



Orazul Energy Perú S.A. and Subsidiaries

Consolidated Financial Statements

December 31, 2021 and 2020

(Including Independent Auditors' Report)

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors Orazul Energy Perú S.A. and Subsidiaries

Introduction

We have audited the accompanying consolidated financial statements of Orazul Energy Perú S.A. and Subsidiaries which comprise the consolidated statements of financial position as of December 31, 2021 and 2020, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the years the ended, and notes 1 to 30, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing approved for its application in Peru by the Dean's Council of the Peruvian Professional Associations of Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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



Opinion

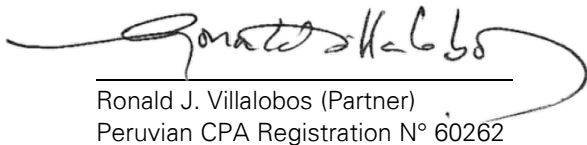
In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Orazul Energy Perú S.A. and Subsidiaries as of December 31, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards issued by International Accounting Standards Board.

Lima, Peru

February 24, 2022

Countersigned by:

Caipo y Asociados

A handwritten signature in black ink, appearing to read 'Ronald J. Villalobos', with a horizontal line underneath it.

Ronald J. Villalobos (Partner)
Peruvian CPA Registration N° 60262

Orazul Energy Perú S.A. and Subsidiaries

Consolidated Financial Statements

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Orazul Energy Perú S.A. and Subsidiaries
Consolidated Statements of Financial Position
As of December 31, 2021 and 2020

<i>In thousands of U.S. dollars</i>	<i>Note</i>	2021	2020
Assets			
Current assets			
Cash	6	20,849	153,445
Trade receivables	7	16,916	24,642
Account receivables from related parties	28	261	419
Other receivables	8	341	2,811
Inventories	10	1,335	5,629
Income tax receivable	9	2,390	2,315
Prepaid expenses		221	312
Total current assets		42,313	189,573
Non-current assets			
Intangible assets	13	496,019	512,747
Property, plant and equipment	11	206,685	268,207
Right of use assets	11	266	892
Gas investments	12	-	64,444
Deferred income tax assets	18	169,556	38,112
Other assets		96	375
Other receivables	8	-	388
Total non-current assets		872,622	885,165
Total assets		914,935	1,074,738

<i>In thousands of U.S. dollars</i>	<i>Note</i>	2021	2020
Liabilities			
Current liabilities			
Trade payables	14	6,540	9,095
Other payables	15	7,657	16,417
Account payables to related parties	28	1	766
Lease liabilities	16	148	312
Income tax payable	9	-	1,585
Total current liabilities		14,346	28,175
Non-current liabilities			
Debentures	17	358,715	542,396
Lease liabilities	16	148	634
Account payables to related parties	28	21,713	22,710
Asset retirement obligation	19	9,551	22,141
Other liabilities		374	496
Deferred income tax liabilities	18	-	9,794
Total non-current liabilities		390,501	598,171
Total liabilities		404,847	626,346
Equity			
Share capital	20	385,036	196,086
Additional capital		8,857	8,857
Other reserves		5,675	5,675
Legal reserves		30,799	21,941
Retained earnings		79,721	215,794
Equity attributable to owners of the Company		510,088	448,353
Non-controlling interest		-	39
Total equity		510,088	448,392
Total liabilities and equity		914,935	1,074,738

The notes on pages 5 to 64 are an integral part of these consolidated financial statements.

Orazul Energy Perú S.A. and Subsidiaries

Consolidated Statements of Profit or Loss and Other Comprehensive Income
For the years ended December 31, 2021 and 2020

