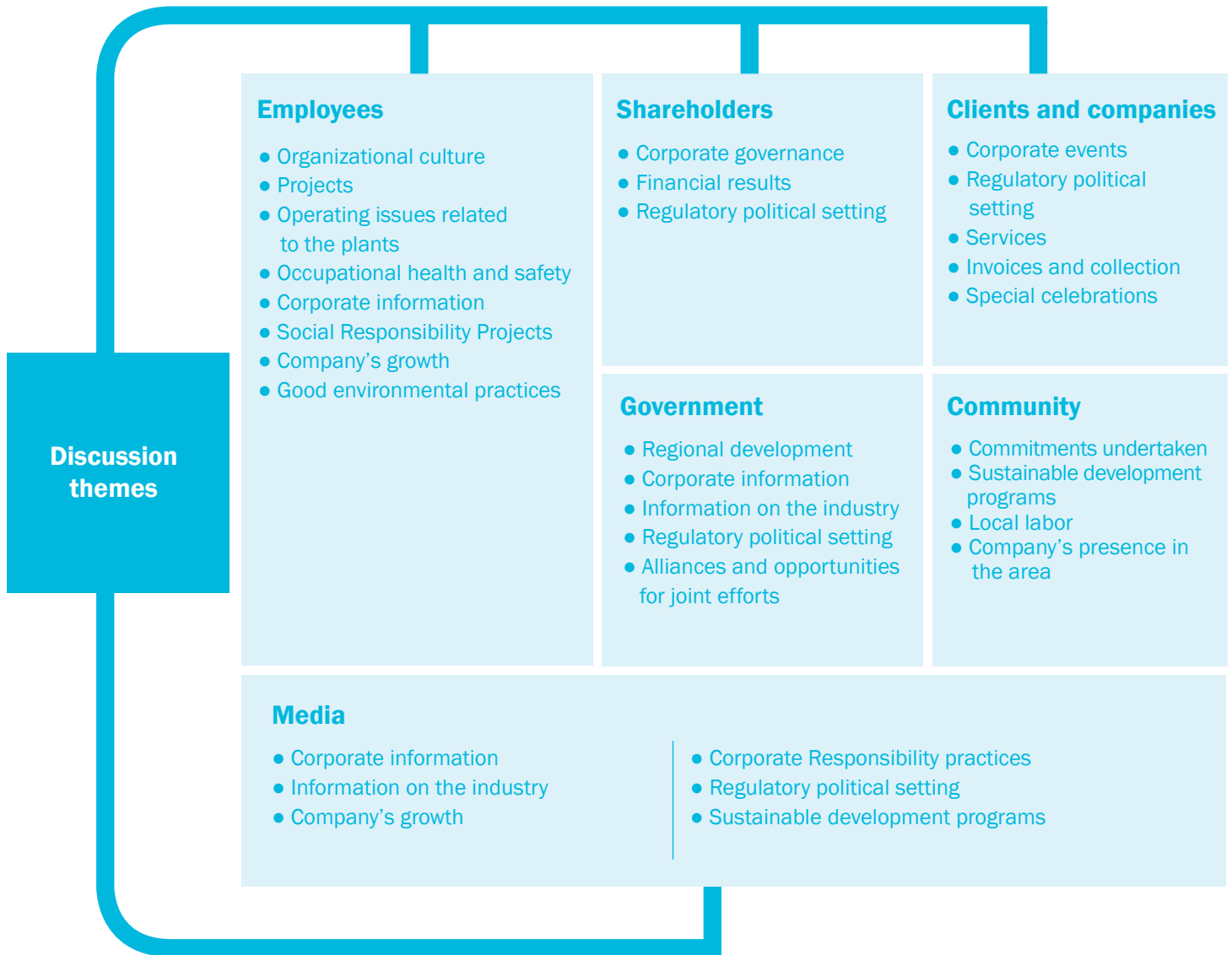
Similarly, special attention was paid to the communication with the communities, the authorities of

the areas of influence and local media, which was conducted in strategic fashion meeting the needs of the Corporate Responsibility area, and following the corporate communication guidelines of Statkraft Peru.

The main communication actions in 2015 included the internal and external celebrations for Statkraft’s 120 year anniversary in June and August, respectively, and the inauguration of the Cheves Hydropower Plant in September.

**Table 17**





### 3.5.3 Internal communication management

In 2015, the internal communication strategy focused on ensuring that the culture change between SN Power and Statkraft was conducted in the most effective way possible. Additionally, an engagement and adequate positioning of the brand at the internal level were sought.

In this sense, the “Statkraft Culture” campaign was launched and the information was consolidated through different actions, printed material and meetings, for the new operating model that was implemented that year.

Additionally, face-to-face spaces were used to reinforce some key messages, such as general informative meetings, breakfasts with the management and regular phone calls to plants.



It should be noted that in 2015 a new internal bulletin “Flash” was launched to communicate corporate and local news. As reinforcement to the corporate information, 4 issues of the magazine “People & Power” were distributed, which contained local information in every issue in addition to information from Statkraft at worldwide level.

The intranet “Powernet” went under a transition process as the technological platform changed from Google to Microsoft Exchange, which permitted employees to have access to the new corporate intranet “Stream”. The process of adaptation to this intranet will be implemented in 2016 among employees in Peru.

#### **3.5.4 Corporate communication management**

The corporate communication strategy in 2015 was focused on raising awareness of the Statkraft brand, which was given priority due to the change of the corporate name in 2014. Moreover, engagement of priority stakeholders, and opinion leaders, reporters and authorities from the energy sector was sought.

As a consequence, an engagement plan with face-to-face meetings with corporate spokespersons and leaders of involved areas was devised. Additionally, a media plan was prepared including advertising and publicity, with the preparation of reports, interviews and articles of the main spokespersons, which generated 37 impacts in prioritized press for the company. Also the company attended 4 events in the energy sector as speakers on sector regulation issues and for the generation and transmission activities.

A social media strategy was put in place making use of their own local channels (Facebook and Twitter) and existing channels of the head office (LinkedIn and YouTube), with an average reach of 19372 in Facebook and 8561 in Twitter. We had 2506 fans in Facebook and 160 followers in Twitter.

Finally, in September 2015, the inauguration of the Cheves Hydropower Plant was held, for which a public relations and engagement plan was prepared, during and after the event. The preliminary activities included the contact and coordination with the Office of the President of the Republic, the Ministry of Energy and Mines and other public and



*Finally, in September 2015, the inauguration of the Cheves Hydropower Plant was held, for which a public relations and engagement plan was prepared, during and after the event.*



private institutions, and as a result officials of the highest rank attended the event. All board members of Statkraft A.S. also attended the event, and visited the operations of Statkraft in Peru. They also established first contact with some representatives of the communities from the areas of direct influence and got to know the products developed through the Corporate Responsibility programs. The inauguration of the Cheves Hydropower Plant received important media coverage with the attendance of more than 40 media representatives, which resulted in a positive media exposure appraised in more than USD 334,000.

All these actions contributed to the visibility of the Statkraft brand and the largest project of Statkraft in Peru - the start-up of the new Cheves Hydropower Plant -, and to generate and/or maintain good relations with the main players in the Government.

### 3.5.5 Community communication management

Community communication was paid special attention in 2015, and was aimed at positioning the image of Statkraft Peru, safeguard its reputation and contributing to build trust with the communities within the area of direct influence of the 9 power plants in Statkraft Peru.

The main strategies used were the following:

- Communication managed with local media from the cities close to Statkraft operations across the country; and strategic approach maintained with reporters from these areas.
- Presence in local activities to maintain the engagement with the communities from the areas of influence, creating spaces for interpersonal communication and disseminating the key messages of Statkraft in these areas.
- Creation of local communication spaces according to the customs and types of communication used.
- Communication of the social projects executed by Statkraft in the communities.

