Statkraft Perú S.A.
(before SN Power Perú S.A.)

Independent Auditors' Report

Separate Financial Statements
For the years ended
December 31, 2014 and 2013

(Free translation of the report originally issued in Spanish)

STATKRAFT PERU S.A.
(before SN Power Perú S.A.)

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Directors of
Statkraft Perú S.A.

1. We have audited the accompanying separate financial statements of **Statkraft Perú S.A.** (before SN Power Perú S.A.), a subsidiary of Statkraft Perú Holding S.R.L., which comprise the separate statements of financial position as of December 31, 2014 and 2013, and the separate statements of income, other comprehensive income, changes in equity and cash flows for the years then ended, and the summary of significant accounting policies and other explanatory notes.

Management's responsibility for the separate financial statements

2. Management is responsible for the preparation and fair presentation of these separate financial statements in accordance with International Financial Reporting Standards, and for such internal control that Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

3. Our responsibility is to express an opinion on these separate financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing approved by the Board of Deans of the Peruvian Professional Association of Certified Public Accountants, for its application in Peru. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether these separate financial statements are free from material misstatements.

4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on the auditor's judgment, including assessment of risk of material misstatements in these separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the Company's relevant internal control for the preparation and fair presentation of the separate financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management as well as evaluating the overall presentation of the separate financial statements.

5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

6. In our opinion, the accompanying separate financial statements referred to above, prepared for the purpose indicated in next paragragh 7, present fairly, in all material respects, the financial position of **Statkraft Perú S.A.** (before SN Power Perú S.A.) as of December 31, 2014 and 2013, its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Other matters

7. The separate financial statements of Statkraft Perú S.A. (before SN Power Perú S.A.) have been prepared in compliance with legal effective requirements in Peru for the presentation of financial information. These separate financial statements reflect the value of its investment in subsidiary under the cost method (Note 10), and not on a consolidated basis. Consolidated financial statements of Statkraft Perú S.A. and Subsidiary are included in the financial statements of the final Parent Company of the Group (Note 1).

8. The translation of this report has been made solely for the convenience of English-Speaking readers.

Beltrán, Gris y Asociados S. Civil de R.L.

Countersigned by:

Quispe Soto R.

_____________________________ (Partner)
Beatriz Quispe Soto
CPC Registration No. 29474

February 25, 2015

STATKRAFT PERU S.A.
(before SN Power Perú S.A.)

SEPARATE STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2014 AND 2013
(In thousands of U.S. Dollars (US$000))

	Notes	2014	2013
		US$000	US$000
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	6	40,535	10,049
Trade receivables (net)	7	11,630	26,050
Other receivables	8	1,263	1,560
Receivables from related entities	9	1,757	834
Inventories		413	388
Prepaid expenses		443	542
Income tax asset	23	5,347	7,744
Total current assets		61,388	47,167
NON-CURRENT ASSETS:			
Investment in subsidiary	10	169,250	169,250
Property, plant and equipment (net)	11	189,494	189,260
Intangible assets (net)		1,528	1,624
Goodwill	12	139,794	139,794
Total non-current assets		500,066	499,928
TOTAL		561,454	547,095

	Notes	2014	2013
		US$000	US$000
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Loans	13	25,633	21,738
Trade payables	14	6,859	6,842
Other payables	15	3,362	3,745
Payables to related entities	9	37	87
Provisions	16	2,947	3,667
Liabilities for benefits to employees	17	2,824	-
Derivative financial instruments	18	1,033	2,493
			1,126
Total current liabilities		42,695	39,698
NON-CURRENT LIABILITIES:			
Loans	13	162,163	187,821
Derivative financial instruments	18	1,191	95
Deferred income tax liabilities	24	13,012	7,782
Deferred income		827	1,451
Total non-current liabilities		177,193	197,149
Total liabilities		219,888	236,847
EQUITY:			
Issued share capital	19 (a)	197,525	197,525
Legal reserve	19 (b)	25,003	22,073
Retained earnings	19 (c)	120,486	91,388
Other equity reserves	19 (d)	(1,448)	(738)
Total equity		341,566	310,248
TOTAL		561,454	547,095

The accompanying notes are an integral part of these separate financial statements.

STATKRAFT PERU S.A.
(before SN Power Perú S.A.)

SEPARATE STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(In thousands of U.S. Dollars (US$000))

	Notes	2014	2013
		US$000	US$000
Operating income:			
Energy		79,764	95,000
Power		13,073	17,704
Transmission and related activities		12,828	14,903
Total income from ordinary activities		105,665	127,607
Generating and transmission costs	20	(42,803)	(60,308)
Gross profit		62,862	67,299
Sale expenses	20	(1,479)	(1,461)
General and administrative expenses	20	(11,152)	(13,427)
Profit for sale of assets		470	67
Other income	21	7,131	2,272
Other expenses		(253)	(154)
Financial income	22	171	214
Financial expenses	22	(11,002)	(12,276)
Exchange differences, net		(667)	(1,103)
Profit before income tax		46,081	41,431
Income tax expense	23	(14,053)	(12,127)
Net profit for the year		32,028	29,304

The accompanying notes are an integral part of these separate financial statements.

STATKRAFT PERU S.A.
(before SN Power Perú S.A.)

SEPARATE STATEMENTS OF OTHER COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(In thousands of U.S. Dollars (US$000))

	Notes	2014 US$000	2013 US$000
Net profit for the year		32,028	29,304
Components of other comprehensive income that could be reclassified subsequently to the statement of income:			
Net variation for cash flow hedges	18	(1,014)	3,281
Other comprehensive income before income tax		(1,014)	3,281
Income tax in relation to components of other comprehensive income:			
Net variation for cash flow hedges	24	304	(985)
Income tax in relation with components of other comprehensive income		304	(985)
Other comprehensive (loss) income after income tax		(710)	2,296
Total other comprehensive income for the year		31,318	31,600

The accompanying notes are an integral part of these separate financial statements.

STATKRAFT PERU S.A.
(before SN Power Perú S.A.)

SEPARATE STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(In thousands of U.S. Dollars (US$000))

	Issued share capital US$000	Legal reserve US$000	Other equity reserves - Net variation of cash flows US$000	Retained earnings US$000	Total equity US$000
BALANCES AS OF JANUARY 1, 2013	197,525	18,725	(3,034)	65,432	278,648
Net profit for the year	-	-	-	29,304	29,304
Other comprehensive income for the year, net of tax	-	-	2,296	-	2,296
Total comprehensive income for the year	-	-	2,296	29,304	31,600
Transfer	-	3,348	-	(3,348)	-
BALANCES AS OF DECEMBER 31, 2013	197,525	22,073	(738)	91,388	310,248
Net profit for the year	-	-	-	32,028	32,028
Other comprehensive income for the year, net of tax	-	-	(710)	-	(710)
Total comprehensive income for the year	-	-	(710)	32,028	31,318
Transfer	-	2,930	-	(2,930)	-
BALANCES AS OF DECEMBER 31, 2014	197,525	25,003	(1,448)	120,486	341,566

The accompanying notes are an integral part of these separate financial statements.

STATKRAFT PERU S.A.
(before SN Power Perú S.A.)

SEPARATE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(In thousands of U.S. Dollars (US$000))

	2014 US$000	2013 US$000
OPERATING ACTIVITIES:		
Collection from:		
Energy sale	153,139	161,720
Interests and yields received	187	93
Payments to:		
Suppliers of goods and services	(49,870)	(70,133)
Salaries and employee benefits	(10,318)	(13,042)
Income tax	(21,370)	(35,338)
Interests, commissions and yields	(2,667)	(2,348)
Insurance policies	(1,270)	(1,723)
Net cash and cash equivalent provided by operational activities	67,831	39,229
INVESTING ACTIVITIES:		
Collection from:		
Sale of property, plant and equipment	470	68
Payments to:		
Disbursement for works in progress of property, plant and equipment	(5,183)	(7,477)
Net cash and cash equivalent used in investing activities	(4,713)	(7,409)
FINANCING ACTIVITIES:		
Collection from:		
Bank loans	-	3,009
Payments to:		
Amortization of bank loans	(21,974)	(18,670)
Interests of bank loans	(10,658)	(11,768)
Net cash and cash equivalent used in financing activities	(32,632)	(27,429)
NET INCREASE IN CASH AND CASH EQUIVALENTS	30,486	4,391
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	10,049	5,658
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	40,535	10,049

The accompanying notes are an integral part of these separate financial statements.

Expressed in thousands of U.S. Dollars (unless otherwise stated)

1. INCORPORATION, ECONOMIC ACTIVITY, PREPARATION AND PRESENTATION OF SEPARATE FINANCIAL STATEMENTS AND APPROVAL OF SEPARATE FINANCIAL STATEMENTS

Incorporation

Statkraft Perú S.A. – formerly Electroandes S.A. (hereinafter the “Company”) merged with Empresa de Generación Eléctrica Cahua S.A. (merged company) on January 1, 2010, and changed its corporate name to SN Power Perú S.A. On March 24, 2014, the Annual Mandatory Shareholders’ Meeting approved the change of its name to Statkraft Perú S.A.

The Company is an indirect subsidiary of Statkraft IH Invest AS of Norway, which holds 99% of the equity shares through its subsidiary SN Power Perú Holding S.R.L.

The legal domicile of the Company is Av. Victor Andrés Belaunde 280, 2nd floor, San Isidro, Lima, Peru.

In the Board of Directors’ meeting of Statkraft IH Invest AS held on December 16, 2014, it was agreed the merger of the Company with Empresa de Generación Eléctrica Cheves S.A (EGE Cheves) to be completed in 2015. It has not been defined nor informed yet any action plan for such merger.

Economic activity

The Company is mainly engaged in electric energy and power generation and commercialization to private and public companies in Peru. The Company has the following hydroelectric plants located in different departments of the country:

Name	Location	Installed power (MW)	Effective power (MW)		Power generation (MWh)	
			2014	2013	2014	2013
Yaupi	Pasco	108	113	113	888	866
Malpaso	Junín	54	48	48	275	304
Cahua	Lima	40	43	43	304	265
Gallito Ciego	Cajamarca	34	38	38	101	174
Pachachaca	Junín	9	10	10	44	48
La Oroya	Junín	9	9	9	56	52
Arcata	Arequipa	5	5	5	27	36
Pariac	Ancash	5	5	5	31	30

In 2014 and 2013, the energy volumes sold by the Company is distributed as follows:

	2014	2013
	%	%
Distributed to:		
Regulated clients	26.70	46.46
Transfers to Spot market	21.17	13.52
Free clients	52.13	40.02
Total	100.00	100.00

Preparation and presentation of separate financial statements

Company's Management chose to use the exemption of IFRS10 "Consolidated Financial Statements" which allowed not to consolidate, and consequently has not prepared nor presented consolidated financial statements with its subsidiary Empresa de Generación Eléctrica Cheves S.A.

The parent of the Group, Statkraft AS, a company duly incorporated in Norway, prepares and presents consolidated financial statements in accordance with International Financial Reporting Standards, including the separate financial statements of the Company and its subsidiary. The consolidated financial statements of 2013 can be found in the following website: www.statkraft.com/IR/, under the section: Annual Report 2013. The consolidated financial statements of 2014 will be published in the same website upon presentation.

Approval of separate financial statements

The separate financial statements of the Company for the year ended as of December 31, 2014 were authorized for its issuance by Management of the Company on January 22, 2015. Said financial statements will be submitted to the Board of Directors and Annual Mandatory Shareholders' Meeting to be held within the statutory deadlines for approval. In Management's opinion, the Board of Directors and Annual Mandatory Shareholders' Meeting will approve the accompanying financial statements without amendments. The Annual Mandatory Shareholders' Meeting held on March 24, 2014 approved the separate financial statements for the year ended December 31, 2013, prepared in accordance with International Financial Reporting Standards.