<i>In thousands of U.S. dollars</i>	<i>Note</i>	2021	2020 (*)
Continuing operations			
Revenue	23	91,243	84,609
Cost of sales (excluding depreciation)	24	(21,461)	(18,628)
Depreciation	11, 12, 13	(13,214)	(13,678)
Gross profit		56,568	52,303
Administrative expenses	24	(4,166)	(4,277)
Impairment loss on trade receivables		(43)	-
Other income	25	1,786	745
Other expenses		(192)	(375)
Operating profit		53,953	48,396
Finance income		232	358
finance costs	26	(39,253)	(37,151)
Net foreign exchange difference	4.C.iii	(1,108)	(1,143)
Net finance costs		(40,129)	(37,936)
Profit before income tax		13,824	10,460
Income tax income	18	131,439	111,986
Profit from continuing operations		145,263	122,446
Discontinued operation			
(Loss) profit from discontinued operation, net of tax	5	(83,567)	127,127
Profit for the period		61,696	249,573
Attributable to			
Controlling shareholders		61,735	249,579
Non-controlling interest		(39)	(6)
Total comprehensive income for the period		61,696	249,573

(*) Comparative information has been re-presented due to a discontinued operation. See note 5

The notes on pages 5 to 64 are an integral part of these consolidated financial statements.

Orazul Energy Perú S.A. and Subsidiaries
Consolidated Statements of Changes in Equity
For the years ended December 31, 2021 and 2020

		Attributable to owners of the Company						Total equity attributable to owners of the Company	Non-controlling Interest	Total equity	
		Number of shares (note 20)	Share capital (note 20)	Additional capital (note 29(c))	Legal reserves (note 20)	Other reserves (note 29(c))	Retained earnings				
In thousands of U.S. dollars		Note									
Balance as of January 1, 2020			651,224,289	196,086	8,857	-	6,438	(11,844)	199,537	45	199,582
Total comprehensive income for the period											
Profit for the period			-	-	-	-	-	249,579	249,579	(6)	249,573
Total comprehensive income for the period			-	-	-	-	-	249,579	249,579	(6)	249,573
Transactions with owners of the Company											
Legal reserves		20	-	-	-	21,941	-	(21,941)	-	-	-
Other reserves			-	-	-	-	(763)	-	(763)	-	(763)
Total transactions with owners of the Company			-	-	-	21,941	(763)	(21,941)	(763)	-	(763)
Balance as of December 31, 2020			651,224,289	196,086	8,857	21,941	5,675	215,794	448,353	39	448,392
Balance as of January 1, 2021			651,224,289	196,086	8,857	21,941	5,675	215,794	448,353	39	448,392
Total comprehensive income for the period											
Profit for the period			-	-	-	-	-	61,735	61,735	(39)	61,696
Total comprehensive income for the period			-	-	-	-	-	61,735	61,735	(39)	61,696
Transactions with owners of the Company											
Capitalization of retained earnings			690,801,200	188,950	-	-	-	(188,950)	-	-	-
Legal reserves		20	-	-	-	8,858	-	(8,858)	-	-	-
Total transactions with owners of the Company			690,801,200	188,950	-	8,858	-	(197,808)	-	-	-
Balance as of December 31, 2021			1,342,025,489	385,036	8,857	30,799	5,675	79,721	510,088	-	510,088

The notes on pages 5 to 64 are an integral part of these consolidated financial statements.

Orazul Energy Perú S.A. and Subsidiaries
Consolidated Statements of Cash Flows
For the years ended December 31, 2021 and 2020

<i>In thousands of U.S. dollars</i>	<i>Note</i>	2021	2020
Cash flows from operating activities			
Collections of energy generation and transmission		137,790	151,970
Collections of hydrocarbons		4,956	8,562
Payment to suppliers		(54,170)	(72,156)
Payment of royalties		(4,676)	(4,232)
Payment to employees		-	(586)
Interest collects		158	473
Cash generated from operating activities		84,058	84,031
Income tax paid		(5,529)	(7,385)
Net cash from operating activities		78,529	76,646
Cash flows from investing activities			
Proceeds from sale of investments	5	31,523	148,324
Acquisition of property, plant and equipment		(6,552)	(5,819)
Acquisition of intangible assets		(7,672)	(7,742)
Net cash from investing activities		17,299	134,763
Cash flows from financing activities			
Payment of notes	17.B	(186,802)	-
Interests paid	17.B	(36,084)	(30,938)
Payment of withholding tax derived from interest		(2,522)	(3,641)
Payment to related parties' loan – interest	17.B	(1,000)	(64,000)
Payment of lease liabilities	17.B	(379)	(418)
Net cash used in financing activities		(226,787)	(98,997)
Net (decrease) increase in cash		(130,959)	112,412
Cash as of January 1		153,445	41,160
Effects of movements in exchange rate on cash held		(1,637)	(127)
Cash as of December 31	6	20,849	153,445

The notes on pages 5 to 64 are an integral part of these consolidated financial statements.