The main activities undertaken in 2015 are detailed in table 18:



Table 18

Operation	Community	Activity	Strategy	Participants
Yaupi HPP	Quiparacra	Peasant Day	Presence in local activities	100
Yaupi HPP	Puagmaray	Community movie	Creation of local communication spaces	100
Yaupi HPP	Quiparacra	Community movie	Creation of local communication spaces	200
Yaupi HPP	Sta. Isabel	Closing of the weaving project	Communication of executed projects Local media management	30
Yaupi HPP	La Victoria	Closing of the weaving project	Communication of executed projects Local media management	30
Cheves HPP	Muzga	Closing of the Quilamaqui project	Communication of executed projects	20
Cheves HPP	Muzga	Closing of the Huancatama project	Local media management	-
Pachachaca HPP	Pachachaca	Donation for implementation of medical center	Communication of executed projects Local media management	20
Cahua HPP	Cahua	Closing of educational project	Communication of executed projects Local media management	30
<b>TOTAL</b>				<b>530</b>

Main achievements in 2015 were the following:

- Performance of 10 community activities as part of the engagement of 7 communities from the area of influence of the operations across the country.
- Involvement of 530 people in the different activities performed.
- Approach to local media in the operations of Cahua HPP, Pachachaca HPP, La Oroya HPP, Yaupi HPP and Cheves HPP.
- Positioning of the CR&CC work through community activities, empowering and ensuring of project beneficiaries.
- Release of 5 press releases on the activities and achievements of the social management of Statkraft in local media, in accordance with the area of influence of operations.





4

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CORPORATE  
RESPONSABILITY



*Statkraft Peru gives priority to the corporate integrity and encourages employees to report ethical conflicts.*



## 4.1. Introduction

Statkraft designs and implements its strategic actions with a sustainability vision in favor of its development as an economically efficient, socially responsible and environmentally viable organization. To this end, the company has a Corporate Responsibility policy in place defining it as a voluntary and strategic action to create sustainable value for stakeholders, thus contributing to its strategic goals.

## 4.2. Business ethics

Statkraft Peru incorporates the business ethics policies of its head office in Norway, managing all activities in a responsible manner, having a culture of transparency with all stakeholders. Statkraft Peru gives priority to the corporate integrity and encourages employees to report ethical conflicts.

### 4.2.1 Ethics and anti-corruption

The ethics and anti-corruption guidelines are essential for the work performed by Statkraft Peru in all its operations across the country. Under this premise, the work performed by the company is based on transparency, ethics and permanent communication in all processes. More value is therefore created for the following stakeholders:

#### a) Internal audience:

For Statkraft processes under the ethics and anti-corruption guidelines, it is essential for all employees to be aware of and internalize their importance, and to know how to act in case of difficult situations. One of the main goals in 2015 was the training of Statkraft employees on these issues, and 86% of employees from the 9 operations across the country received training.

Statkraft Peru has prepared the following internal documents:





- Code of conduct: focus on the main guidelines, how to act with business integrity and what to do in case of doubt on this issue.

- Quick guides: part of the business ethic tools. They aimed at shedding light on the guidelines on how to act in specific situations. The quick guides are the following:

- Hospitality and entertainment
- Expenses for promotional visits
- Dealing with public officials
- Facilitation payments
- Donations and sponsorships
- Conflicts of interest
- Offering and accepting gifts
- Business partners: agents and representatives
- Business partners: joint ventures (strategic alliances)
- Business partners: contractors and suppliers

- Anti-corruption handbook: aims at explain-

ing the corruption situations that may arise and presenting a guide on how to make decisions in these cases. The main premise is that Statkraft does not accept any type of corruption in any process in the company.

- Procedure for reporting of concerns (whistleblowing): aims at establishing a confidential channel for the escalation by any employee of behavioral deviations.

In 2015, internal classroom and/or online training sessions were held, and all new employees received a specific training session as part of their induction process where dilemmas were discussed, spaces were opened for debate and alignment of judgment and common sense. This training was accompanied by an internal communication campaign to promote commitment with business ethics.

#### **b) Suppliers and contractors**

Since suppliers and contractors are our bu-

business partners and are involved in the work performed by Statkraft, it is important for the ethics and anti-corruption guidelines of the company to be complied with. To that effect, 4 training sessions for suppliers were held in 2015, which were attended by 37 employees of the main contractors of Statkraft Peru. The Code of Conduct for Suppliers is handed out as a guide.

### c) Communities

The messages of transparency, ethics and anti-corruption to communities were conveyed through the engagement of authorities, communities, local suppliers and general public by the CR team.

Part of the implemented strategy to position these messages in communities was aligned with an active involvement in local activities through promotional fairs and handout of information materials, e.g. flyers.

## 4.2.2 Integrity channels

One of the commitments of Statkraft Peru is to make channels available for all employees and stakeholders to report possible regulatory non-compliances. To this end, we have 2 tools:

- Procedure for reporting of concerns aiming at presenting and making channels available to Statkraft employees to report any deviation.
- Procedure of grievances and claims, aiming at explaining the channels through which the communities in our areas of direct influence can voice their concerns.

## 4.2.3 Supplier management

Suppliers are strategic allies for Statkraft activities. As part of the Corporate Responsibility Policy, Statkraft seeks to promote and foster the involvement of communities and villages in the vicinity of our power plants, as contractors or suppliers of goods or services, in order to generate own resources and promoting local employment and development.

Local suppliers, like all suppliers, are regularly trained on safety, health, corporate responsibility, ethics and anti-corruption in order to secure a safety and protection culture in the area where they perform activities to make them competitive companies in the general industry. Value is thus created in the processes with suppliers.

Moreover, with respect to suppliers, the Corporate Responsibility Policy requires the following:

- Observance with the highest environmental standards in the work area and during transport.
- Observance with the beliefs, traditions and culture of the communities where we operate. Moreover, priority is given to engage unskilled labor from the communities within the area of influence of Statkraft.
- Perform regular supervision to ensure compliance with our social and environmental standards and the closing of commitments undertaken with communities.
- Require suppliers to give fair and ethical treatment to all their employees.
- Require a safe and healthy environment to all their employees without distinction.
- On the other hand, we seek for Statkraft suppliers to manage some activities in benefit of the communities within the area of work, either

directly or in alliance with Statkraft.

## 4.3 Internal corporate responsibility

Statkraft Peru stands out among all countries in the international division with the best satisfaction, motivation and employment loyalty ratings, which is reflected in the engagement index of 78% measured by the Compass annual survey conducted by company Ennova, a statistics specialized firm. These results are explained by our business principles that reflect a sound commitment with the development of our people.

### 4.3.1 Good employer practices

Statkraft Peru acknowledges that fostering productivity and efficiency of employees is beneficial and contributes directly to the company's results and the strategic goals of the company. To this end, the company adopts and promotes practices in this regard.

#### a) Benefits

Statkraft Peru has a policy of benefits in place classified as time benefits, financial or economic benefits and eventual benefits. Most of these benefits are related to time flexibility, loans, allowances, safety, etc. Company Hay Group S.A. is requested to conduct a market benefit study every year to update the benefits and maintain the competitiveness of the company.

#### b) Compensations

Statkraft Peru engages consulting firm Hay Group S.A. to obtain salary information from the market, and maintains its competitiveness compared to the salary market in the power sector using the band median as reference. Statkraft Peru maintains active involvement in the surveys of the salary market in the power sector and attends the energy club meetings organized by Hay Group S.A.

In 2015, the average rise in the salary review process was higher than the average rise in the Peruvian general market by adopting the policy of the head office and the provisioned budget for the process.

“  
Statkraft Peru stands out among all countries in the international division with the best satisfaction, motivation and employment loyalty ratings.”