Explanation added for translation into the English language of the original financial statements issued in Spanish

The translation of the accompanying financial statements has been made solely for the convenience of English-speaking readers, and has been derived from the financial statements originally issued in Spanish. In the event of a discrepancy, the Spanish language version prevails.

2. OPERATIONAL REGULATIONS AND LEGAL STANDARDS AFFECTING THE ELECTRIC SECTOR ACTIVITIES

The Company is subject to various rules governing its activity. Failure to comply with these rules may result in the imposition of sanctions on the Company, which would affect it both economically and operationally. Management of the Company, through its commercial, operating and legal areas, monitors and evaluates compliance of regulations and all filed complaints and considers that as of December 31, 2014 and 2013, the Company complies with applicable regulations and that there are no situations that should be disclosed or provisioned in the financial statements.

The main rules that affect the activities of the Company are:

(a) Electricity Concessions Law

In Peru, the electricity sector is regulated by the Electricity Concessions Law, Law Decree No. 25844, approved on November 19, 1992, its regulations, Supreme Decree No. 009-93-EM issued on February 25, 1993, and its different amendments and/or extensions, including Law No. 28832, Law to Ensure the Efficient Development of Electricity Generation..

According to the Electricity Concessions Law, the national grid system (SEIN) is divided into three large segments: generation, transmission and distribution. The operation of power generation and transmission systems are subject to the provisions of the Committee for the Economic Operation of the National Grid System (COES-SINAC), in order to coordinate their operation at minimum cost while preserving the security of electricity supply and better use of energy resources as well as SEIN's development planning and management of the Short Term Market. The COES-SINAC values power and energy transfers between generators.

(b) Law to Ensure the Efficient Development of Electricity Generation

In July 2006, Law No. 28832, Law to Ensure the Efficient Development of Electricity Generation was published, which has as one of its main objectives to ensure the efficient generation adequacy to reduce the system's exposure to volatile electricity prices as well as to adopt measures to promote effective competition in the generation market.

This regulation introduced the bidding procedures to be followed by electricity distribution companies for the purpose of executing supply contracts with electricity generation companies to supply public electricity service. This provision is intended to establish a mechanism to promote investment in new generation capacity through long-term contracts and firm prices with distributors.

(c) Supervising Entity of Investment in Energy and Mining

The Supervising Entity of Investment in Energy and Mining (OSINERGMIN) aims to monitor the activities carried out by companies in the sub-sectors of electricity, hydrocarbons and mining, ensure the quality and efficiency of services provided to users and monitor compliance of the obligations assumed by concessionaries as well as legal provisions and technical standards in force. OSINERGMIN also exercises a regulatory role that enables it to issue regulations and general standards, exclusively and within its competence, applicable to the sector entities and users.

(d) Standards for the conservation of the environment

According to the Electricity Concessions Law (Law Decree No. 25844) and the General Environmental Law (Law No. 28611), the Government designs and implements policies and standards necessary for the proper conservation of the environment and cultural heritage of the nation as well to ensure rational use of natural resources in the development of activities related to the generation, transmission and distribution of electricity and hydrocarbon activities. In this regard, the Ministry of Energy and Mines has approved the Regulations for Environmental Protection in Electrical Activities (Supreme Decree No. 29-94-EM) and the Regulations for Environmental Protection in Hydrocarbon Activities (Supreme Decree No. 015-2006 - EM).

In compliance with the standards referred to above, the Company prepared and submitted in January 1996 its Environmental Management and Pollution Mitigation Program (PAMA) for electricity generation activity for a period of five years. The Company completed the implementation of PAMA in 2001, which was confirmed by the Ministry of Energy and Mines in March 2003 through the issuance of an annual report of compliance of the Regulations for Environmental Protection in Electrical Activities.

In accordance with Resolution No. 001-2011-OEFA/CD, as of March 4, 2011, the functions of supervision, inspection and sanction for environmental matters in the electricity sector have been assumed by the Agency for Assessment and Environmental Control (OEFA). Before that date, these functions were exercised by OSINERGMIN.

(e) Technical Standards

Technical Quality Standard of Electricity Services:

By means of Supreme Decree No. 020-97-EM, the Technical Quality Standard of Electricity Services (NTCSE) was approved setting the minimum quality standards of electrical services for regulated clients and additionally for free clients, including public lighting, and obligations of companies operating in the electricity sector and customers operating within the framework of the Electricity Concessions Law.

The NTCSE provides measurement procedures and tolerances, as well as an standard application per stages, through which quality standards are set for the service of electricity and public lighting service, assigning the controlling responsibility to OSINERGMIN and establishing its complaince by both, electricity companies and customers of the sector. It also regulates the application of penalties and compensations if the parameters set by NTCSE are not complied with. Law No. 28832 grants COES-SINAC the ability to assign responsibilities in case of transgressions to NTCSE as well as to calculate the corresponding compensations. The third stage of NTCSE is now being applied; however, which application term according to such standard is undefined.

Technical Standard for the Coordination of Real-Time Operation of Grid Systems:

By means of Director’s Resolution No. 025-2008-EM/DGE dated August 8, 2008, numer 7.1.3 of the Technical Standard for the Coordination of Real-Time Operation of Grid Systems was amended. This standard basically establishes that the possible electricity rationing will be made giving priority to power supply for public lighting service.

(f) Anti-monopoly and Anti-oligopoly Law in the Electricity Sector

In November 1997, Anti-monopoly and Anti-oligopoly Law in the Electricity Sector No. 26876 was issued, which states that vertical concentrations greater than 5% or horizontal concentrations greater than 15% occurring in companies that generate, transmit and distribute electricity shall be subject to a prior authorization procedure in order to avoid concentrations which may affect competition in the electricity market. By Resolution No. 012-99/INDECOPI/CLC, conditions were established in defense of free competition and transparency in the sector. Management believes that this standard does not affect the current operations carried out by the Company.

(g) Emergency Decree which ensures continued provision of electric services

Emergency Decree No. 049-2008, effective from January 1, 2009, provides significant changes in the electricity market, which are summarized as follows: i) short-term marginal costs are determined by taking into account that there is no restriction of production or transportation of natural gas or electricity transmission and will have a limited value established by the Ministry of Energy and Mines, the difference is covered by the demand through an additional charge, and ii) Withdrawals of distributors without a contract are assumed by generation companies proportionally to their firm efficient annual energy less its sales of energy as per contracts; this assignment will not generate economic loss to the generators as demand will pay a fee at the rate of transmission. On December 2, 2013, within the final complementary provisions of Law No. 30115, Emergency Decree No. 079-2010 is extended until December 31, 2016; which also extended the maturity of Emergency Decree No. 049-2008 until December 31, 2013.

Management has considered the effects of the Emergency Decree; therefore, they have adapted their commercial strategy to sell the largest amount of energy through contracts and reduce exposure to spot prices.

(h) Water Resources Law

In March 2009, Law No. 29338 was issued, and was regulated on March 23, 2010 by means of Supreme Decree No. 001-2010-AG. This new regulation is particularly important for the hydroelectricity industry as it regulates the Government and private individuals' action in the use and integrated management of water resources and assets associated with them. Under this regulation, the National Water Authority (ANA) was created, which performs its functions at a national level through Water Management Authorities. These new autorities are responsible for granting licenses and permits for water use in hydroelectric activities.

Management is proactive with regard to the enactment of this Law, participating through representatives in committees of use and management of water resources.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used by the Company in the preparation and presentation of these separate financial statements are detailed as follows:

(a) Statement of compliance and basis of preparation and presentation

The accompanying financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB), effective as of December 31, 2014, including International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), and Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), or by the former Standing Interpretations Committee (SIC), adopted by the IASB. Historical cost basis was applied for these purposes. Historical cost is generally based on fair value of the compensation given by asset exchange.

Fair value is the price that would be received when selling an asset, or paid when transferring a liability in an organized transaction between market participants at a measurement date, regardless of the fact that said price is directly observable or considerable through another appraisal technique. When estimating the fair value of an asset or liability, the Company considers the characteristics of said asset or liability in the event that market participants would want to consider them when setting a price as of measurement date. Fair value for measurement and/or disclosure purposes in these separate financial statements is determined over such basis, except transactions of share-based payments (which are within the scope of IFRS 2), lease transactions (within the scope of IAS 17), and measurements somehow similar to fair value, but not fair value, such as net realizable value in IAS 2, or value in use in IAS 36.

Additionally, for financial reporting purposes, fair value measurements are categorized in three levels: 1, 2 or 3; depending on the degree in which the information for fair value measurements are observable, and their significance to fair value measurement in its entirety, as described below:

Level 1: Information is quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company may access as of the measurement date.

Level 2: Information is different than quoted prices included in Level 1, which are observable for the asset or liability, whether directly or indirectly.

Level 3: Information is not observable for the asset or liability.

(b) Responsibility for the information and estimates

The information contained in the financial statements is the responsibility of the Company's Management. For their preparation, certain estimates have been used to quantify some assets, liabilities, revenues, expenses and commitments reported in the financial statements, based on experience and other relevant factors. Final results of such evaluations may vary.

Estimates are reviewed periodically. Changes to accounting estimates are recognized prospectively and the effects are recorded in the related profit or loss balances for the year in which the corresponding changes are made.

The most significant estimates and assumptions considered for the preparation of the financial statements of the Company are referred to:

- Determination of functional currency and recording of foreign currency transactions.
- Estimate of revenues from energy delivered but not billed.
- Estimate for impairment of receivables, investments, property, plant and equipment, intangible assets and goodwill.
- Deferred income tax.
- Useful life of property, plant and equipment and intangible assets.
- Provisions.
- Probability of contingencies.
- Fair value, classification and risks of financial instruments.

(c) Functional currency and presentation currency

The Company prepares and presents its financial statements in U.S. Dollars, which is the functional currency. The functional currency is the currency of the primary economic environment in which an entity operates, the currency that influences sales prices of services it provides, among other factors.

(d) Financial instruments

Financial instruments are defined as any contract that originates simultaneously a financial asset in a company and a financial liability or equity instrument in another. Financial assets and liabilities are recognized when the Company becomes a part of the contractual agreements of the corresponding instrument.

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

Financial assets

Conventional purchase or sale of financial assets are recognized and removed from accounts using the accounting method of the contracting date, in which the following are recognized up to such date: a) asset to be received and liability to be paid, and b) removal from accounts of the asset being sold, the recognition of the possible result of the sale or disposition by other means, and the recognition of a receivable from the purchaser.

Financial assets held by the Company are classified as loans and receivables.

Cash and cash equivalents, trade receivables, receivables from related entities and other non-derivative receivables with fixed or determinable payments that are not negotiated in an active market, are classified as loans and receivables. These items are recorded at amortized cost using the effective interest method less any accumulated loss for impairment. Interest income is recognized using an effective interest rate, except for those short-term receivables where their recognition is not considered relevant.

Financial liabilities

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

Financial liabilities held by the Company are classified as other financial liabilities.

Other financial liabilities, that comprise financial obligations, trade payables, other payables and payables to related entities, are recorded subsequently to their initial recognition at amortized cost, using the effective interest rate method, recognizing the interest expense throughout the corresponding period.

(e) Investments in subsidiaries

Investments in entities where the Company holds over 50% interest and exercises control are recorded at the lowest of cost or its recoverable value. When the recoverable value of the investment is lower than its cost, an impairment loss is recognized for an amount equivalent to the cost excess over the recoverable value, charged to profit or loss for the year when such reductions occur.

Dividends are recognized as income for the period when the right to receive them is established.

(f) Derivative financial instruments and hedge accounting

The Company uses derivative financial instruments to hedge its exposure to interest rate risk. Further information about the interest rate risk and derivative financial instruments are disclosed in Notes 5 and 18, respectively. Derivative financial instruments are accounted for under IAS 39 "Financial Instruments: Recognition and Measurement".