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Consolidated Financial Statements
December 31, 2021 and 2020

1. Background and Business Activity

A. Corporate Information

Orazul Energy Perú S.A. (hereinafter, "the Company," "OEP" or "Orazul") is a subsidiary of Orazul Energía (UK) Holdings Ltd. which owns 99.99% of voting shares which are representative of its issued capital stock.

As part of a reorganization plan within the Group, the Company executed the following transactions:

- On August 2, 2017, the Company acquired an additional 12.76% of Orazul Energy Group S.A. (hereinafter "OEG") from Orazul Energía (España) Holding S.L. (which previously acquired the interest of Duke Energy Corporation in 2016) for the total amount of US\$ 126,000 thousand, increasing its ownership to 99.99%.
- On August 16, 2017, the Company merged by absorption with Orazul Energy Egenor S. en C. por A., which was one of its main subsidiaries in Peru.
- During 2017 and 2018, the Group executed its plan to sell the operating businesses located in Central America (Guatemala and El Salvador) and Chile respectively.

On August 23, 2019, it was approved the spin-off of OEG's investment in Orazul Energy Hidrocarburos S.A. as initial contribution to a new holding company in the Group, Orazul Energy Group II S.A.C. (hereinafter "OEG II") with effective date beginning September 1, 2019. The objective was to create two independent entities within the Group to control the transmission and hydrocarbon business separately.

On August 24, 2020, the Company and Orazul Energía (UK) Holdings Ltd. sold its transmission business in Peru, represented by 100% ownership in OEG, owner of 99.99% of the shares of Etenorte S.R.L. and Eteselva S.R.L., to Interconexión Eléctrica - ISA Peru. The total consideration after working capital adjustments amounted to US\$ 158,254 thousand. (Note 5).

On October 1, 2021, the Company signed a Stock Purchase Agreement with Nautilus Partners III Perú S.A.C., a special purpose vehicle of Nautilus Energy Partners LLC, to sell the gas to power business in Peru, represented by 100% ownership in OEG II, for a total consideration of US\$ 41,796 thousand. The sale included the Company's indirect ownership in the thermal power generation and hydrocarbon companies, Termoselva S.R.L. and Aguaytía Energy del Perú S.R.L. The total amount was paid in October 4, 2021. The sale was compliant with the requirements of the Company's notes indenture and all requirements for related party transactions.

The Group business main activity is the generation and commercialization of electrical energy. The Group has a total capacity of 376 MW as follows:

Plant	Company	Source used to operate power station	Capacity (MW)	Location
Cañón del Pato	Orazul Energy Peru	Hydropower	266	Huallanca, Ancash
Carhuaquero	Orazul Energy Peru	Hydropower	110	LLacma, Cajamarca
			376	

B. Subsidiaries

As of December 31, 2021 and 2020, the subsidiary and the percentage of interest owned by the Company are detailed below:

	Direct equity interest	
	2021	2020
Orazul Soluciones S.A.C.	99.99	-
Holding		
OEG II	-	99.99

In addition, OEG II have the following subsidiaries:

	Indirect equity interest	
	2021	2020
OEG II subsidiaries		
Holdings		
Orazul Energy Hidrocarburos S.A.	-	99.98
Operational		
Aguaytía Energy del Perú S.R.L.	-	99.98
Termoselva S.R.L.	-	99.98

(a) Orazul Soluciones S.A.C.

The Company owns 99.999% of Orazul Soluciones S.A.C., incorporated on September 10, 2021, with the purpose of carrying out power generation, transmission and commercialization activities as well as providing energy solutions services to customers in general. As of December 31, 2021, there were no movements.

(b) Orazul Energy Group II S.A.C.