### c) Development

Through development activities, Statkraft Peru seeks to guarantee the business sustainability through the design and implementation of programs that provide tools, which supplement and foster the different professional profiles. The expected result is to have employees with the professional skills required by the different labor scenarios, thus ensuring professional growth of our workforce.

- Leadership program:

One of the drivers in the corporate culture is the development of leadership skills. In 2015, the company focused on improving the current skills of 40 leaders through surveys applied to a very representative sample. After collecting this information, a decision was made to give priority to the following competences: reflectivity, emotional maturity and inter-area collaboration, through workshops for managers, heads and supervisors.

- Succession program:

In order to ensure the strategic continuity of the business and retain key know-how in the company, the 1st stage of the succession mapping was conducted for core areas and designed for support areas.

Managers are actively involved with HR to define criteria and design the final succession map.

In 2015, 49 potential successors were identified, and they are attending a potential evaluation process and assessment center.

- Superador Program for developing multi-functional skills:

The Superador program is aimed at technical personnel from the operations management

working directly in the operation, maintenance and control of hydropower plants. A specific group to attend the program is selected every year, and the selection is made based on the technical skills that are required to be developed according to the projects to be executed: in 2015, 49 people attended (almost 70% of the technical population).

This program provides internal and external training to improve the know-how regarding the operation of the company's power plants, and provides knowledge to improve behaviors for multi-functional positions, as well as teamwork, solution of problems or adequate stress management.

In 2015, 224 training hours were imparted for this audience, 144 hours by external trainers and the remaining hours by specialized engineers in Statkraft.

- Megatraineo program for talent development: 10 professional and technical trainees were selected in 2015 for the different areas of the company, especially for the operations management. They all had an annual development plan to increase the specialized know-how required by the company.

Since the program started in 2011 to date, Statkraft Peru has had 37 mega trainees, of which almost 50% were hired.

## 4.4. Social management

Statkraft Peru seeks to develop and maintain constructive and lasting relations, for which it is necessary to build trust and promote cooperation with local stakeholders.

#### 4.4.1 Relations with areas of influence

As part of the Corporate Responsibility policy, Statkraft Peru defines its commitment and responsibility with communities as follows:

- Respect human rights of all stakeholders.
- Engage and approach communities, respecting their culture and customs, through the active involvement in community festivities, development of social campaigns, contributions, donations and other types of support within the framework of our code of conduct.
- Manage communication with stakeholders and be transparent, through different community communication strategies and the implementation of open and effective communication channels.
- Promote respect and gender equality through the implementation of empowerment activities for vulnerable sub-stakeholders.
- Identify and manage in a timely manner the risks and impacts that may arise due to the operations, addressing claims in a fair, timely and consistent manner.
- Work to promote a healthy environment for communities, generating sustainable social and economic development, developing productive projects, strengthening capacities of stakeholders, and fostering the formation, formalization and engagement of community companies, providing them with adequate tools for their development and taking advantage of different business opportunities.
- Create value for stakeholders and the head office through the monitoring and trust building with stakeholders.
- Generate development through the promotion of employment of local labor, both by Statkraft and by companies providing services for or on behalf of Statkraft, giving priority to the employment of unskilled labor from the areas of influence.

- Honor the agreements and commitments in a timely and efficient manner, acting with transparency and professionalism.

As part of the Corporate Responsibility management, 4 social conflicts were reported and managed in accordance with the Corporate Responsibility standards and policy. Three cases associated with Statkraft Peru were mentioned in the Social Conflict Report of the Ombudsman's Office in 2015:

- Case of the Huachón Community, district of Huachón, province of Pasco, Pasco Region, within the area of influence of Yaupi HPP. This was a social and environmental conflict. The community claimed for a commitment not honored by the company. By the end of 2015, the conflict activities ceased, and dialogue continued with the community.
- Case of the Huacho Community, district of Pachangara, province of Oyón, Lima Region, within the area of influence of Cheves HPP. This was a social and environmental conflict. The community claimed compensation for damages to subsistence farming crops and fruit plantations due to some cracks allegedly appearing as a result of the construction of the Transfer Tunnel of the Cheves HPP. At the end of 2015, Statkraft Peru continued dialogue with the community for the execution of social projects, and the claim filed by the community was received by OEFA for investigation.
- Chinchaycocha lake case, in the San Pedro de Pari village, district of Ondores, province of Junín, Junín Region, and Vicco and Ninacaca communities, districts of Vicco and Ninacaca, province of Pasco, Pasco Region. Social and environmental conflict for the pollution of the Chinchaycocha lake for the mining operations in the area. Statkraft Peru signed a commitment for the cleaning of channels used for its opera-

“  
 The company’s  
 Corporate  
 Responsibility  
 strategy gives  
 priority to  
 development  
 projects in the  
 communities.”

tions adjacent to the lake, which it is honoring in a timely manner.

#### 4.4.2 Community relations projects and activities

The company’s Corporate Responsibility strategy gives priority to development projects in the communities within the area of direct influence of its operations. In all its projects, the company seeks the involvement and sustainability of the community to have a positive impact in the areas where the company operates.

In 2015, with the allocated budget, all of the planned projects were executed (100%). Ten additional projects were executed without budget deviation.

The lines of action for project execution were the following:



Chart 12

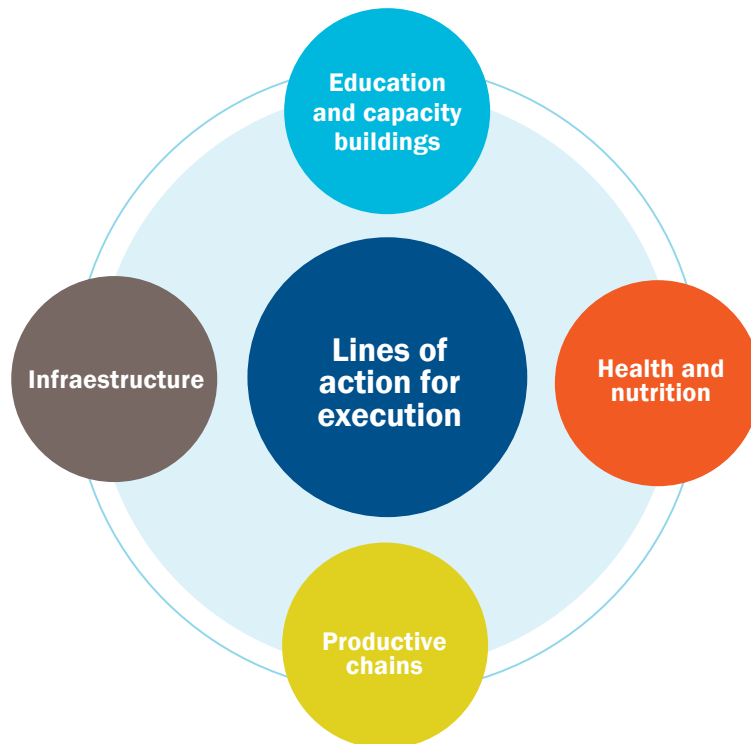


Table 19 details the main activities of the Communities Relations Plan performed for the operations of Statkraft Peru in 2015.