Derivative financial instrument contracts for which the Company has established a hedging relationship of future cash flows are recorded as assets or liabilities in the statement of financial position and are presented at fair value. To the extent that these hedges are effective, changes in fair value are recognized directly in an equity account. These amounts are transferred to net income in the year when the liability is settled and are presented in the “Financial expenses” item. These instruments should be periodically evaluated according to the criteria established in IAS 39 “Financial Instruments: Recognition and Measurement” and considered highly effective in a range of 80% and 125% to reduce the risk associated with the exposure being hedged. If at any time hedging ceases to be effective, the changes in fair value will be reflected in the net income for the year, and the accumulated gain or loss that has been recognized in other comprehensive income will be kept separately in equity until the transaction occurs. When the transaction is no longer expected to occur, any accumulated gain or loss related to the hedging instrument that has been recognized in other comprehensive income will be reclassified from equity to the net income of the year.

(g) Inventories

Inventories comprise supplies and fuels and are valued at cost or realizable value, the lowest. Cost is determined by using the monthly average cost method, except for supplies in transit, which are accounted for at specific cost of acquisition. The use and operation life is less than one year.

For the reduction in the carrying amounts of supplies and fuels at their recoverable value, an estimate for impairment of supplies and fuels is constituted with a charge to the net income of the year when those reductions occur.

Trade discounts, rebates obtained and other similar items in purchases to suppliers are deducted in the determination of acquisition price.

(h) Property, plant and equipment

Property, plant and equipment are recorded at cost and are presented net of depreciation and any impairment loss recognized.

The initial cost of property, plant and equipment comprises its purchase price (including tariffs and non-refundable purchase taxes) and any costs directly attributable to locate and leave the asset in working and use conditions. Also, the following items are included in the cost: the initial estimate of dismantling costs, man-hours, the cost incurred in replacing parts of the asset whenever it meets the recognition criteria, and the borrowing costs obtained for the construction ofqualifying assets until their star-up operations.

Costs incurred after fixed assets have been put into operation are recognized as an asset if: (i) Management estimates that future economic benefits will be obtained, and (ii) the cost of the asset can be measured in a reliable and trustworthy manner. Costs associated with daily or periodic maintenance of fixed assets, such as repairs and maintenance or preservation works, are recognized in the net income of the year they are incurred.

The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment. Depreciation is calculated using the straight-line method on the following estimated useful lives:

	Years
Machinery and equipment	5 to 87
Main assets of this item:	
Transmission lines	75-87
Valves adduction	40
Generators	40
Impellers	20
Sundry equipments	4 to 23
Main assets of this item:	
Telecommunications systems	10
Computing equipment	4 to 5
Transportation vehicles	5 to 10
Furniture and fixtures	5 to 11

The carrying amounts of property, plant and equipment are reviewed for impairment if there are events or changes that indicate that such value may not be recoverable.

A fixed asset item is removed at the time of disposal or when no economic benefits are expected from its use or subsequent disposal. Any gain or loss arising upon removal of the fixed asset is included in the income statement in the year when the asset is removed.

(i) Goodwill

Goodwill resulting from the acquisition of a subsidiary corresponds to the excess of considerations given over the net fair value of identifiable assets, liabilities and contingent liabilities of the subsidiary, recognized at the acquisition date. Goodwill is initially recognized as an asset at cost, and subsequently presented at cost less any accumulated impairment loss.

For purposes of impairment testing, goodwill is allocated to each cash-generating unit of the Company that is expected to benefit from the synergies of the business combination. A cash-generating unit, to which purchased goodwill has been distributed, is subject to an annual testing for impairment and also when there are indications that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is distributed first to reduce the carrying amount of any purchased goodwill distributed to the cash-generating unit, and then, to other assets of the cash-generating unit pro rata on the basis of the carrying amount of each asset of the unit. An impairment loss recognized on goodwill is not reversed in subsequent periods.

(j) Intangible assets

Intangible assets with finite useful lives (consessions and computer applications) are recorded at acquisition cost and are presented net of accumulated depreciation and any accumulated impairment loss. Amortization is recognized as an expense and is determined using the straight-line method based on the useful life estimated by the Company, represented by equivalent depreciation rates. The useful life of these assets has been estimated to be 10 years.

Estimates of useful life and depreciation methods are reviewed at the end of each reporting period to assess possible significant changes in previous expectations or the expected pattern of future economic benefits of such assets, prospectively including effects of any change in these estimates against net profit or loss for the period when they are made.

(k) Review of impairment of long-term assets, except goodwill

The Company periodically reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a consistent basis and reasonable distribution is identified, corporate assets are also distributed to the individual cash generating units or, otherwise, to the smallest group of cash-generating units for which a consistent basis and reasonable distribution is identified.

Intangible assets with indefinite useful lives and those not yet available for use are reviewed annually for these purposes, as well as when there is some indication that the pertinent asset may have suffered some loss of value.

The recoverable amount is the higher of fair value less sale cost and value in use. Value in use is determined based on future estimated cash flows discounted to their present value using a discount rate before tax that reflects current market assessments about the time value of money and the specific risks of the asset.

If it is estimated that the recoverable amount of an asset (or cash-generating unit) is less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is immediately recognized as an expense, unless the corresponding asset is maintained at revaluated values, in which case such losses are recognized primarily as a reduction to revaluation surplus.

An impairment loss can be reversed subsecuently and recorded as revenue in the income of the period, to the extent that the increased carrying amount does not exceed the carrying amount that had been determined if no impairment loss was recognized for the asset (cash-generating unit) in previous years.

(l) Borrowing costs

Borrowing costs are recorded as expenses when earned or capitalized if they are directly attributable to the acquisition or construction of a qualifying asset. The capitalization of borrowing costs starts when the activities to prepare the asset are in progress and borrowing expenses and costs are been incurred. The capitalization of borrowing costs is done until the assets are ready for their intended use. If the resulting value of the asset exceeds its recoverable amount, an impairment loss is recorded.

Borrowing costs include interest charges and other costs related to loans, such as exchange differences from loans in foreign currency used to finance projects, to the extent that they correspond to an adjustment of interest costs and debt issuance costs.

(m) Provisions

Provisions are recognized when the Company has a present obligation (legal or implicit) as a result of a past event, it is probable that the Company will be required to use resources to settle the obligation, and the amount of the obligation can be reliably estimated.

The amount recognized as provision corresponds to the best estimate, as of the balance sheet date, of the necessary expenditure to settle the present obligation, considering the risks and uncertainties surrounding most of the concurrent events and circumstances to its valuation. When the amount of the provision is measured using estimate cash flows for settling the obligation, the carrying amount is the present value of the corresponding expenditures.

In the event that a part or the whole expenditure necessary to settle the provision is expected to be paid by a third party, the receivable portion is recognized as an asset when its recovery is almost certain and its amount can be determined in a reliable way.

(n) Contingent assets and liabilities

Contingent assets and liabilities are not recognized in the financial statements, as they are only disclosed in a note. When the possibility of an outflow of resources to cover a contingent liability is remote, such disclosure is not required.

Contingent assets are not recognized in the financial statements, as they are only disclosed in a note to the financial statements when an inflow of resources is probable to happen.

Items previously considered as contingent assets and liabilities will be recognized in the financial statements of the year when the change of probabilities occurs; that is, when it is determined as probable in the case of liabilities, or virtually certain in the case of assets, that an outflow or inflow of resources will occur, respectively.

(o) Employee benefits

Employee benefits include, among others, short-term benefits such as wages, salaries and social security contributions, annual paid leave, paid sick leaves, profit-sharing and incentives, if paid within twelve months after the end of the period. These benefits are recognized in the net income of the year when employees have performed the service that entitles them to receive these benefits. Corresponding payable obligations are represented as a liability for employee benefits.

(p) Recognition of revenue, costs and expenses

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Company and that the amounts can be reliably measured. Revenue is measured using the fair value of the consideration received or receivable arising therefrom. These revenues are reduced by those estimates such as discounts and other similar items.

(p.1) Sale of energy, power, transmission and other related

Revenue is calculated based on cyclical readings and completely recognized in the period when the service is provided. Revenue from energy delivered but not billed between the last cyclical reading and the end of each month is calculated based on estimates of energy consumed by service users during the period referred to above. Adjustments to estimated amounts are reversed in the month when a final settlement is defined on the basis of numbers established and agreed with third parties.

(p.2) Dividends and interests

Income for investment dividends are recognized when the right of shareholders to receive the corresponding payment has been established.

Interest income is accrued on a periodic basis taking as a reference the outstanding principal balance and the applicable effective interest rate.

(p.3) Costs and expenses

Generation costs and expenses are recognized as earned and are recorded in the periods which they relate to, regardless of the date of payment.

(q) Foreign currency

The Company's functional currency is U.S. Dollars (US$). Transactions in currencies other than U.S. Dollars are considered to be "foreign currency", and are recognized on the exchange rates prevailing at the date of transactions. At the end of each reporting period, balances of monetary items denominated in foreign currencies are translated using exchange rates prevailing at that time. The balances of non-monetary items accounted for at fair value that are denominated in foreign currencies are translated using the exchange rates applicable at the date the fair value was determined. The balances of non-monetary items that are recognized in terms of historical costs in foreign currencies are translated using exchange rates prevailing at the date of transactions.

Exchange differences arising on monetary items are recognized in the net income of the period in which they occur, except for exchange differences on transactions held in order to cover certain foreign currency risks, in those cases of operations designated for hedge accounting.

(r) Income tax

The expense for income tax involves the estimate current payable tax expense and the deferred tax.

Current income tax is calculated using tax rates that have been enacted by current tax laws applicable to net taxable income for the year.

Deferred income tax belongs to the amount expected to be recovered or paid on the temporary differences between the reported carrying assets and liabilities and their corresponding tax bases. Liabilities for deferred income taxes are generally recognized for all temporary taxable differences. Assets for deferred income taxes are generally recognized for all temporary deductible differences and tax credits, discounts and unrealized tax losses, until a moment in the future where it is probable for the Company to have enough taxable profit to make them effective. Such assets and liabilities are not recognized if the temporary differences proceed from goodwill or from initial recognition (unless it is a business combination) of other assets and liabilities in a transaction that does not affect the taxable income nor the accounting income.

The carrying amount of the deferred tax asset is reviewed by the end of each reporting period, and reduced to the extent that it is probable that the Company obtains enough future taxable income to recover the entirety or a part of such assets.

Deferred income tax assets and liabilities are measured with the tax rates expected to be applied in the period when the liability is settled or the asset realized, based on approved rates and tax laws, or whose approval process is virtually finished by the end of the reporting period. The measurement of such deferred taxes reflect tax implications that would derive from the way the Company expects, by the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred income taxes are recognized as income or expense, and are included in the net income of the year, except when they relate to items that are recognized in other comprehensive income or directly in equity; in that case, the current and deferred income taxes are also recognized in other comprehensive income or directly in equity, respectively.

(s) Cash and cash equivalent

Cash comprises cash and bank deposits of free availability. Cash equivalents include short-term financial investments with maturities of less than 30 days from the date of acquisition, are readily convertible into known amounts of cash, and are not subject to significant risks of changes in their value.

(t) Leases

A lease is classified as a financial lease if the terms of the agreement substantially transfer all the risks and benefits inherent to the ownership of the leased assets. Any other type of lease is classified as an operating lease.

For agreements qualifying as financial leases where the Company acts as lessee, leased property and equipment are initially recognized as Company's assets at the lowest between its fair value or the present value of minimum lease payments, at the beginning of its term. Property and equipment recorded as explained above are depreciated by applying the straight-line method based on the estimated useful life of similar own goods. Annual depreciation is recognized as expense. Financial charge is distributed among the periods comprised in the lease term. Corresponding obligations are recognized as a liability.