OEG II is engaged in (directly or through or in association with third parties) investing in and holding securities, including, but not limited to, shares representing the capital of other companies.

Orazul Energy Hidrocarburos S.A. (hereinafter, "OEH")

OEH is engaged in (directly or through or in association with third parties) investing in and holding securities, including, but not limited to, shares representing the capital of other companies.

Aguaytía Energy del Peru S.R.L. (hereinafter, "Aguaytía")

Aguaytía owns a natural gas field located in the central rainforest of Perú (concession Block 31-C), from which obtains dry natural gas and natural gas liquids. Gas liquids are processed at the Fractioning Plant which produces liquefied petroleum gas (LPG) and natural gasoline. Dry natural gas is used by its subsidiary, Termoselva S.R.L., for the generation of electrical energy. Natural gasoline is sold to Perenco Peru Petroleum Limited Sucursal del Perú ("Perenco"). LPG is sold to wholesalers and distributors, which perform their activities in the central rainforest and highlands of the country.

Termoselva S.R.L. (hereinafter, "Termoselva")

This subsidiary main activity is power generation and commercialization. Termoselva operates its thermoelectric power plant in Ucayali exclusively with dry natural gas provided by Aguaytía and sell power to regulated and free customers in the Peruvian territory that are part of the National Interconnected Electrical System (SEIN, for its acronym in Spanish) in which Termoselva participates.

Orazul Energy Perú S.A. and Subsidiaries

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License Agreement for the production of hydrocarbons (Block 31-C)

This agreement allows Aguaytia to produce hydrocarbons in the area known as Block 31-C, where currently there are two producing wells and three gas reinjection wells. Other relevant aspects of the License Agreement are indicated as follows:

- (i) The term of the License Agreement is for 30 years counted from the subscription date of the agreement (March 30, 1994), which can be extended up to 40 years upon agreement of Aguaytia and Perupetro on behalf of the Peruvian government.
- (ii) Aguaytia agreed to comply with a minimum work schedule, which was entirely completed in 1998. This schedule included, among others, drilling and operation of wells, gas extraction and injection, construction of a gas processing plant and facilities for fractioning natural gas liquids and energy generation.
- (iii) On July 1, 2020, Aguaytia and Perupetro signed an addendum of the License Contract. Once completed (a) and (b) detailed below, the Contract Extension would be granted for ten (10) additional years, until March 2034:
 - (a) Perform an exploration program including the reprocessing of seismic data, with an investment of US\$ 0.7 millions. To be executed at least before July 2022.
 - (b) Perform 150 km of 2D seismic or 95km² of 3D seismic for a total investment of US\$ 7.5 million. To be executed at least before July 2023.
 - (c) Additionally, the following commitments:
 - Supply up to 2 million ft³ /day of natural gas for the gas massification of Ucayali.
 - Environmental protection: Aguaytia will be responsible for the preparation and execution of the abandonment plan according to applicable regulation.
 - If it is determined that exploration and development opportunities are feasible technically and economically, according to the Company's standards and returns expectations, the Company is committed to drill an exploratory well.
- (iv) Pursuant to the Organic Hydrocarbons Law and the Regulations for the Application of Royalties and Compensations, Aguaytia pays a royalty on a biweekly basis and applies a percentage on the valuation of production of supervised hydrocarbons (natural gas and natural gas liquids), as defined in the License Agreement.

In July 2013, Aguaytia initiated an arbitration process against Perupetro requesting a readjustment of the royalties that the Company paid for the exploitation of resources produced from Block 31-C.

On December 28, 2016, the Court issued a final decision where they accepted the request of Aguaytia to readjust the price of the natural gas royalty. The changes to these royalties are in force since January 1, 2017.

- (v) Taxes
On March 30, 1994, Aguaytia entered into a Legal Stability Agreement with the Peruvian government, under which the tax regime was guaranteed for gas operation and processing activities, as from the subscription date of the License Agreement until 2024, as well as according to specific standards established in this regard by the Organic Hydrocarbons Law and its amendments, during the term of the License Agreement.