Table 19

ACHIEVEMENTS 2015 - CR PLAN				
Activity/Project	Place / Village	Beneficiaries (Direct)	Principal Achievements	
<b>I Community relations</b>				
<b>1. Local development</b>				
<b>1.1 Infrastructure</b>				
1.1.1	Improvement and expansion of the water and sewage system in the Llaupi Village, district of Ulcumayo-Junín-Junín.	Llaupi Village	150	* Approval of the technical dossier on December 2, 2015. * The Junín Regional Government and the Mayor of the Junín Province Municipality will finance and execute the project amounting to approximately PEN 1,523,958.46.
1.1.2	Preparation of the technical dossier for public toilets in the Puagmaray peasant community.	Puagmaray Peasant Community	80	* Design and approval of a feasibility study for the construction of toilet modules.
1.1.3	Support with fuel to open a dirt road from the stadium of La Victoria de Llaupi annexed village to the Yungul Chico production unit, under the agreement entered into with the Ulcumayo District Municipality.	La Victoria de Llaupi	35	*Opening of 2 km of dirt road (first stage).
1.1.4	Support with fuel to open a dirt road from the Yugul Camp to the Pampa Seca Peasant Community, under the agreement entered into with the Ulcumayo District Municipality.	Pampa Seca	105	* Opening of 0.5 km of dirt road (second stage).
1.1.5	Supply of materials for improvement of the potable water network.	Yungul	60	* Construction of an intake. * Laying of 850 m of supply pipe lines.
1.1.6	Supply of basic equipment for the Pampa Hermosa community locale in coordination with the Paucartambo District Municipality.	Pampa Hermosa	25	* Supply of furniture, sound equipment and printer.

1.1.7	Maintenance of the Sta Isabel - Llaupi road.	Llaupi, Pampa Seca, Yungul, La Victoria de Llaupí	1,200	* Maintenance of 30 Km of roads under the agreement with IVP-Junín.
1.1.8	Preparation of pre-investment study at the project profile level: "Improvement and expansion of the road junction Janca Punta Uchu huerta, Quiparacra, district of Huachón, Pasco-Pasco."	Quiparacra Peasant Community	900	* Preparation of the Pre-Feasibility study for evaluation by the Pasco Regional Government.
1.1.9	Execution of the the Tingo Hot Springs expansion project.	Huacho Sierra	175	* Completion of the works at the infrastructure level, with the construction of 08 saunas, 01 toilet, 01 mud pool, 01 shower area, 02 locker rooms and 01 indoor garden.
1.1.10	Preparation of the technical dossier for the dirt road.	Huacho Sierra	175	* Technical and economic information available for execution of the works.
1.1.11	Expansion of the Cabracancha hot springs infrastructure.	Andajes	75	* Expansion of the infrastructure with the construction of the new area (walls + forms) and pool for children and adults.
1.1.12	Execution of the project for improvement of the water supply system to the Hot Springs and Puente Tingo.	Tongos - Huacho	190	* The layout, leveling and setting out of the 3 areas have been completed, and a new intake location has been identified (Checras Intake).
1.1.13	Preparation of the dossier profile for the Huancatama Irrigation Improvement Project.	Muzga	137	* Selection of the company that will execute the works.
1.1.14	Installation of the Huaylamaqui channel main line.	Muzga	137	* The peasant community entered into an agreement with the Paccho District Municipality. The culvert works were constructed (intake, desander and manholes). 5 km of pipes were transported.
1.1.15	Preparation of the technical dossier for the installation of the Pichuanca irrigation system.	Navan	113	* The Navan District Municipality, update of the new profile, preparation of the technical dossier.
1.1.16	Preparation of the technical dossier for the Cancaya-Huaca Puna channel.	Huaca Puna	74	* Site visits to evaluate the water intake location.

1.1.17	Procurement of irrigation materials - Chaulole.	Muzga	137	* 353 rolls of 2" HDPE hoses and 100 rolls of 16 mm hoses were transported.
1.1.18	Preparation of the profile and technical dossier for the culvert channel.	Huaca Puna	74	* The resolution that approves the environmental management report and the resolution of AAA - ANA on the water availability accreditation were passed.
1.1.19	Supply of materials for the installation and conditioning of pasture yards for alpacas.	San Pedro de Pari	250	* Installation of community pasture yards for the technical management of 450 alpacas.
<b>1.2 Education and capacity building</b>				
1.2.1	Technical and productive training on hand woven garments.	La Victoria - Paucartambo Village	24	* Know-how on basic weaving techniques and quality control of garments for the national and international market. * Production of 396 garments for company ANDES TRADE for PEN 15,740 in La Victoria, and generation of household economic revenues for PEN 4,610 in Santa Isabel.
		Sta. Isabel Village	24	
1.2.2	Teaching training and exchange.	Llaupi, Pampa Seca, Yungul, La Victoria de Llaupi	25	* Exchange of 35 hours of experience and training in learning sessions. * Support from UGEL Junín through a resolution. * Training workshops to 60 parents.
	Project for strengthening teaching skills.	Cahua (5 districts of the Cajatambo province)	290	* During the almost 3 years of the project, Statkraft, together with the coordinated work with UGEL Cajatambo, managed to notably improve the reading comprehension and math techniques, which is reflected on the Student Census Assessment (ECE) for 2nd grade conducted by the Ministry of Education on a yearly basis.
1.2.3	Rural development workshops.	Huayllapa / Uramaza	120	* 6 workshop hours were provided with information on state programs providing support to vulnerable populations. 25 main authorities and leaders of the villages are aware of the state programs and are committed with the management.
1.2.4	Technical and productive capacity building on guinea pig breeding at household level (Stage I and II).	Puagmaray Peasant Community.	42	* Equipping of 42 guinea pig rebreeding centers. * Installation of 42 cultivated pasture parcels in 150 m2. * Technological transfer on breeding, sanitary management to 42 households.

1.2.5	Solid waste management workshops.	Manás	60	Authorities and leaders of the population in Manás are aware of the regulation and adequate management of solid waste. Awareness is raised among students and teachers of Manás, who are aware of adequate management of solid waste.
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### 1.3 Productive chains

1.3.1	Improvement of production and trading levels of laying hens.	Llaupi Village	82	<ul style="list-style-type: none"> <li>* Technical management system of 1100 laying hens.</li> <li>* Implementation of 82 egg production modules.</li> <li>* Technical assistance and training to 82 heads of household.</li> </ul>
1.3.2	Equipping of electrical fence for dairy cattle management.	Huaypacha Community	80	<ul style="list-style-type: none"> <li>* Equipping of three modules for management of 80 cows.</li> </ul>
1.3.3	Implementation of trout project.	Huachón	36	<ul style="list-style-type: none"> <li>* Management of the productive cycle with a mortality rate of less than 1%.</li> <li>* Economic revenues for the Peasant Community for PEN 22,500.</li> </ul>
1.3.4	Installation, evaluation and maintenance of pine seedlings.	Sta. Isabel-El Milagro Village	52	<ul style="list-style-type: none"> <li>* Identification of 32 forests macizos at the Sta. Isabel Village.</li> <li>* Evaluation of 20,596 seedlings and training on pine pruning and maintenance techniques to 32 families.</li> <li>* Final on-site installation of 6000 pine seedlings at El Milagro.</li> </ul>
1.3.5	Fruit Production Project (preparation of the business plan).	Cahua Peasant Community	26	<ul style="list-style-type: none"> <li>* A business plan was prepared under the guidelines for submission to Agroideas (state co-financing program).</li> </ul>
1.3.6	Quinoa crop pilot project.	Huachón Peasant Community.	200	<ul style="list-style-type: none"> <li>* On-site evaluation of 5 quinoa varieties, resulting in a 60% improved yield of the Junín variety.</li> <li>* Evaluation of 5 ecological floors in community lands, which concluded that production is limited and with low yield.</li> </ul>
1.3.7	Granadilla post-harvest management.	La Victoria de Llaupi	15	<ul style="list-style-type: none"> <li>* Improvement of productivity levels by 10% (sale of products twice per day).</li> </ul>

### 1.4 Health and nutrition

1.4.1	Implementation of medical post in Pachachaca.	Comunidad Campesina San Juan Bautista y San Miguel de Pachachaca	100	* Support with basic equipment for the inauguration of the medical post in Pachachaca, as part of a joint effort with other entities: Yauli - Oroya health network, Yauli Municipality, Pachachaca community, Minera Volcan and Ugel Yauli.
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### 2. Coexistence program

2.1	School campaign.	All communities within the area of influence.	7,730	* Handout of school kits with key and strategic messages.
2.2	Educational award (Christmas campaign).	All communities within the area of influence.	9,297	* Handout of toys, Christmas cake and hot chocolate to children.
2.3	Coexistence program-Par-Pac-Contributions (involvement in community activities).	All communities within the area of influence.	325	

### 3. Statkraft Projects

3.1	Foss Project.	Pariac	550	*Maintenance of 7 km. of the Pariac Macashca road in coordination with local authorities. *Support to open a dirt road of 1.5 km for the Maravilla hamlet - Macashca village. * The project is kept with 0 social conflicts.
3.2	Easement clearing project.	All	550	* Achieve the clearing of 90% of spans under the commitment with OSINERMIN for 2015. * In the Cahua - SEPAEX transmission Line, conductors and structures were replaced with 0 social conflicts.