Payments of this type of leases are divided in two parts, respectively, representing financial charges and reduction of the corresponding liability. Total financial charge is distributed among periods comprised within the lease term, so as to obtain a constant interest rate in each period on the unamortized debt balance. Contingent payments are charged as expenses for the periods when incurred.

4. NEW STANDARDS AND INTERPRETATIONS INTERNATIONALLY ISSUED

(a) New IFRS and interpretations that did not significantly affect reported amounts and their disclosures in the current and previous year

The following standards, interpretations and amendments to current standards were published with mandatory application for accounting periods beginning on or after January 1, 2014, but were not relevant to the Company's operations:

- ***Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities.*** Amendments to IFRS 10 define investment entities and require that entities must comply with such definition, not to consolidate their subsidiaries, but t measure them at fair value through profit or loss in their separate and consolidated financial statements.

In order to qualify as an investment entity, the following conditions must be complied with:

- Obtaining funds from one or more investors with the purpose of rendering investment management professional services.
- Ensuring their investor(s) that the purpose of their business is to invest funds solely for capital appreciation performance, investment revenue, or both, and
- Measuring and assessing the performance of virtually all its investments at fair value.

Amendments to IFRS 12 and IAS 27 have been made in order to introduce new disclosure requirements for investment entities.

Due to the fact that the Company is not an investment entity (in accordance with the criteria established in IFRS 10, dated January 1, 2014), the application of these amendments has not affect the disclosures and amounts reported in the financial statements.

- ***Amendments to IAS 32 Offsetting financial assets and financial liabilities.*** The amendments clarify the requirements related to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneously realisation and settlement".

  The Company has evaluated if some of its financial assets or financial liabilities are considered within the offset classification, as per the criteria established in such amendments, and has concluded that the application of these amendments does not have a significant impact on the amounts recognized in the separate financial statements.

- ***Amendments to IAS 36 Recoverable Amount Disclosures for Non-financial Assets.*** The Amendments to IAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less cost of disposal. These new disclosures include fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required in IFRS 13 Fair Value Measurement.

  The application of these amendments has had little significant impact on the disclosures of the separate financial statements.

- ***Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting.*** The Amendments to IAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative designated as a hedging instrument is novated under certain circumstances. These amendments also clarify that any change to the fair value of derivatives, designated as a hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness.

  Due to the fact that the Company does not hold derivatives subject to novation, the extension of these amendments have not had an impact on disclosures or amounts recognized in the separate financial statements.

- ***IFRIC 21 Levies.*** This interpretation defines a levy and specifies that the obligating event that gives rise to a liability is the activity that triggers the payment of a levy, as identified by legislation. The interpretation provides guidance on how different levy agreements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has the present obligation to pay a levy that will be triggered by operating in a future.

The application of this interpretation has not had a significant impact on the disclosures of the amounts recognized in the separate financial statements.

(b) New IFRS and interpretations issued applicable after the date of presentation of financial statements

The following standards and interpretations have been published to be applicable for periods beginning after the date of presentation of these financial statements:

- ***IFRS 9 Financial Instruments.*** IFRS 9, published in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was later amended in October 2010 to include requirements for the classification and measurement of financial liabilities and derecognition, and in November 2013, it included new requirements for general hedge accounting. In July 2014, another revised version of IFRS 9 was issued, mainly to include: a) impairment requirements for financial assets, and b) limited changes to classification and measurement requirements by introducing a measurement category to "fair value with changes through other comprehensive income" (FVTOCI) for certain simple debtor instruments.

  Key requirements of IFRS 9 are as follows:

  - IFRS 9 requires that all recognized financial assets within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are later measured at their amortized cost or fair value. Specifically, debt instruments held within a business model in order to earn contractual cash flows, which hold contractual cash flows exclusively corresponding to payments of capital and interests over outstanding capital, are generally measured at their amortized cost at the end of subsequent accounting periods. Also, measured at fair value with changes in other comprehensive income are debt instruments held within a business model which objective is met when contractual cash flows are earned and financial assets are sold, and have contractual terms of the financial asset, it produces, in specific dates, cash flows that only comprise payments of capital and interests over outstanding principal balance. All other debt and equity investments are measured at fair value at the end of subsequent accounting periods. Also, under IFRS 9, entities may make an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an equity investment (not held for trading), only with an income for dividends generally recognized in net income.

  - With regard to measurement of financial liabilities designated to fair value with changes through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability, attributable to changes in the credit risk of the liability, is recognized in other comprehensive income, unless the recognition of change effects of credit risk of the liability in other comprehensive income originates or increases an accounting mismatch in profit or loss. Changes in fair value, attributable to credit risk of the financial liability, are not later reclassified in profit or loss. In virtue of IAS 39, the total amount in the fair value of the financial liability, designated at fair value through profit and loss, was recognized in profit or loss.

- With regard to impairment of financial assets, IFRS 9 requires an expected credit impairment loss model contrary to the incurred credit impairment loss model, in accordance with IAS 39. The credit impairment loss model requires that an entity accounts for expected credit losses and the changes in such losses each time the report is presented to reflect changes in credit risk since initial recognition. This means that it is not necessary that a credit event happens before credit losses are recognized.

- New general requirements for hedge accounting maintain three hedge accounting mechanisms that, currently, are available in IAS 39. In accordance with IFRS 9, the types of ideal transactions for hedge accounting are much more flexible, specifically, by expanding the types of instruments that are classified as hedging instruments and the types of risk components of ideal non-financial items for hedge accounting. Also, the effectiveness test has been reviewed and replaced by the "economic relationship" principle. A retrospective assessment is not necessary to measure hedge effectiveness. Improved disclosure requirements about risk management activities of an entity were also added to this standard.

Management believes that the application of IFRS 9, in the future, may have a material impact on the amounts that are reported with regard to the financial assets and financial liabilities of the Company. However, it is not feasible to provide a reasonable estimate of the impact of IFRS 9 until the Company conducts a detailed review.

- ***IFRS 14 Regulatory Deferral Accounts.*** Effective for the first financial statements in virtue of IFRS with annual periods beginning on or after January 1, 2016.

  IFRS 14 specifies the accounting for regulatory deferral account balances that arise from rate-regulated activities. The standard is available only to first-time adopters of IFRS who recognized regulatory deferral account balances under their previous GAAP. IFRS 14 permits eligible first-time adopters of IFRS to continue their previous GAAP rate-regulated accounting policies, with limited changes, and requires separate presentation of regulatory deferral account balances in the statement of financial position and in the statement of profit or loss and other comprehensive income.

  Disclosures are also required to identify the nature of, and risks associated with, the form of rate regulation that has given rise to the recognition of regulatory deferral account balances.

  The Company's Management believes that this standard will not have a significant impact on the separate financial statements.

- ***IFRS 15 Revenue from Contracts with Customers.*** In May 2014, IFRS 15 was published, which establishes a large and detailed model that will be used by entities to account for revenue arising from contracts with customers. IFRS 15 will replace the current income recognition guideline, including IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations as of the date this standard becomes effective.

The core principle of IFRS 15 is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, this standard provides a five-step model to account for revenue:

- Step 1: Identify the contract with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

In accordance with IFRS 15, an entity accounts for revenue when (or as) a performance obligation is satisfied, that is, when the “control” of goods or services based on a particular performance obligation is transferred to customers. More prescriptive guidelines have been added in IFRS 15 in order to address specific situations. Also, IFRS 15 requires broad disclosures.

Management of the Company believes that the application of IFRS 15, in the future, may have a material impact on reported amounts and disclosures of the Company’s separate financial statements. However, it is not feasible to provide a reasonable estimate of the impact of this standard until the Company conducts a detailed review.

- ***Amendments to IFRS 11 Joint Arrangements.*** Amendments to IFRS 11 provide guidance on how to account for the acquisition of a joint operation in which the activities constitutes a business as defined in IFRS 3 Business Combinations. Specifically, the amendments state that relevant principles on accounting for business combinations in IFRS 3 and other standards (for instance, in IAS 36 Impairment of Assets, regarding impairment testing of a cash-generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be used to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the participating parties that participates in the joint operation.

  A joint operator is also required to disclose significant information requested by IFRS 3 and other standards for business combination standards. The amendments to IFRS 11 are applied prospectively for annual periods beginning on or after January 1, 2016. The Company does not have joint arrangements so they believe that the application of these amendments will not have an impact on the separate financial statements.

- ***Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization***. The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for the amortization of an intangible asset. This presumption can only be rebutted in the following circumstances:

  - When an intangible asset is presented as a revenue-based method.
  - When it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are closely related.

  The amendments are applied prospectively for annual periods beginning on or after January 1, 2016. The Company now uses the straight-line amortization and depreciation method for property, plant, equipment and intangible assets, respectively. The Company's Management believes that the straight-line method is more appropriate to reflect the consumption of economic benefits inherent to pertinent assets; therefore, the Company does not anticipate that the application of these amendments to IAS 16 and IAS 38 will have a material impact on the separate financial statements.

- ***Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants.*** The amendments to IAS 16 and IAS 41 define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment, in accordance with IAS 16, instead of IAS 41. Farming activities of bearer plants are still accounted for according to IAS 41.

  Management of the Company does not believe that the application of these amendments to IAS 16 and IAS 41 will have a significant impact on the separate financial statements due to the fact that the Company is not engaged in agricultural activities.

- ***Amendments to IAS 27 Separate Financial Statements: Equity Method in Separate Financial Statements.*** These amendments reinstate equity method as an accounting option for investments in subsidiaries, joint ventures and associates in the separate financial statements of an entity. These amendments are effective for annual periods beginning on or after January 1, 2016. Early application is permitted.

  Management of the Company believes that this standard will not have a significant impact on the separate financial statements.

- ***Amendments to IAS 19 Defined Benefit Plans: Employee Contributions.*** The amendments to IAS 19 clarify how an entity should account for contributions made by employees or third parties that are linked to services to defined benefit plans, based on whether those contributions are dependent on the number of years of service provided by the employee.

  For contributions that are independent of the number of years of service, the entity may either recognize the as a reduction of the service cost in the period in which the related service is rendered, or to attributed them to the employee's periods of service using the method of estimated credit units. If the amount of contributions depends on the number of years of service, such contributions must be attributed to periods of service by the entity.

  Management of the Company does not believe that the application of these amendments to IAS 19 will have a significant impact on the separate financial statements

- ***Annual improvements to IFRS 2010-2012 cycle.*** Annual improvements to IFRS 2010-2012 cycle include some amendments to many IFRSs, which are detailed as follows:

  - Amendments to IFRS 2: (i) change the definitions of "conditions necessary for grant irrevocability" and "market conditions"; and (ii) add definitions for "grant performance conditions" and "service conditions", which were included before in the definition of "grant irrevocability conditions". The amendments to IFRS 2 are effective for share-based transactions which permitted application may begin on or after January 1, 2014.

  - Amendments to IFRS 3 explain that the contingent consideration, classified as an asset or liability, should be measured at fair value each period it is reported, regardless of being a financial instrument within the scope of IFRS 9, IAS 39 or a non-financial asset or liability. Changes to fair value (that are not adjustments in the measurement period) should be recognized as profit or loss. The amendments to IFRS 3 are effective for business combinations which acquisition may begin on or after July 1, 2014.

- Amendments to IFRS 8: (i) require that an entity discloses the management's judgment when applying aggregation criteria to operating segments, including a description of added operating segments and assessed economic indicators to determine that such segments have "similar economic characteristics"; and (ii) explain that a reconciliation of the total reportable segments' assets, with regard to the entity's assets, should only be delivered if the segments' assets are provided, regularly, to the chief operating decision maker.