As a benefit of this Legal Stability Agreement, the financial statements of Aguaytia have been prepared according to the accounting records, which are carried in U.S. dollars, pursuant to paragraph 5, article 87°, of the Peruvian Tax Code.

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- (vi) Other rights
On behalf of the Peruvian government, the Central Reserve Bank of Peru guarantees Aguaytia the availability and convertibility of U.S. dollars.

Amounts of the financial statements of the Subsidiaries

Summary of the financial statements of the Subsidiaries as of December 31, 2020, prepared under International Financial Reporting Standards (IFRS), before elimination for consolidation purposes, are presented below:

<i>In thousands of U.S. dollars</i>	December 31, 2020
Subsidiaries	
Aguaytía del Perú S.R.L.	
Total assets	138,020
Total liabilities	(17,364)
Equity	120,656
Profit for the period	8,967
Termoselva S.R.L.	
Total assets	78,099
Total liabilities	(12,543)
Equity	65,556
Profit for the period	10,433
Orazul Energy Hidrocarburos S.A.	
Total assets	112,720
Total liabilities	(912)
Equity	111,808
Profit for the period	13,421
Orazul Energy Group II S.A.	
Total assets	109,503
Total liabilities	(43)
Equity	109,460
Profit for the period	12,559

Changes in the Company's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries were recorded as equity transactions. The carrying amounts of the Company's interests and non-controlling interests were adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests were adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

When the Company loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognized in other comprehensive income in relation to such subsidiary are accounted for as if the Company had directly disposed of the related assets or liabilities of the subsidiary. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as fair value on initial recognition for subsequent accounting, when applicable, and cost on initial recognition of an investment in an associate or a joint venture.

Orazul Energy Perú S.A. and Subsidiaries

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C. Impact of COVID-19

In March 2020, the World Health Organization declared the spread of the coronavirus or COVID-19 as a global pandemic. In response, the Peruvian government ordered certain measures to contain pandemic leading to partial lockdowns of economic activities with restriction of the mobility of people and the suspension of work activities, among others. The Group's operations required to remain open for business at the highest level to provide the vital electrical service for the country. Therefore, in general, the pandemic had not significant effects on the Group's financial position, financial performance, and cash flows as of and for the year ended December 31, 2021 and 2020.

As of December 31, 2021, the Group's Management has maintained measures adopted since 2020 related to security, continuity of operations and financial risk management, such as:

Operational

The Group has taken extraordinary measures to limit or mitigate the contracting of the virus, adapting best practices from large public service and medical organizations; and ensures full compliance with legal measures being adopted by the Peruvian Government.

The Group developed contingency plans to face this emergency and ensures its full implementation. Such plans include:

- Implementation of personnel rotation plans in line with applicable travel restrictions and labor law.
- Secure supply of all necessary equipment and supplies to allow the work of operating teams in our plants.
- Ensure the mechanisms are implemented to communicate timely and effectively all instructions to be followed during this emergency.
- Home-office for employees and directives wherever activities allow it, and curfews and mobility restrictions apply.
- Mechanisms to secure adequate and safe transport of personnel and supplies to and from operating facilities, minimizing use of public transport.
- Periodic health-monitoring systems wherever employees are operating.
- All contingency procedures are being shared with contractors performing essential tasks, ensuring their adequate compliance.

The Group is also coordinating to ensure adequate cash management during the current situation. Two factors to maintain financially the continuity of business is debt management and liquidity. The following is a brief description of the status:

Debt Management

The Group's total gross debt of US\$ 363 million correspond to long-term notes that only requires interest payments in the next years. Debt service amounts are secured by significant cash flow from our operations.

The Group is current on each debt instrument and meets all its financial obligations and expects to maintain current and in compliance throughout the existing turmoil.

Liquidity

During this period, the Group is managing its cash in a conservative manner and has been taking several measures to protect liquidity and to maintain continuity of business, as well as to be prepared for any unplanned disruptions. Over the next months, the Group will continue monitoring closely the evolution of cash flow and to be extremely cautious with its liquidity.

The Group ensures timely payment of local obligations: suppliers, contractors, providers of services, etc. It is critical to maintain working capital flow of our suppliers and level of service.