### 4. Social liabilities

4.1	Mudslide cleaning.	Huachón, Quiparacra y Puagmaray, CP Llaupi	2200	*Support with fuel in coordination with municipal and community authorities and governmental agencies: Civil Defense for use of machinery.
4.2	Easement negotiation in Viconga.	Huachón, Quiparacra y Puagmaray, CP Llaupi	120	* Final contract entered into after several years of negotiations. * Mitigation of the social conflict.



*Statkraft Peru honors the environmental commitments undertaken through its different environmental management instruments.*



## 4.5. Environmental management

The environmental management of Statkraft Peru is focused on the prevention, control, minimization and mitigation of negative environmental impacts associated with power generation activities, which imply the handling, usage and consumption of natural resources, discharges of effluents, turbinated water, handling and final disposal of solid waste. This is anchored in the corporate policies, which make reference to the ISO 14000 standard, the IFC performance standards and the principles of the Global Compact

### 4.5.1 Environmental commitment

Statkraft Peru honors the environmental commitments undertaken through its different environmental management instruments as well as those contained in the environmental standards applicable to the power activity. Statkraft Peru continues to maintain its commitment to the care and preservation of the environment, based on the guidelines established upon the four pillars of the National Environmental Police: i) Preservation and sustainable use of natural resources and biological diversity; ii) Comprehensive Environmental Quality Management; iii) Environmental Governance, and iv) International Environmental Commitments and Opportunities.

### 4.5.2 Impact management

There are 4 major lines of actions to manage environmental impacts, namely:

**a) Quality of turbinated water**

Statkraft Peru is committed to perform a monthly monitoring of the water used for power generation in all hydropower plants. For the measurement, the parameters set out in Directorial Resolution No.008-97-EM/DGAA were considered: temperature, pH, oil and grease (mg/l) and suspended solids (mg/l).

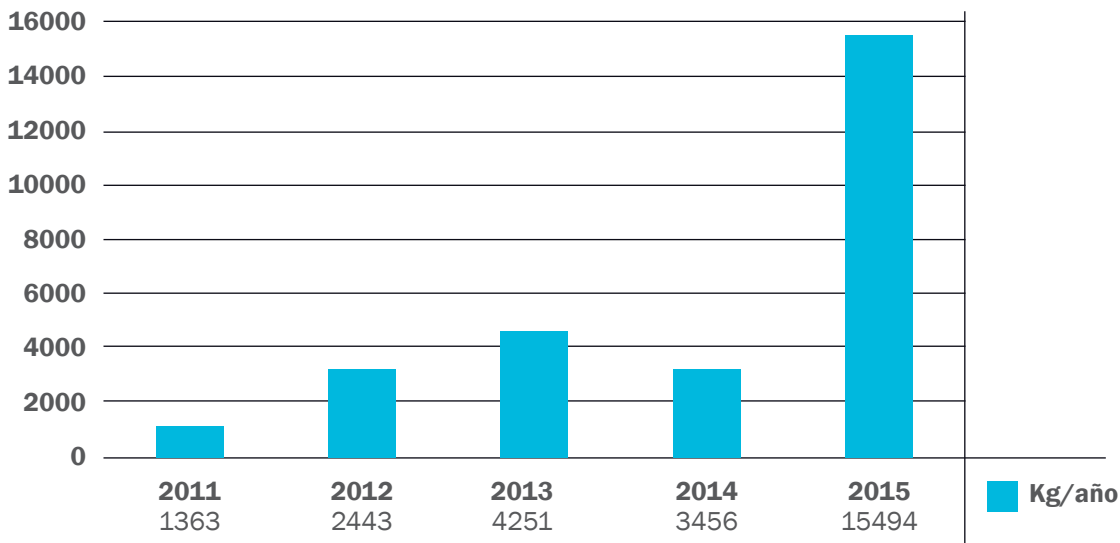
The monitoring results show that hydropower generation is a clean process, and its associated activities do not alter the physical, chemical and biological characteristics of the supply (water).

**b) Waste management**

In the last few years, since solid waste management has focused on segregation at the source, and recyclable solid waste has progressively increased, we have adopted the 3R method (reduce, recycle, reuse), thus contributing to the preservation of the environment. Between 2011 and 2015, waste management was improved through the implementation of stockpiling areas in accordance with the color coding classification pursuant to NTP 900-058-2005 in the Cheves Hydropower Plant. The solid waste management focuses on the recycling waste (plastic, paper, cardboard, glass and metal waste). This management is expected to be maintained or improved in the next few years.

“  
Between 2011 and 2015, waste management was improved through the implementation of stockpiling areas.”

**Chart 13**  
**Recyclable solid waste**



Source: prepared in-house.

“  
*Statkraft Peru monitors environmental noise and non-ionizing radiation on a quarterly basis in the areas adjacent to our operations.*”

c) **Environmental noise and non-ionizing radiation**

Statkraft Peru monitors environmental noise and non-ionizing radiation on a quarterly basis in the areas adjacent to our operations. The measurement of the aforementioned aspects is conducted pursuant to the provisions in the Regulation of National Environmental Quality Standards on Noise - Supreme Decree 085-2003-PCM and in Environmental Quality Standards on non-ionizing radiation - Supreme Decree 010-2005-PCM. Based on results obtained, it can be concluded that our activities do not generate noise or radiation above the limits set in governmental standards.

d) **Soil quality**

Pursuant to the standards regulating the Environmental Quality Standards on Soil, Statkraft prepared the Reports for Identification of Contaminated Sites corresponding to Phase I (identification phase). This shows the company's commitment to adapt our activities to the environmental standards in force.

### 4.5.3 Environmental management instruments

The operations conducted by Statkraft Peru comply with the provisions in the Environmental Protection Regulation in electrical activities - Supreme Decree 29-94-EM, with respect to the environmental management instruments required according to the type of activity performed. In that regard, the instruments Statkraft has in place are described below:

- Environmental Adaptation and Management Programs for the Arcata, Pariac, Malpaso, Pachachaca, La Oroya, Yaupi hydropower plants and the transmission system.
- Environmental Impact Assessment for the Gallito Ciego hydropower plant.
- Environmental Impact Assessment and Environmental Management Plans for the Cheves hydropower plant and 220 kV Cheves - Huacho transmission line.





## 4.6. Corporate governance

Information on compliance with Good Corporate Governance Principles for Peruvian corporations.