- The amendments to the basis of conclusions of IFRS 13 clarify that queries about this standard and later amendments to IAS 39 and IFRS 9 do not remove the ability to measure receivables and payables at a short term, without any interest rate established in invoice amounts without discounting when such discount effect is not significant. Due to the fact that these amendments do not have an effective date, it is considered that they must be effective immediately.

- Amendments to IAS 16 and IAS 38 omit inconsistencies in accumulated depreciation/ amortization accounting when an item of property, plant and equipment or intangible asset is reassessed. Amended standards explain that the gross carrying amount is adjusted consistently to the revaluation of the carrying amount of the asset and that accumulated amortization/depreciation is the difference between the gross carrying amount and the asset amount, after considering accumulated impairment losses.

- Amendments to IAS 24 explain that a management entity that provides key management personnel services to the reporting entity or to the controlling party of the reporting entity are parties related to it. Therefore, the reporting entity should disclose as transactions of related parties the incurred amounts for the service paid or payable to the management entity to provide key management personnel services. However, the disclosure of compensation components is not required.

Management of the Company does not believe that the application of these amendments will have a significant impact on the separate financial statements

- ***Annual improvements to IFRS 2011-2013 cycle.*** Annual improvements to IFRS 2011-2013 cycle include some amendments to many IFRSs, which is detailed below:

  - Amendments to IFRS 3 explain that this standard is not applicable to accounting all types of joint arrangements in the financial statements of such joint arrangement.

  - Amendments to IFRS 13 explain that the exception scope of the investment portfolio to measure fair value of a group of financial assets and financial liabilities based on their exposure is applicable to all contracts that the scope includes and that are accounted for as per IAS 39 or IFRS 9, even if these contracts do not meet the definitions of financial assets or financial liabilities established in IAS 32.

- Amendments to IAS 40 clarify that IAS 40 and IFRS 3 are not mutually exclusive and that the application of both standards may be required. For this purpose, an entity that acquires an investment property must make a decision if:

  (a) The property meets the definition of investment property established in IAS 40, and
  (b) The transaction meets the definition of a business combination as per IFRS 3.

Management of the Company does not believe that the application of these amendments will have a significant impact on the separate financial statements.

5. FINANCIAL INSTRUMENTS AND RISKS

Categories of financial instruments

The Company's financial assets and liabilities are comprised as follows:

	2014	2013
	US$000	**US$000**
Financial assets:		
Loans and receivables:		
Cash and cash equivalents	40,535	10,049
Trade receivables	11,630	26,050
Other receivables and from related entities	3,020	2,394
Total	55,185	38,493
Financial liabilities:		
At amortized cost:		
Loans	187,796	209,559
Trade payables	6,859	6,842
Other payables to related entities	37	87
Derivative financial instruments in designated hedge relationships	2,224	1,221
Total	196,916	217,709

Financial risks

The activities of the Company expose it to a number of financial risks, which include market, credit, liquidity and capital risks. The Company's risk management program aims to minimize potential adverse effects in its financial performance.

Management of the Company is aware of the current market conditions and, based on its knowledge and expertise, controls the risks in compliance with policies approved by the Board of Directors. The most important aspects for risk management are:

(a) Market risk

Market risk is the risk that the fair value of the future flows of a financial instrument will fluctuate due to changes in the market prices. Market risks include two types of risks:

exchange rate risks and interest rate risks. In the case of the Company, the financial instruments affected by market risks are deposits and loans, which are exposed to currency and interest risks.

(i) Exchange rate risks

The Company has assets and liabilities in Peruvian Nuevos Soles; therefore, it is exposed to fluctuations in the exchange rate. The Company does not use derivative financial instruments to cover these risks because its main revenues are in US Dollars.

Net balances in foreign currency are shown below:

	2014	2013
	S/.000	S/.000
Assets:		
Cash and cash equivalents	18,656	4,476
Trade receivables	33,587	63,580
Income tax asset	15,266	21,651
Other receivables	2,768	2,806
Total	70,277	92,513
Liabilities:		
Trade payables	9,248	17,139
Other payables	10,048	16,543
Liabilities for employee benefits	8,439	6,963
Total	27,735	40,645
Net asset position	42,542	51,868

Balances of financial assets and liabilities denominated in foreign currency correspond to balances in Peruvian Nuevos Soles, are expressed in U.S. Dollars at the supply and demand exchange rate published by the Superintendence of Banking, Insurance and Private Pension Funds (SBS), in force at that date, which were US$0.3355 for S/.1.00 for buying and US$0.33456 for S/.1.00 for selling (US$0.3579 for S/.1.00, and US$0.3576 for S/.1.00, as of December 31, 2013, respectively).

In 2014, the Company recorded a net exchange difference loss of US$667 (US$ 1,103 in 2013).

Below you will find a detailed summary chart of the effects in profit before income tax, with a reasonable variation in the exchange rate, keeping all other variables constant:

	Increase (decrease in): Exchange rate	Effect in profit before income tax
	%	US$000
2014:		
US$ / Nuevos soles	10%	(1,297)
US$ / Nuevos soles	-10%	1,586
2013:		
US$ / Nuevos soles	10%	(2,062)
US$ / Nuevos soles	-10%	1,687

(ii) Interest rate risk

The Company's interest rate risk arises from long-term debts contracted at variable interest rates, which represent 77% of the financial debt (76% as of December 31, 2013). The Company uses derivative financial instruments to minimize this risk.

Management of the Company considers an increase of 50 basis points (+0.5%) in variable interest rate for the evaluation of interest rate risk.

A sensitivity analysis, assuming an increase in the variable interest rate equivalent to 50 basic points, keeping all other variables constant, and that debt amortizations have been in all cases the same during all the period, is presented as follows:

	Increase (decrease) in:	
	Results of the year	Net Equity
	US$000	US$000
2014:		
Loans at variable interest rates	(534)	(534)
Derivative financial instruments	173	731
Total	(361)	197
2013:		
Loans at variable interest rates	(717)	(717)
Derivative financial instruments	241	1,423
Total	(476)	706

The Company does not have any significant assets that generate interests.

(b) Credit risk

It is the risk that a counterpart cannot fulfill its obligations related to a financial instrument or sale contract, generating a financial loss for the Company. The Company is exposed to credit risks for its operating and financing activities, including bank deposits.

Credit risk related to receivables:

Management handles the clients' credit risk, subject to duly defined policies, procedures and controls. Balances of receivables are reviewed to ensure their recovery. As of December 31, 2014, the Company had 75 clients (70 clients as of December 31, 2013). Maximum exposure to credit risks as of the date of the statement of financial position is the value of each type of financial asset.

Credit risk related to financial instruments and bank deposits:

Management handles credit risks of balances with banks according to the Company's policies. Cash surplus investments are made with first-class financial entities. Maximum exposure to credit risks as of December 31, 2014 and 2013 is the carrying amount of cash and cash equivalent balances.

(c) Liquidity risk

Liquidity is controlled by matching the maturities of assets and liabilities, maintaining an adequate amount of financing sources and obtaining credit lines that allow them to carry out their activities normally. The Company has unused credit lines at the end of the period of US$40,280 (US$39,700 in 2013). Consequently, the Management considers the liquidity risk for the Company as of December 31, 2014 and 2013 as low.

Financial assets of the Company have current maturity.

An analysis of the Company's non-derivative financial liabilities classified according to due dates, considering the remaining period to be due, as of the date of the statement of financial position, is detailed below:

Financial liabilities	**Effective average interest rate**	**1 year**	**1 - 2 years**	**2 - years**	**More than 5 years**	**Total**
	%	**US$000**	**US$000**	**US$000**	**US$000**	**US$000**
2014:						
Loans	4.586%	25,633	19,010	18,422	124,731	187,796
Trade payables		6,859	-	-	-	6,859
Payables to related entities		37	-	-	-	37
Total		32,529	19,010	18,422	124,731	194,692
2013:						
Loans	4.610%	21,738	18,809	18,856	150,156	209,559
Trade payables		6,842	-	-	-	6,842
Payables to related entities		87	-	-	-	87
Total		28,667	18,809	18,856	150,156	216,488

As of December 31, estimated maturity of derivative financial instruments of the Company is as follows (undiscounted contractual amounts, including estimated interests):

	2014			
	Up to 1 year	From 1 to 5 years	More than 5 years	Total
	US$000	US$000	US$000	US$000
Income	4,103	18,552	28,475	51,130
Expenses	(5,217)	(19,703)	(28,477)	(53,397)
Contractual net flow	(1,114)	(1,151)	(2)	(2,267)
Discounted net flow	(1,112)	(1,121)	9	(2,224)

	2013			
	Up to 1 year	From 1 to 5 years	More than 5 years	Total
	US$000	US$000	US$000	US$000
Income	4,177	23,913	29,586	57,676
Expenses	(5,306)	(24,872)	(28,474)	(58,652)
Contractual net flow	(1,129)	(959)	1,112	(976)
Discounted net flow	(1,126)	(1,007)	912	(1,221)

(d) Capital risk management

The objectives of the Company at managing capital are to safeguard its ability to continue as going concern in order to generate returns to shareholders, benefits to other interest groups and maintain an optimal capital structure to reduce capital cost.

The Company monitors capital risk based on a leverage ratio, calculated dividing net debt by total equity. Within net debt, the Company includes obligations with banks and financial institutions, less cash and cash equivalents. Total equity includes share capital, reserves and retained earnings.

Leverage ratio was determined as follows:

	2014	2013
	US$000	US$000
Financial obligations	187,796	209,559
Cash and cash equivalents	(40,535)	(10,049)
Total net debt	147,261	199,510
Total equity	341,566	310,248
Net leverage ratio	43%	64%

(e) Fair value of financial instruments

Fair value is defined as the amount for which a financial instrument can be exchanged in a transaction between two willing parties, other than a forced sale or settlement; the best evidence of this value is its quotation, if any.

In case the quotation value is not available, fair value is estimated based on the quoted amount of a financial instrument with similar characteristics, the present value of expected cash flows, or other valuation techniques that are significantly affected by the diverse assumptions used. Although Management uses its best criteria to examine the fair value of these financial instruments, there are inherent weaknesses in every valuation technique. As a result, fair value may not be an approximate estimate of the net realizable value or of the liquidation value.

As of December 31, 2014 and 2013, the Company's Management considers that the accounting values of its financial instruments are similar to their estimated market fair values, based on the methods and assumptions listed below:

- The item of cash and cash equivalents does not represent a significant credit or interest rate risk; therefore, the accounting value is assumed to be similar to its fair value.

- Receivables and payables have expiration terms of less than one year; for this reason, their fair value is not considered to be significantly different from their accounting value.

- Long-term financial obligations are at variable rates, which reflect their market values. Management believes that the fair value of other financial liabilities is similar to their accounting value due to its short-term maturity.

- Derivative financial instruments are recorded at their fair value; thus, there are no differences with their accounting value.

(f) Fair value measurements recognized in the statement of financial position

The following table provides an analysis as of December 31, 2014 and 2013, of financial instruments measured at fair value after its initial recognition, grouped in levels 1 to 3, depending on the degree in which fair value is observable.

- Level 1 fair value measurements correspond to quoted prices (unadjusted) in asset markets for identical assets or liabilities;
- Level 2 fair value measurements correspond to variables different from the quoted prices included in Level 1, that are observed for the asset or liability, directly (that is, as prices) or indirectly (that is, derivatives of prices);
- Level 3 fair value measurements correspond to variables used for the asset or liability that are not based in observable market data (non-observable variables).

	Level 1	Level 2	Level 3	Total
2014:	**US$000**	**US$000**	**US$000**	**US$000**
Financial liabilities:				
Derivative instruments in designated hedge relationships	-	2,224	-	1,221
2013:				
Financial liabilities:				
Derivative instruments in designated hedge relationships	-	1,221	-	1,221

The Company holds transactions with derivative financial instruments with local financial entities, which provide information about interest rates obtained from Bloomberg. Periodically, the Company conducts evaluations using retrospective models in order to measure the effectiveness of the derivative (interest rate swap).