**(Corresponding to year 2015)**

<b>Razón Social</b>	: STATKRAFT PERÚ S.A. (Hereinafter “the company”)
<b>Taxpayer ID Number RUC</b>	: 20269180731
<b>Address</b>	: Avenida Felipe Pardo y Aliaga N° 652,Int. 203, San Isidro, Lima
<b>Phones</b>	: 7008100
<b>Fax</b>	: 4220348
<b>Website</b>	: <a href="http://www.statkraft.com.pe">www.statkraft.com.pe</a>
<b>Electronic mail</b>	: <a href="mailto:statkraftperu@statkraft.com">statkraftperu@statkraft.com</a>
<b>Stock Exchange Representative</b>	: N/A
<b>Corporate name of auditing company</b>	: N/A

## Section One: Evaluation of 26 Principles Shareholders' Rights

Principle	Compliance				
	0	1	2	3	4
<b>1. Principle (I.C.1. second paragraph):</b> Generic matters shall not be incorporated into the Order of the Day. Items to be dealt with shall be duly specified in such manner that each subject may be discussed separately, facilitating its analysis and preventing the rendering of a joint decision over matters that may have a difference of opinion.				X	
<b>2. Principle (I.C.1. third paragraph):</b> The general meeting of shareholders shall be held in a venue that facilitates the attendance of shareholders.				X	

a. Indicate the number of shareholders' meetings called by THE COMPANY during the fiscal year subject matter hereof.

Type	Number
General Meeting of Shareholders	3

b. If meetings of shareholders were called, provide the following information for each of them.

Call date*	Date of meeting	Venue of meeting	Type of meeting		Quorum %	N° of shareholders in attendance	Duration	
			Special	General			Start time	End time
13/03/15	13/03/15	Felipe Pardo y Aliaga N° 652, int. 203, San Isidro		X	99.99	1	16:00	17.00

22/05/15	01/06/15	Felipe Pardo y Aliaga N° 652, int. 203, San Isidro		X	99.99	1	8:00	9:00
28/09/15	02/10/15	Felipe Pardo y Aliaga N° 652, int. 203, San Isidro		X	99.99	1	10:00	11:00

\* In case of more than one call for meeting, please state the date for each meeting.

c. In addition to the provisions set forth in Article 43 of the General Corporations Act, which other means does the company use to call meetings?

- Electronic mail
- Directly in the company
- By phone
- Website
- Regular mail
- Other
- None

d. Indicate whether the means of communication specified in the previous question are regulated in any document of the company.

Bylaws	Internal Regulation	Handbook	Otros	Name of the document*
				<b>BYLAWS</b>

e. If the COMPANY has a corporate website, is it possible to view shareholders' meeting minutes via this site?

	Yes	No
Only for Shareholders		X
For the general public		X

( ) DOES NOT HAVE A WEBSITE.

Principle	Compliance				
	0	1	2	3	4
<p><b>3. Principle (I.C.2):</b> Within reasonable limits, shareholders must have the opportunity to include items in the Order of the Day of the general meetings for its discussion.</p> <p>Any items added to the agenda must be of corporate interest and suitable to the legal or statutory competence of the meeting. The Board of Directors must not reject such requests without giving the shareholder reasonable justification.</p>				X	

**a.** Indicate whether shareholders are permitted to include items for discussion into the Order of the Day through a mechanism other than that stipulated in the General Corporations Act (Article 117 for regular corporations (SA), and Article 255 for publicly traded corporations (SAA)).

( ) Yes                      (X) No

**b.** In case the answer to the previous question was positive, please detail the alternative mechanisms.

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**c.** Indicate whether the mechanisms described in the previous question are regulated in any company's document(s).

Bylaws	Internal Regulation	Handbook	Otros	Name of the document*

\* Indicate the name of the document, except in case of the company's bylaws.

**d.** Indicate the number of requests made by shareholders during the fiscal year subject matter hereof, to include into the agenda topics to be discussed in the meetings.

Number of requests		
Received	Accepted	Rejected
0	0	0

Principle	Compliance				
	0	1	2	3	4
<b>4. Principle (I.C.4.i):</b> Bylaws must not impose any limits to the entitlement of a shareholder to the right to be represented, by a person appointed by the shareholder, in the General Meetings of Shareholders.					X

**a.** In accordance with the provisions of Article 122 of the General Corporations Act, indicate whether the corporate bylaws limit the right to representation, by reserving it:

- For another shareholder
- For a board member
- For a manager
- The right to representation is not limited

**b.** For each meeting held during the fiscal year subject matter hereof, please indicate the following information:

Type of meeting		Date of meeting	Holdings (%) of total shares with voting rights	
General	Special		By proxy	Directly
X		27/03/15	99.99 %	N/A
X		01/06/15	99.99 %	N/A
X		02/10/15	99.99 %	N/A

**c.** Indicate the requirements and formalities set forth for a shareholder to be represented in any meetings.

<b>Formality</b> Indicate whether the Company required a regular letter, notarial letter, public deed or other.	Regular letter, cable, telex, telefax, public deed or any other means with proof of receipt
<b>Advance notice</b> Number of days prior to the meeting for the proxy to be submitted	One day in advance
<b>Cost</b> Indicate whether the company requires payment to this effect; and is so, indicate the amount.	None

d. Indicate whether the requirements and formalities described above are regulated in any document of the COMPANY.

Bylaws	Internal Regulation	Handbook	Otros	Name of the document*
X				

\* Indicate the name of the document, except in case of the company's bylaws.

( ) NOT REGULATED.

### Equal treatment of shareholders

Principle	Compliance				
	0	1	2	3	4
<b>5. Principle (II.A.1, third paragraph):</b> It is advisable for any company issuing investment shares or other securities without voting rights, to offer its holders the opportunity to exchange them for ordinary shares with voting rights or to allow this possibility at the time of issuance.	N/A				

a. Has the company started any exchange of investment stock in the past five (5) years?

Yes       No       Not applicable.

Principle	Compliance				
	0	1	2	3	4
<p><b>6. Principle (II.B):</b> A sufficient number of directors shall be elected capable of exercising independent judgment on tasks where there is a potential for conflict of interest, being able, for such purpose, to take into consideration the participation of shareholders lacking control.</p> <p>Independent directors are appointed for their professional standing, and not for being related to the company’s management or to the company’s controlling shareholders.</p>			X		

a. Indicate the number of dependent and independent directors of the COMPANY.

Directors	Number
Dependent	5
Independent	0
<b>Total</b>	<b>5</b>

b. Specify any special requirements (other than those required to become a director) in order to be an independent director of the COMPANY.

No special requirements.

c. Indicate whether the special requirements described above are regulated in any document of the company.



Bylaws	Internal Regulation	Handbook	Otros	Name of the document*
				N/A

\* Indicate the name of the document, except in case of the company's bylaws.

(X) Not regulated.

d. Indicate whether the directors of the COMPANY are relatives in the first or second degree of kinship, or on the first degree of affinity, or spouse of one of the following:

Full name of director	Relationship to:			Full name of shareholder / director / manager	Affinity	Additional information
	Shareholder	Director	Manager			
N/A						

1/. Shareholders with interest equal to or greater than 5% of the shares of the COMPANY (per class of share, including investment shares).

2/. If there should be any relation with a shareholder, include his/her stock interest. If the relation should be with any member of the management staff, include the position.

e. If any member of the Board of Directors holds, or has held during the fiscal year subject matter hereof, any managerial position in the company, please indicate the following information:

Full name of director	Managerial position previously or currently held	Date in the management position	
		Start	End
N/A			

f. In case a member of the Board of Directors of the COMPANY is or has been, during the fiscal year of this report, a member of the Board of Directors of another company or other companies listed in the Stock Market's Public Registry, please provide the following information:

Full name of director	Name of the company (ies)	Fecha	
		Start	End
N/A			

Principle	Compliance				
	0	1	2	3	4
<p><b>7. Principle (IV.C, second, third and fourth paragraph):</b> Although, generally, independent audits focus on issuing a report about financial information, they can also refer to specialized reports dealing with the following aspects: accounting examinations, operational audits, system audits, project evaluation, cost system evaluation or implementation, tax audits, appraisals for asset adjustment, portfolio evaluation, inventory matters and other special services.</p> <p>The recommendation is for these services to be performed by different auditors; or if conducted by the same auditors, it should not affect the independence of their opinion. The company must disclose all of the auditor's specialized audits and reports conducted and prepared.</p> <p>Information must also be provided with regard to all services provided by the audit firm or auditor to the company, specifying the percentage represented by each service, as well as its share in the earnings of the audit firm or auditor.</p>					X

a. Indicate the following information about the audit firm that has provided services to the COMPANY in the past five (5) years.