There have not been transfers between levels 1 and 2 during the year.

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised as follows:

	2014	2013
	US$000	**US$000**
Cash and banks (a)	6,287	2,610
Time deposits (b)	34,248	7,439
Total	40,535	10,049

(a) Cash and banks mainly comprise checking accounts and correspond to balances in local banks, in Peruvian Nuevos Soles and U.S. Dollars, and are of free availability.

(b) As of December 31, 2014, time deposits correspond to funds that the Company holds in local banks, which accrue interests at an annual average rate of 0.25% in U.S. Dollars and 4.08% in Peruvian Nuevos Soles, with maturities due in less than one month. As of December 31, 2013, time deposits corresponded to funds in local banks, which accrued interests at an annual average rate of 0.30% in U.S. Dollars and 3.80% in Peruvian Nuevos Soles, with maturities due in less than1 month.

7. TRADE RECEIVABLE (NET)

Trade receivables (net) are comprised as follows:

	2014	2013
	US$000	US$000
Third parties		
Free clients	7,486	4,688
COES clients	1,751	1,132
Distributing companies clients	2,824	20,712
	12,061	26,532
Estimate for impairment of receivables	(431)	(482)
Total	11,630	26,050

The collection term from clients ranges between 7 and 30 days. Penalties according to averate interest rates published by the SBS are applied to overdue balances.

The Company evaluates the credit limits of its new clients through an internal analysis of its credit history, and sets credit limits for each client. These credit limits are reviewed once a year. 95% of trade receivables is focused in 35 important clients. There are no other clients who represent, individually or collectively, more than 5% of the total balance of trade receivables.

Estimate for impairment of receivables is determined in accordance with policies established by Management, considering the evidence of the debtor's financial difficulties that increase, beyond the normal, the risk of uncollectibility of outstanding balances, so that its amount is considered by the Management appropriate to cover eventual losses in the receivables as of the date of the financial statement. Also, for those receivables exceeding 360 days, the Company performs specific evaluations to determine whether there is objective evidence of loss in the value of receivables. The estimated amount is recognized with charge to net income for the year. Later recoveries are recognized with credit to net income for the year. The basic criteria to write off impaired financial assets against such valuation account are: (i) depletion of the collection procedures, including guarantee enforcement, and (ii) the debtor's financial difficulties that evidence the impossibility to collect the receivables.

As of December 31, 2014, trade receivables include overdue balances for which estimates for impairment of receivables have not been established because there has not been a significant change in credit history and Management of the Company considers that the amounts are still recoverable.

A summary of the age of these balances is shown below:

	2014 US$000	2013 US$000
Overdue up to 30 days	1,153	5,716
Overdue between 30 and 60 days	157	13
Overdue between 60 and 90 days	17	359
Overdue between 90 and 360 days	28	325
Overdue for over 360 days	179	736
Total	1,534	7,149

Changes in the estimate for impairment of receivables as of December 31, 2014 and 2013 are detailed as follows:

	2014 US$000	2013 US$000
Opening balance	482	383
Exchange difference	(30)	(33)
Additions	12	135
Write-offs	(33)	(3)
Closing balance	431	482

The Company maintains an estimate for impairment of receivables that Management considers appropriate according to the potential risk of uncollectable receivables. The age of receivables and the situation of clients are constantly monitored to ensure the appropiate provision in the financial statements. Credit risk concentrations related to trade receivables are limited due to the nature of the client portfolio. Consequently, the Company's Management considers that, as of December 31, 2014 and 2013, no additional estimates are required for impairment of receivables.

8. OTHER RECEIVABLES

Other receivables are comprised as follows:

	2014 US$000	2013 US$000
Rendering of services	639	1,003
Receivables from personnel	45	20
Interest receivables from energy sales	6	6
Claims	490	485
Others	83	46
Total	1,263	1,560

9. BALANCES AND TRANSACTIONS WITH RELATED ENTITIES

The main shareholder of the Company is Statkraft Holding S.R.L. (before SN Power Holding S.R.L.), part of the group of companies owned by Statkraft IH Invest AS.

In 2014 and 2013, the Company made the following significant transactions with related entities in normal course of operations:

Services	Related entity	Relation	2014		2013	
			Income	Expenses	Income	Expenses
			US$000	US$000	US$000	US$000
Personnel services	Empresa de Generación Eléctrica Cheves S.A.	Subsidiary	1,687	-	778	-
Personnel services	Statkraft Perú Holding S.R.L.	Intermediate Parent Company	77	-	77	-
Consulting services	Statkraft IH Invest AS (before SN Power Invest AS)	Final Parent Company	38	-	9	-
Consulting services	Himal Power Limited Nepal	Other related parties	-	-	-	313
Consulting services	Statkraft Energía Do Brasil Ltda	Other related parties	32	-	-	-
Financial interests	Statkraft Perú Holding S.R.L.	Intermediate Parent Company	13	-	77	-
Financial interests	Statkraft IH Invest AS (before SN Power Invest AS)	Final Parent Company	-	96	2	-
Total			1,847	96	943	313

The increase in personnel services provided to Empresa de Generación Eléctrica Cheves S.A. corresponds to technical support provided while supervising the final stage (handover period) of the construction of Cheves Hydroelectric Power Station.

As a result of these transactions, and of other of minor importance, the following receivable and payable balances were:

	2014	2013
	US$000	US$000
Non-trade receivables:		
Empresa de Generación Electrica Cheves S.A.	1,409	574
Statkraft IH Invest AS (before SN Power Invest AS)	38	-
Statkraft Perú Holding S.R.L (before SN Power Perú Holding S.R.L.)	310	222
Hidroelectrica La Higuera S.A.	-	38
Total	1,757	834
Non-trade payables:		
Statkraft IH Invest AS (before SN Power Invest AS)	37	87
Total	37	87

(a) Receivables and payables to related entities do not generate interests and do not have specific maturities or guarantees.

(b) According to Peruvian laws for the energy sector, transactions with related entities cannot be made under more favorable conditions than those with third parties. Management of the Company considers that they have fulfilled all requirements established in the legal provisions in force for transactions with related entities.

(c) The Meeting of the Board of Directors, held on October 16, 2013, approved the authorization of a financing to Statkraft Perú Holding S.R.L. (before SN Power Perú Holding S.R.L.) for up to US$3,000 or its equivalent in Peruvian Nuevos Soles at a TAMEX or TAMN rate of two business days prior to the disbursement date. As of December 31, 2014, the Company has uncollected loans given to Statkraft Peru Holding S.R.L. for US$310, without specific maturity.

(d) The wages of the Company's key personnel in 2014 and 2013 was US$723 and US$880, respectively, and is presented in the "Administrative expenses" item of the income statement.

10. INVESTMENT IN SUBSIDIARY

The investment in subsidiary is comprised as follows:

	Share	2014	2013
	%	US$000	US$000
Empresa de Generación Eléctrica Cheves S.A.	88.7458%	169,250	169,250
Total		169,250	169,250

Empresa de Generación Eléctrica Cheves S.A (at pre-operational stage) was incorporated in Peru in 1995 and is engaged in energy and electric power generating activities. To date, Cheves Hydroelectric Project is at construction stage, which is located in the watershed of rivers Huaura and Checras. The Company's Management believes that the project will start its operations in April 2015. Statkraft Perú S.A. is in charge of administrative support services.

Relevant financial information corresponding to the financial statements of Empresa de Generación Eléctrica Cheves S.A. as of December 31, 2014 and 2013 is presented below:

	2014	2013
	US$000	US$000
Total asset	591,111	467,414
Total liability	429,918	299,401
Equity	161,193	168,013
Expenses	(26,515)	(3,325)
Income tax	8,485	(3,524)
Net loss	(18,030)	(6,849)
Total other comprehensive income of the year	(6,819)	2,461

11. PROPERTY, PLANT AND EQUIPMENT (NET)

For the years ended on December 31, 2014 and 2013, the movement of property, plant and equipment was follows:

	Land	Buildings and other constructions	Machinery and equipment	Vehicles	Furniture and fixtures	Sundry computing equipment	Constructions in progress	Total
	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000
COST:								
As of January 1, 2013	3,674	159,054	98,195	904	602	15,013	10,375	287,817
Additions	-	-	-	-	-	-	5,911	5,911
Disposals	-	-	(8)	(24)	(22)	(25)	-	(79)
Transfers	-	4,689	2,179	795	34	2,029	(9,726)	-
As of December 31, 2013	3,674	163,743	100,366	1,675	614	17,017	6,560	293,649
Additions	-	-	-	-	-	-	9,043	9,043
Disposals	-	(137)	(165)	-	(5)	(59)	-	(366)
Transfers	-	1,195	2,360	79	1,300	960	(5,894)	-
As of December 31, 2014	3,674	164,801	102,561	1,754	1,909	17,918	9,709	302,326
ACCUMULATED DEPRECIATION:								
As of January 1, 2013	-	46,132	41,822	835	408	7,071	-	96,268
Additions	-	3,378	3,133	37	85	1,527	-	8,160
Disposals	-	-	(6)	(5)	(10)	(18)	-	(39)
As of December 31, 2013	-	49,510	44,949	867	483	8,580	-	104,389
Additions	-	3,519	3,169	284	41	1,602	-	8,615
Disposals	-	(64)	(68)	-	(4)	(36)	-	(172)
As of December 31, 2014	-	52,965	48,050	1,151	520	10,146	-	112,832
NET COST:								
As of December 31, 2014	3,674	111,836	54,511	603	1,389	7,772	9,709	189,494
As of December 31, 2013	3,674	114,233	55,417	808	131	8,437	6,560	189,260

(a) As of December 31, 2014 and 2013, the item of machinery and equipment includes the assets of hydroelectric power stations of Pachachaca and La Oroya, related to the agreements and commitments undertaken by the Company under the Convention of Right Recognition for End-Use of Water and Easement on Infrastructure, as described in Note 25. This Convention does not set a specific date for the execution of the project; for this reason, Management, based on estimates made by its internal legal counsels, has estimated an approximate period of 5 years of use, which ends in 2020. In such date, SEDAPAL is expected to exercise its rights of the water of the Yauli River and the Pomacocha Lake, for the Mark II Project (hereinafter "the Project").

As of December 31, 2014 and 2013, the Company has recognized a provision for dismantling expenses of the hydroelectric power stations mentioned above of US$662 and US$625, respectively (Note 16 (a)); also, the net value of the power stations is US$8,381 and US$9,046, respectively.

(b) Works in progress include additions for the acquisition of fixed assets for the assembly of Nueva Morococha Sub-Station for US$7,748, which were transferred to the corresponding items of fixed asset. Ending balance mainly comprises the investment in the following projects: (a) US$4,908 for the modernization of telecommunications equipment and systems; (b) US$1,149 for the implementation of remote control for hydroelectric power stations; (c) US$1,506 for remote control of dams and water intakes; and (d) US$1,711 for camps in hydroelectric power stations.

(c) Depreciation of property, plant and equipment has been distributed as follows:

	2014	2013
	US$000	US$000
Generating cost (Note 20)	7,963	7,458
Administrative expenses (Note 20)	652	702
Total	8,615	8,160

(d) In compliance with the policies established by the Management, as of December 31, 2014, the Company has hired insurance policies for the following insured risks: all-risk, machinery breakdown, damages for shutdown; strikes, riots, civil commotion, deliberate damage, vandalism and terrorism, for US$683.9 million (US$684.2 million in 2013). In Management's opinion, hired insurance policies comply with the standards used by equivalent companies in the sector, and adequately cover the risk of eventual losses from any damages that might occur, considering the type of assets owned by the Company.