Name of the audit firm	Service*	Period	Compensation**
Ernst & Young Asesores S. Civil de R. L.	Tax audit	2011 -2015	US\$ 70,112
Beltrán, Gris y Asociados Sociedad Civil (Deloitte)	Financial information audit	2011 -2015	US\$ 478,406
Vila Naranjo & Asociados	Fixed assets audit	2011 -2015	US\$ 48,554.23
KPMG Asesores Soc. Civil de Responsabilidad Limitada	Transfer Pricing Technical Study	2011-2015	US\$ 25,204

\* Include all types of services such as opinions on financial information, expert accounting reports, operation audits, system audits, tax audits or any other special services.

\*\* Of the total amount paid to the audit firm for all concepts, please specify the percentage corresponding to remuneration for financial audit services.

All audit services received in the last 05 years per audit firm have been included.

In the last 5 years, the total expenditure for audits amounted to USD 622,276, of which 76.88% corresponds to financial audits.

**b.** Describe any pre-established mechanisms applicable to the hiring of audit firms to provide an opinion on the annual financial statements (include the identification of the corporate body responsible for choosing the audit firm).

*The audit firm is designated by the Board of Shareholders at the Annual General Meeting of Shareholders (AGM) or such designation is delegated to the Board of Directors. At the AGM in March 2007, the Board of Shareholders directly designated the auditors; at the AGM in March 2008, the Board of Shareholders delegated the designation to the Board of Directors. The Board of Directors designated firm Medina, Zaldívar, Paredes & Asociados, at the meeting held on June 4, 2008, after explaining the process followed to that effect. At the AGM held on March 31, 2009, the Board of Shareholders appointed Medina, Zaldívar, Paredes & Asociados, a firm member of Ernst & Young, as its auditors for 2010. At the AGM held on March 26, 2010, the Board of Directors was delegated the designation of the audit firm. The Board of Directors designated Ernst & Young. At the AGM held on March 23, 2011, the firm DeloitteToucheTohmatsu was designated. At the AGM held on Friday, March 30, 2012, the firm DeloitteToucheTohmatsu was designated. At the AGM held on Wednesday, March 27, 2013,*



Principle	Compliance				
	0	1	2	3	4
<b>8. Principle (IV.D.2):</b> Specific requests for information submitted by shareholders, investors or stakeholders must be channeled through a responsible authority and/or personnel appointed for such purpose.				X	

a. Indicate the means or manner(s) in which the shareholders or stakeholders of the COMPANY can requests information for their request to be considered.

	Shareholders	Stakeholders
<b>Electronic mail</b>	X	X
<b>Directly with the company</b>	X	X
<b>Telephone</b>	X	X
<b>Website</b>	X	X
<b>Mail</b>	X	X
<b>Other (Please detail)</b>		

b. Without prejudice to the information responsibilities of the General Manager pursuant to Section 190 of the Business Corporations Law, indicate which is the area and/or person in charge of receiving and processing the requests for information received from the Stockholders. If it is a person, include also his/her position and area.

Responsible area	General Management	
Responsible person		
Full name	Position	Rechazadas
Rozas Mory, Juan Antonio	Country Manager	General Management

**c.** Indicate if the procedure of the company to process the requests for information from the Stockholders and/or Stakeholders of the company is regulated in any document(s) of the company.

Bylaws	Internal Regulation	Handbook	Otros	Name of the document*

\* Indicate the name of the document, except in case of the company's bylaws.

- ( ) The company has a procedure in place; however, it is not regulated.
- (X) Not applicable. There is no procedure established.

**d.** Indicate the number of requests for information submitted by shareholders and/or stakeholders of the company during the fiscal year subject matter hereof.

Number of requests		
Received	Accepted	Rejected
0	0	0

**e.** If the company has a corporate website, does it include a special section on corporate governance or stockholders and investors relations?

- ( ) Yes
- (X) No

**f.** During the fiscal year of this report, please indicate whether or not any type of complaint has been filed regarding limitation to access to information on the part of any particular shareholder.

- ( ) Yes
- (X) No

Principle	Compliance				
	0	1	2	3	4
<p><b>1. Principle IV.D.3.:</b> Any cases of doubt over the confidential nature of information requested by shareholders or stakeholders related to the company should be resolved. The criteria should be adopted by the Board of Directors and ratified at the General Shareholders' Meeting, as well as included in the bylaws or internal regulations of the company. In any event, the disclosure of information must not jeopardize the company's competitive position or be likely to affect the normal undertaking of its business.</p>			X		

a. Who decides on the confidential nature of any given information?

- Board of Directors
- General Manager
- Other: as applicable, it may be the Board of Directors or General Manager

b. Please give details of pre-established criteria based on which certain data are classified as confidential. Additionally, indicate the number of information requests submitted by shareholders, during the fiscal year subject matter hereof, which were rejected due to the confidential nature of the information.

There are no established criteria.

c. Indicate whether the criteria described above is contained in any document of the COMPANY.

Bylaws	Internal Regulation	Handbook	Otros	Name of the document*
				N/A

Not regulated

\* Indicate the name of the document, except in case of the company's bylaws.

Principle	Compliance				
	0	1	2	3	4
<b>10. Principle (IV.F, first paragraph):</b> The company must have an internal audit area. In the exercise of its duty, the internal auditor must keep a professional-independent relationship with the company. The auditor must act in accordance with the principles of diligence, loyalty and secrecy that are required from the Board of Directors and Management.		X			

a. Indicate whether the company has an independent area responsible for internal audit.

( ) Yes                      (X) No

b. If the answer to the previous question is affirmative, please indicate, in terms of the COMPANY's organizational structure, which area the internal auditors are part of and to whom they report.

<b>Part of:</b>	
<b>Reports to:</b>	

c. Please indicate the main responsibilities entrusted to the internal auditors and whether they perform other duties unrelated to internal audits.

N/A

d. Please indicate whether any of the responsibilities described above are regulated in any of the company's document(s).

Bylaws	Internal Regulation	Handbook	Otros	Name of the document*
				N/A

(X) Not regulated.

\* Indicate the name of the document, except in case of the company's bylaws.



**Responsibilities of the Board of Directors**

Principle	Compliance				
	0	1	2	3	4
<p><b>11. Principle (V.D.1):</b> The Board of Directors shall perform certain key duties, namely:                      the evaluation, approval, and direction of corporate strategy; establishment of objectives and goals, as well as major plan of action, risk monitoring, control and management policy, annual budgets and business plans; monitoring of the implementation thereof; and overseeing major capital expenditures, investments, acquisitions, and divestitures.</p>					X

a. If the company’s Board of Directors is in charge of the duty described in this principle, please indicate whether this duty of the Board is included in any of the company’s document(s).

Bylaws	Internal Regulation	Handbook	Otros	Name of the document*
X				

\* Indicate the name of the document, except in case of the company’s bylaws.

- ( ) The Board Of Directors Is Responsible For The Duty In Question, But It Is Not Regulated.
- ( ) Not Applicable. The Board Of Directors Is Not Responsible For This Duty.

Principle	Compliance				
	0	1	2	3	4
<b>The Board of Directors shall perform certain key duties, namely:</b>					
<p><b>12. Principle (V.D.2):</b> Select, control, and, when required, replace the main executives, as well as determine their compensation.</p>				X	

<b>13. Principle (V.D.3):</b> Evaluate the compensation of the main executives and of members of the Board of Directors, guaranteeing that the procedure followed to choose directors is formal and transparent.				X	
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a. If the company's Board of Directors is in charge of the duties described in this principle, please indicate whether these duties of the Board are mentioned in any of the company's document(s).

Bylaws	Internal Regulation	Handbook	Otros	Name of the document*
X				

\* Indicate the name of the document, except in case of the company's bylaws.

- ( ) The Board Of Directors Is Responsible For The Duty In Question, But It Is Not Regulated.
- ( ) Not Applicable. The Board Of Directors Is Not Responsible For This Duty.

b. Please indicate which body is in charge of the following:

Role	Board of Directors	Country Manager	Other (please specify)
Hiring and replacing the General Manager	X		
Hiring and replacing the Management Staff		X	
Determine the remuneration of the main executives	X		
Assess the remuneration of the main executives		X	
Evaluate the remuneration of the Directors			Shareholders' Meeting

c. Please indicate whether the company has internal policies or established procedures for the following:

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<b>Policies for:</b>	<b>Yes</b>	<b>No</b>
Hiring and replacing main executives	X	
Determine the remuneration of the main executives	X	
Assess the remuneration of the main executives	X	
Evaluate the remuneration of the Directors	X	
Appointing Directors	X	

**d.** In case the answer to the previous question is affirmative, please indicate if such procedures are regulated in any document of the company.

The documents are regulated in the Bylaws and in internal procedures.



**5**

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**FINANCIAL  
INFORMATION**



*As of December 2015, the working capital was positive and amounted to USD 33 MM, which represented a 142% increase compared to 2014.*



## 5.1. Analysis of operating results and economic and financial status

The analysis of the main items of the audited Financial Statements of the company for the year 2015 is presented below.

### 5.1.1 General balance

#### a) Working capital

As of December 2015, the working capital was positive and amounted to USD 33 MM, which represented a 142% increase compared to 2014. The new improvement is mainly explained by the higher balance of commercial accounts receivables and reduced short-term financial obligations. The former case is explained by the increased energy and capacity sales under power purchase agreements with power distribution companies originally entered into in 2010 by Empresa de Generación Eléctrica Cheves S.A., with supply starting in September 2015 with energy generated by the recently inaugurated Cheves Hydropower Plant. The latter case, the reduced balance of short-term financial obligations, is explained by the longer repayment term of intercompany debts with respect to the financial obligations with third parties that were in effect as at the closing of 2014, and which were prepaid in full in 2015.

#### b) Non-current assets for sale

As at December 31, 2015, the company maintains in this account a balance for USD 3.5 million for its stake of 99% in Inversiones Shaqsha S.A.C., a company incorporated and registered in 2015 with minor power generation assets, whose sale was deemed likely.

#### c) Properties, plant and equipment

At 2015 year-end, the balance of the properties, plant and equipment account (net of accrued depreciation) amounted to USD 773.3 million, which represents an increase of USD 55.3 million (6.4%) compared to 2014 year-end. The increase is explained by the incorporation into the asset of the cost incurred in 2015 for the construction and equipping of the new Cheves Hydropower Plant, which started operations the third week in August, incorporating it into the depreciable asset base as from such date.

#### d) **Non-current liabilities**

In 2015, non-current liabilities increased by 13.8% up to USD 621.8 million, mainly as a result of the consolidation of intercompany debts from the head office to prepay the secured financial obligations in favor of third parties, including the payment of derivatives, commissions, associated penalties and the financing of the final construction phase of the Cheves Hydropower Plant.

#### e) **Net equity**

At 2015 year-end closing, the capital stock of the company is represented by 778,667,640 fully subscribed and paid-in ordinary shares, with a nominal value of PEN 1 each. Compared to year 2014, the total equity was reduced by 0.7% to USD 331.3 million, which is explained by the New Loss for the year (-USD 2.4 million) and its effect on the balance of Accrued Results (-USD 5.6 million) and the Legal Reserve (USD 3.2 million); as a result of the merger of Statkraft Perú S.A. and Empresa de Generación Eléctrica Cheves S.A., and the prepayment of all its obligations with banks.

### 5.1.2 **Income statement**

#### a) **Income**

In 2015, net energy generation was recorded at 1,916 GWh, 15.8% higher than the net output in 2014, mainly due to the start-up of the Cheves Hydropower Plant in August 2015, which contributed with 203 GWh to the annual net production, and increased power generation from Gallito Ciego HPP (68 GWh), explained by increased water requirements from beneficiary irrigation users of the Jequetepeque - Zaña Project during the year.

Income for sale of energy, capacity and secondary transmission increased by 3.8%, from USD 105.7 million in 2014 to USD 109.7 million at 2015 year-end. Such increase is mainly explained by the net effect of the increased energy sales to distribution companies for valid agreements from September 1, 2015, which are attributable to the start-up of the Cheves HPP (USD 2.1 million) and increased revenues for transmission services (USD 1.9 million).

#### b) **Generation and transmission cost**

In 2015, the generation and transmission cost totaled USD 43.8 million, which represents a 2.3% increase compared to 2014. This is mainly explained by the additional depreciation of the new Cheves Hydropower Plant net of reduced energy purchases during the year and savings in operating expenses.

#### c) **Administration and sales expenses**

The administration and sales expenses amounted to USD 25.7 million, which represents an 87.8% increase compared to 2014. The increase was due to one-time expenses incurred as a result of the merger process, expenses for the development of the Rapay power generation project (which was decided to be put on hold), and intercompany expenses incurred to adapt the company to the policies and procedures of the head office, which resulting in more allocation of costs for the services provided by the head office.

#### d) **Operating income**

In accordance with the revenues and expenses of the company, the operating income at 2015 year-end was recorded at USD 43.0 million, 23.1% less than in 2014. This is explained, in addition to the reasons presented

above, by the extraordinary revenues earned in 2014 for the sale of the an old sub-station to Minera Chinalco Perú S.A.

#### e) Financial items

At 2015 year-end, the financial expenses (net of financial revenues) amounted to USD 45.3 million, which represents a 22.6% increase compared to the figure recorded in 2014. This is mainly explained by the one-time expenses incurred for the prepayment in full of the secured debt with third parties, net of the reduced total interest expenses as a result of the refinancing provided by the head office at lower interests rates.

#### f) Income before profit sharing and income tax

At the closing in December 2015, and due to the reasons explained above, the company recorded a loss before income tax adding up to USD 2.3 million.

### 5.1.3 Financial instruments

In 2015, the company honored all the commitments undertaken with respect to the financial debts, and all payment obligations were met. As explained in previous paragraphs, the company prepaid in full the secured financial obligations with third parties. At 2015 year-end, the only financial obligations with third parties were the financial leasing agreements (total balance of USD 507,000) with BBVA Banco Continental and Banco de Crédito BCP for the procurement of vehicles for the corporate fleet.

**Table 21**

Obligation	Creditor	Balance as at Dec 2015	Expiration	Repayment
Leasing 1	BBVA Continental	US\$ 239,361	Dic 2016	Monthly
Leasing 2	BBVA Continental	US\$ 33,917	Jun 2017	Monthly
Leasing 3	BBVA Continental	US\$ 33,155	Jun 2018	Monthly
Leasing 4	BCP	US\$ 93,476	Set 2018	Monthly
Leasing 5	BCP	US\$ 106,966	Nov 2018	Monthly
<b>TOTAL</b>		<b>US\$ 507,145</b>		





#### 5.1.4 Securities

In 2015, as a result of the prepayment of the secured financial debt, the company released the Asset and Cash Flow Trust with La Fiduciaria S.A., and all agreements composing the Security Package securing the debt with the International Finance Corporation. At 2015 year-end, the company does not have securities or liens of any kind in favor of third parties over its assets, rights, concessions and authorizations.

#### 5.1.5 Audited financial statements

[Download link here.](#)

“ In 2015,  
the company  
honored all the  
commitments  
undertaken with  
respect to the  
financial debts.

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