(e) As of December 31, 2014 and 2013, the Company holds property, plant and equipment that guarantee the compliance of obligations through an asset trust agreement (Note 13 (a)). Also, the Company has transferred in trust the ownership of these assets, whose net value as of December 31, 2014 and 2013 amounts to US$145,417 and US$156,451, respectively.

(f) As of December 31, 2014, the Company holds some vehicles acquired under financial lease contracts with cost and accumulated depreciation of US$900 and US$310, respectively (Note 13), (cost and accumulated depreciation of US$823 and US$21, respectively, as of December 31, 2013). The purchase option, effective on the maturity date of such contracts, is US$1.

12. GOODWILL

Goodwill comprises:

	2014	2013
	US$000	US$000
Acquisition of Empresa de Electricidad de los Andes S.A.	132,876	132,876
Acquisition of Cementos Norte Pacasmayo Energía S.A.A.	6,918	6,918
Total	139,794	139,794

Goodwill corresponds to the difference between the acquisition price paid by Inversiones Elegia S.R.L and the fair value of Empresa de Electricidad de los Andes S.A., determined in 2001. Subsequently, Inversiones Elegia S.R.L changed its corporate name to Electroandes S.A., which merged with Empresa de Generación Eléctrica Cahua S.A. on January 1, 2010, creating this Company.

Impairment test for goodwill is based on the value in use of the cash-generating unit, which is related to, by using a discounted cash flow model. The cash flow is obtained from the budget approved by the Board of Directors. On this basis, Management of the Company, along with the approval of the Corporate Management in Norway, has prepared the cash flow for the following five years. These cash flows do not include restructuring costs that the Company is not committed to perform or that imply future investments that will increase the capacity of the assets that belong to the cash-generating unit which is being evaluated. Recoverable value is sensitive to the discount rate used for discounted cash flows, as well as estimated cash flows and estimated growth used to extrapolate such results after the five-year period. As a result of such estimate, the recoverable value of goodwill exceeds its accounting value, and for that reason, it was not necessary to recognize a decrease of such asset as of December 31, 2014 and 2013.

13. LOANS

Description	Authorized amount	Placement date	Interest rate	Payment terms	Capital maturity	2014	2013
			%			US$000	US$000
Banco de Crédito del Perú (Tranche A) (a)	US$120,000,000	September, 2010	3.75% + Libor 180 days	Biannual	August, 2022	92,239	100,427
DnB NOR BANK ASA - Atlantic Security Bank (Tranche B) (b)	US$70,000,000	January,2011	4% + Libor 180 days	Biannual	January, 2018	51,450	58,625
Banco de Crédito del Perú S.A. (c)	US$50,000,000	November, 2012	5.95%	Biannual	November, 2024	43,515	46,739
Banco de Crédito del Perú S.A. (d)	US$1,800,000	May, 2013	3.60%	270 days	February, 2014	-	1,800
Banco Continental BBVA S.A (e)	PEN 3,200,000	May, 2013	4.70%	300 days	February, 2014	-	1,145
Banco Continental BBVA S.A (Finance lease) (f)	PEN 2,300,062	December, 2013	6.60%	Monthly	December, 2016	530	823
Banco Continental BBVA S.A. (Financial lease)	PEN 220,220	June, 2014	6.95%	Monthly	June, 2017	62	-
Total						187,796	209,559
By maturity:							
Current portion:						25,633	21,738
Non-current portion:						162,163	187,821
Total						187,796	209,559

(a) The General Shareholders' Meeting, held on July 19, 2010, approved to obtain a medium-term credit for up to US$120,000 or its equivalent in Peruvian Nuevos Soles. The Company has entered into a Creditors' Framework Contract, which regulates the relationship between guaranteed creditors (Banco de Crédito del Peru, DnB NOR Bank ASA, Atlantic Security Bank and Investment Bank). After that, on December 28, 2012, under the Contract of Assignment of Contractual Position, DnB Nor Bank ASA Agency in Chile transferred its contractual position to DnB Nor Bank ASA. Also, on November 27, 2012, Credit Agricole transferred 100% of its contractual position in favor of Atlantic Security Bank.

Guaranteed creditors have the following guarantees, in order to support the compliance with payment obligations, derived from financing:

- Asset trust; by which the Company as trustor transfers in trust to Fiduciaria S.A. the following assets and rights which comprise the trust: concessions and authorizations of generation and transmission, and the assets corresponding to those concessions and authorizations.

- Cash flow trust; by which the Company as a trustor transfers in trust to Fiduciaria S.A. the credit rights and cash flows arising from the credit rights and lost profit rights of insurance policies contracted.

The main commitments assumed by the Company for the financing are to maintain at the end of each semester:

- A financial leverage ratio not greater than 1.5 times, considering as such the total financial debt over net equity.

- A debt service coverage ratio not greater than 1.0 times.

- A coverage ratio of guaranteed obligations not less than 1.2.

- A debt ratio not higher than 4.75 times in 2012, 4.25 times in 2013 and 4.0 times as from 2014.

Management believes that the Company has successfully complied with such commitments as of December 31, 2014 and 2013.

(b) After fulfilling with previous conditions for the disbursement of tranche B, in January and April 2011, the Company received the first and second disbursements for US$50,000 and US$20,000, respectively.

(c) In the meeting of the Board of Directors held on August 13, 2012, it was agreed to obtain a medium-term loan for up to US$50,000, at an effective annual fixed rate of 5.95%.

(d) In the meeting of the Board of Directors held on May 21, 2013, it was agreed to obtain a medium-term loan for up to US$1,800, at an effective annual fixed rate of 3.60%, which was paid in February 2014.

(e) In the meeting of the Board of Directors held on May 21, 2013, it was agreed to obtain a medium-term loan for up to PEN S/ 3,200, at an effective annual fixed rate of 4.70%, which was paid in February 2014.

(f) In the meeting of the Board of Director held on December 27, 2013, it was agreed to obtain a medium-term financial lease for up to PEN S/.2,300 for the acquisition of vehicles, at an effective annual fixed rate of 6.60%.

14. TRADE PAYABLES

Trade payables comprise as follows:

	2014	2013
	US$000	US$000
Purchase of energy and transmission fees	1,470	4,307
Purchase of property, plant and equipment	2,805	584
Consulting and safety	471	447
Maintenance	877	262
Vehicles	211	205
Materials	45	26
Others	980	1,010
Total	6,859	6,842

15. OTHER PAYABLES

Other payables comprise as follows:

	2014	2013
	US$000	US$000
Taxes	1,655	2,280
Withholdings as per Law 28749	427	421
Social inclusion fund	244	124
Offset over demand assignation costs	905	584
Others	131	336
Total	3,362	3,745

16. PROVISIONS

Provisions comprise as follows:

	2014 US$000	2013 US$000
Provision for dismantling (a)	981	1,015
Penalty processes	1,233	1,397
Labor claims	258	373
Penalties	182	418
Technical service fees	293	286
Restructuring program	-	178
Total	2,947	3,667

(a) Provision for dismantling as of December 31, 2014 and 2013 includes: i) dismantling provision of Pariac Hydroelectric Power Station 1 for US$266 (US$337 in 2013 for hydroelectric power stations 1 and 3); ii) dismantling provision for transformers (with PCB content) for US$53, and iii) dismantling provision for La Oroya and Pachachaca power stations for US$662 (US$625 in 2013), respectively.

The movement of these provisions for the years ended December 31, 2014 and 2013 is detailed as follows:

	Dismantling US$000	Labor claims US$000	Penalty processes US$000	Penalties US$000	Technical services US$000	Restructuring program US$000	Total US$000
As of January 1, 2013	1,140	373	545	227	151	-	2,436
Provisions for the year	137	-	1,222	191	135	1,772	3,457
Reversion of the year	(262)	-	(370)	-	-	(1,594)	(2,226)
As of December 31, 2013	1,015	373	1,397	418	286	178	3,667
Provisions for the year	36	-		-	79	-	115
Reversion of the year	(70)	(115)	(88)	(236)	(72)	-	(581)
Payments made	-	-	(76)	-	-	(178)	(254)
As of December 31, 2014	981	258	1,233	182	293	-	2,947

17. LIABILITIES FOR EMPLOYEE BENEFITS

Liabilities for employee benefits comprise as follows:

	2014	2013
	US$000	**US$000**
Employees' profit sharing	1,467	1,102
Vacations	789	754
Bonus payables	434	488
Severance indemnities	84	88
ESSALUD	45	50
Other	5	11
Total	2,824	2,493

18. DERIVATIVE FINANCIAL INSTRUMENTS

Swap contracts

As of December 31, 2014 and 2013, the Company holds an interest rate hedge contract (swap), which was designated as a cash flow hedge, and approved by the General Shareholders' Meeting held on July 19, 2010.

The purpose of the hedge is to reduce the risk of variations in interest rates and to fix the variable interest rate of Tranche "A" of the Creditors' Framework Contract (Note 13). The hedge amount corresponds to 50% of Tranche "A" and, as of December 31, 2014 and 2013, is US$46,305 and US$50,217, respectively. The hegde will due in August 2022.

The Company biannually pays or receives (at each payment date of the loan interest) the difference between LIBOR rate of market applicable to the loan in said period, and fixed rate agreed in the hedge contract. Flows effectively received or paid by the Company are recognized as a correction of the financial expense for the period of the hedged loan. In 2014 and 2013, the Company has recognized a larger financial expense (Note 21) for the final settlements of derivative financial instruments of US$1,212 and US$1,248, respectively.

The Company assessed hedge effectiveness at the beginning of the operation and at the end of the year, resulting in an adjustment to the accumulated fair value (loss) as of December 31, 2014 and 2013 of US$2,067 y US$1,221, which has been recorded with charged to equity account "Other equity reserves", net of deferred income tax of US$1,448 and US$738, respectively.

19. EQUITY

(a) Issued share capital

As of December 31, 2014 and 2013, share capital is represented for 719,660,948 common shares, authorized, issued and paid, with a par value of S/1.00 per share (approximately equivalent to US$0.274).

(b) Legal reserve

According to the General Business Law in Peru, it is required that a minimum of 10% of distributable profit obtained each year after deducting income tax is allocated to a legal reserve until it reaches an amount equal to 20% of the share capital. This legal reserve can be allocated to offset loss or can be capitalized; in both cases, it must be restored.

In 2014 and 2013, the legal reserve was increased under the following agreements:

- In the General Shareholders' Meeting held on March 27, 2014, it was approved to transfer 10% of the income available from 2013, amounting to US$2,930.

- In the General Shareholders' Meeting held on March 27, 2013, it was approved to transfer 10% of the income available from 2012, amounting to US$3,348.

As of December 31, 2014, the transfer of the legal reserve, equivalent to the 10% of net income of 2014 for (in thousands) US$3,203 has not been performed yet, it must be transferred in 2015, previous approval of the General Shareholders' Meeting.

(c) Retained earnings

In accordance with the provisions set forth in Legislative Decree 945 dated December 23, 2003, which modified the Income Tax Law, domiciled legal entities that distribute dividends or any other form of profit distribution, shall withhold 4.1% of the amount to be distributed, except when such distribution is made in favor of domiciled legal entities. There are not restrictions for dividend remittance or capital repatriation to the foreign investors.

(d) Other equity reserves

Corresponds to the accumulated recognized losses and gains for changes in fair value of derivative financial instruments accounted for as cash flow hedges, whereby changes in its value are reflected initially in equity and later to net income, whenever the hedge transaction also affects net income.

20. COSTS AND EXPENSES PER NATURE

Costs and expenses per nature comprise as follows:

	Generation and transmission costs		Sale expenses		Administrative expenses	
	2014	2013	2014	2013	2014	2013
	US$000	US$000	US$000	US$000	US$000	US$000
Depreciation (Note 11)	7,963	7,458	-	-	652	702
Purchase of energy, power and main and secondary fees	20,135	37,751	-	-	-	-
Services rendered by third parties	4,898	5,283	374	377	4,211	3,978
Personnel	5,598	6,336	1,005	980	3,796	3,985
Taxes	1,052	1,077	-		1,500	2,256
Sundry management expenses	2,689	1,746	45	49	778	2,165
Consumption of supplies	195	319	-	-	1	3
Severance compensation	273	330	55	55	193	196
Amortization	-	8	-	-	9	9
Doubtful collection	-	-	-	-	12	133
Total	42,803	60,308	1,479	1,461	11,152	13,427

Variation of the purchase of energy, power and main and secondary fees corresponds to a lower demand by third parties, as a response of the termination of contracts for energy sale with some important clients, such as Edelnor for 42MW in December 2013.

21. OTHER INCOME

Other income comprises as follows:

	2014	2013
	US$000	US$000
Services for specific projects	3,434	-
Services to related entities (Note 9)	1,834	864
Maintenance and measurement services to third parties	1,680	1,168
Sundry	183	240
Total	7,131	2,272

The Company entered in an agreement with Minera Chinalco Perú S.A. (hereinafter “Chinalco”), under which Morochocha Hydroelectric Power Station, owned by the Company, was relocated. The amount of all disbursements related to the relocation of this station, including taxes, was US$3,434, and was paid by Chinalco.

22. FINANCIAL INCOME AND EXPENSES

For the years ended December 31, financial income and expenses include the following:

	2014	2013
	US$000	US$000
Financial income:		
Interests on bank deposits	102	80
Interests on loans to related entities (Note 9)	13	79
Interests on trade receivables	56	55
Total	171	214

	2014	2013
	US$000	US$000
Financial expenses:		
Interests on loans	10,869	12,121
Other financial expenses	118	138
Bank commissions	15	17
Total	11,002	12,276

23. INCOME TAX

(a) Income tax regime:

(i) Tax rates

Income tax rate for domiciled legal entities in Perú is 30%. Next year, the Law that promotes Economy Reactivation will be effective, under which applicable income tax rate will be gradually modified. See paragraph (iii).

Legal entities domiciled in Peru are subject to an additional rate of 4.1%, over the amount that could be considered as an indirect disposition of income, including amounts charged to expenses and not declared income; that is, expenses that could have benefited shareholders, partners, among others; expenses not related to the business; expenses charged to shareholders, partners, among others, which are assumed by the legal entity.

(ii) Transfer Pricing

For the purposes of calculating income tax and value-added tax (VAT), legal entities engaged in transactions with related parties and with or through companies resident in territories with low or no taxation should: (a) submit an annual informative affidavit of the transactions made with the referred companies, if the amount of these transactions is higher than S/.200 (equivalent to US$67), and (b) prepare a Transfer PricingTechnical Study, along with supporting documentation thereof, if the amount of their revenue exceeds S/.6,000 (equivalent to US$2,007) and if they have engaged in transactions with related entities for more than S/.1,000 (equivalent to US$335).

Both obligations shall be payable in the event that at least one transaction to, from or through countries with low or no taxation has been made.

The Company conducted the corresponding Transfer Pricing Technical Study for 2013 and they are now conducting the corresponding study for 2014. Management believes that no significant liabilities will be generated for the financial statements as of December 31, 2014 and 2013, with relation to transfer pricing.

(iii) Significant amendments to income tax in Peru

Below we present a summary of the most relevant amendments made by the Tax Administration during the year ended December 31, 2014:

On December 31, 2014, the Congress of the Republic of Peru approved, within the scope of the Law that promotes Economy Reactivation, the amendment of the Single Revised Text of Income tax Law.

In other matters, the Law modifies the tax on third category income recipients domiciled in the country over their net income, with rates of 28% for 2015 and 2016, 27% for 2017 and 2018, and 26% for 2019 and from then on. It also modifies tax on legal individuals that are not domiciled in the country for dividends and other distribution forms of profit received by legal individuals established in Article 14, with rates of 6,8% for 2015 and 2016, 8% for 2017 and 2018, and 9,3% for 2019 and from then on.

(b) The net income tax expense in the statement of income comprises:

	2014	2013
	US$000	**US$000**
Current income tax	(8,519)	(6,254)
Deferred income tax	(5,534)	(5,873)
Total	(14,053)	(12,127)

(c) The current income tax expense corresponds to the income tax payable, calculated by applying a 30% rate on taxable income, after deducting the statutory employee’s profit sharing Legislative Decree 892, 5%.

(d) Tax situation

The income tax returns for 2010 to 2013, and the one to be submitted for 2014, have not been reviewed by the tax administration yet, which is empowered to conduct such reviews within four years immediately after the submittal date of the pertinent tax returns.

Due to the possible interpretations that the tax authority may have of applicable legal norms, it is not possible to determine to date whether liabilities for the Company will arise or not from the reviews to be conducted, hence, any eventual higher tax or surcharge which could arise from fiscal reviews, would be applied to results for the year in which they are determined. In Management’s opinion, any eventual additional liquidation of the tax, which could arise from fiscal reviews, would not be significant for the financial statements as of December 31, 2014 and 2013.

(e) Reconciliation of the effective income tax rate is detailed as follows:

	2014		2013	
	Amount	Percentage	Amount	Percentage
	US$000	%	US$000	%
Profit before income tax	46,081	100.00	41,431	100.00
Income tax calculated according to tax rate	13,824	30.00	12,429	30.00
Tax effect on additions and deductions:				
Non-deductible expenses	(703)	(1.53)	783	1.89
Effect of income tax rate change	295	0.64	-	-
Effect for translation	637	1.39	(1,085)	(2.62)
Current and deferred income tax recorded according to effective rate	14,053	30.50	12,127	29.27

(f) Recoverable income tax

Balances receivable from the tax administration related to income tax are detailed as follows:

	2014	2013
	US$000	US$000
RECEIVABLE		
Income tax receivable	5,347	7,744

24. DEFERRED INCOME TAX

The movement in net liability for deferred income tax and the temporary differences that gave rise to it is detailed as follows:

	Opening balance	Additions / recoveries: Net profit for the year	Additions / recoveries: Equity	Rate change	Closing balance
	US$000	US$000	US$000	US$000	US$000
As of December 31, 2014					
Temporary difference:					
Asset:					
Sundry provisions	2,088	(756)	-	-	1,332
Derivative financial instruments	315	-	304	-	619
Liability:					
Estimate for impairment of receivables	(145)	145	-	-	-
Difference in basis of fixed assets and effect for translation	(10,040)	(4,628)	-	(295)	(14,963)
Total	(7,782)	(5,239)	304	(295)	(13,012)

	Opening balance	Additions / recoveries: Net profit for the year	Additions / recoveries: Equity	Closing balance
	US$000	US$000	US$000	US$000
As of December 31, 2013				
Temporary difference:				
Asset:				
Sundry provisions	2,112	(24)	-	2,088
Derivative financial instruments	1,300	-	(985)	315
Liability:				
Estimate for impairment of receivables	(115)	(30)	-	(145)
Difference in basis of fixed assets and effect for translation	(4,221)	(5,819)	-	(10,040)
Total	(924)	(5,873)	(985)	(7,782)

25. OPERATING LEASE

The Company has entered into operating lease agreements for (1) the lease of its current administrative offices for a period of not less than 10 years, counted as from July 1, 2014, with increases in fees based on the IPC (Consumer Price Index).

As of December 31, the Company has hired the following minimum lease installments with lessors:

	2014	2013
	US$000	US$000
Less than 1 year	537	421
Between 1 and 2 years	554	521
Between 3 and 10 years	4,428	-
	5,519	942

Expenses provided by the lease of administrative offices are US$318 in 2014 (US$371 in 2013).

26. COMMITMENTS

(a) Energy sale commitments

As of December 31, 2014, the Company has 12 contracts in force with free customers and 12 with regulated customers, with maturities that range between 2015 and 2022. Power in peak hours agreed in these contracts is 231 MW in total as of December 31, 2014.

(b) CENTROMIN

On December 11, 2001, Empresa Minera del Centro del Perú S.A. (CENTROMIN) and Inversiones Elegia S.R.L. (now the Company) entered into a purchase and sale contract for the shares of Empresa de Electricidad de los Andes S.A. (Note 1) under which certain commitments and guarantees remain in force, including the following:

- The Company agreed to assume the position of CENTROMIN in the Convention of Right Recognition for End-Use of Water and Easement on Infrastructure, entered into with Empresa de Servicio Potable y Alcantarillado de Lima (SEDAPAL) in December 1996, for a 10-year period, and extended in 2007 for six additional years. The Company acknowledges that under such convention, Pachachaca and La Oroya Hydroelectric Power Stations may be affected, waiving their sanitation right or any indemnity arised thereof.

- The Company agreed to assume any liability, obligation or contingency, or if applicable, will be entitled to any benefit associated with COES, that may arise after the execution of the contract mentioned above, even if the events that generated them had occurred before such date.

(a) Guaranty granted

In order to guarantee obligations of monthly lease payment for their administrative offices, the Company has granted guaranties in favor of Patrimonio Fideicomiso Edificio Pardo y Aliaga DL 861, through Banco Continental, for US$130.

27. CONTINGENCIES

Main contingencies related to tax, legal and labor processes are:

(a) Labor processes

As of December 31, 2014 and 2013, the Company has received labor claims from former employees who request payment of social benefits for US$3,984. These claims are in prove and single hearing stage as also in analysis process to determine their contingency degree. Management and legal consultants of the Company consider that no significant liabilities will arise, and that they have recorded a provision for US$ 258 as of December 31, 2014 (Note 16). It is worth mentioning that the contract of sale of shares entered into on December 11, 2001 with CENTROMIN establishes that the latter should reimburse to the Company the amounts that the Judiciary order to pay to the plaintiffs for labor processes, up to December 11, 2003.

(b) Comments about income tax for periods from 1999 to 2000 – Empresa de Generación Eléctrica Cahua S.A.

As a result of the tax reviews conducted by tax authorities for 1997, 1998, 1999 and 2000, the Company received in December of 2003, determination and fine resolutions for income tax and payments on account of income tax. The amount of the tax debt, updated as of December 31, 2014, is approximately S/.63,100 (equivalent to US$21,110), (S/.55,200 as of December 31, 2013, equivalent to US$19,742). The process is still pending of resolution by SUNAT.

In this regard, Management and its legal consultants consider that the observations raised by SUNAT have no legal foundation, so they expect a favorable resolution for the Company. However, given that in this case discussion would focus only on the technical aspects of valuation of fixed assets, it is estimated that the resettlemet of values may give rise to a liability that, to date, legal consultants quantify as S/. 3,417 (equivalent to US$1,143 and US$1,222 in 2014 and 2013, respectively). This amount has been recorded by the Company.

Management and its legal counsel believe that the results of claim processes will be resolved favorably for the Company and, therefore, no additional liabilities will arise to those recognized in the financial statements as of December 31, 2014 and 2013.

(c) Other matters

As of December 31, 2014 and 2013, as disclosed in Note 3 (n), the Company holds possible contingencies for approximately US$415. The Management and its legal consultants estimate that there are strong legal arguments to obtain a favorable outcome and, consequently, no additional liabilities shall arise other than the ones recognized in the financial statements as of December 31, 2014 and 2013.

28. NON-MONETARY TRANSACTIONS AND STATEMENTS OF CASH FLOWS

Investment activities that did not generate cash disbursements and affected assets and liabilities for the years ended December 31 are summarized as follows:

	2014	2013
	US$000	**US$000**
Acquisition of property, plant and equipment by financial leases	79	823

29. SUBSEQUENT EVENTS

We are not aware of any significant event that has occurred between the closing date of these financial statements and the issue date of the separate financial statements, which may significantly affect them.