Orazul Energy Perú S.A. and Subsidiaries

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The Group will continue to be proactive and attentive to the evolution of the market by keeping a close and systematic communication with all financial stakeholders. The Group will periodically inform the evolution of the operations, debt management and liquidity as matters progress.

Finally, the Group will continue to provide electrical service to all of its customers while maintaining safe its employees and service personnel.

2. Operations Regulation and Legal Standards Affecting the Electric Sector

The Group is within the scope of various rules governing its activities. Failure to comply with these rules may result in the imposition of sanctions on the Group affecting it both financially and operationally. The Group's Management, through its commercial and legal management, monitors and assesses compliance with regulations and claims filed.

Main regulations affecting the Group's activities are:

A. Electricity Concessions Law

In Peru, the electricity sector is regulated under the Electricity Concessions Law, Decree Law 25844, enacted on November 19, 1992; its regulation, Executive Order 009-93-EM, enacted on February 25, 1993; and its supplementary standards and amendments, one among them being Law 28832, the Law to Guarantee the Efficient Development of Electricity Generation.

According to the Law of Electricity Concessions, the National Interconnected System (Sistema Interconectado Nacional – SEIN, for its Spanish acronym) is divided into three main segments: power generation, transmission and distribution.

In addition, according to the Law to Guarantee the Efficient Development of Electricity Generation, the operations of the power generation plants and transmission systems are subject to the provisions of the Committee of Economic Operation of the National Interconnected System (Comité de Operación Económica del Sistema Interconectado Nacional - COES-SINAC; for its Spanish acronym). The COES-SINAC coordinates their operation at minimum cost, guaranteeing the security of the supply of electricity and the best use of energy resources, and planning the development of the SEIN and the administration of the short-term market. The COES-SINAC establishes the values of the capacity and energy transfers between the generators.

B. Law to Guarantee the Efficient Development of Electricity Generation

In July 2006, the Peruvian Government issued Law 28832, the Law to Guarantee the Efficient Development of Electricity Generation, with one of its main objectives to: (1) maintain the economic principles used in Law 25844 and add new measures to facilitate competition in the wholesale market; (2) reduce government intervention in establishing power generation tariffs; (3) allow power generation tariffs for regulated power consumers to reflect a competitive market, facilitating the construction of new generation plants when required; and (4) ensure a sufficient supply of power by reducing the power system's exposure to the risks of high prices and rationing inherent to situations of undersupply of natural gas or transportation congestion.

One of the main changes introduced by the Law is in the mechanism of tender offers for the electricity distribution companies to enter into power supply contracts with power generation companies to supply the public electricity service. This rule established a mechanism that promotes investments in new power generation capacity through long-term contracting at fixed prices with distribution companies.

Orazul Energy Perú S.A. and Subsidiaries

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C. Environmental preservation regulations

According to the Law of Electricity Concessions (Decree Law 25844) and the General Environmental Law (Law 28611), the Government designs and applies the policies and standards necessary for the adequate conservation of the environment and of the nation's cultural heritage. Additionally, it ensures the rational use of natural resources in the development of activities relating to the generation, transmission, and distribution of electricity and hydrocarbon activities. In this sense, the Ministry of Energy and Mines approved the Regulation of Environmental Protection in Electricity Activities (Executive Order 29-94-EM) and the Regulation of Environmental Protection in Hydrocarbon Activities (Executive Order 039-2014-EM).

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

As of December 31, 2021 and 2020 the Group Management estimates that, in the event that a contingency arises related to environmental management, it would not be material.

D. Technical Standards

Technical Quality Standards of Electricity Services

Executive Order 020-97-EM approved the Technical Quality Standard of the Electricity Services (Norma Técnica de Calidad de los Servicios Eléctricos – NTCSE, for its Spanish acronym), which established the minimum quality levels of the electricity services and those related to the power generation, transmission, and distribution subject to the regulation of prices, applicable to power supply subject to a free price regime, in all that both counterparties have not stated within their agreement.

The NTCSE uses measurement and tolerance procedures to establish quality standards for the electricity service and public lighting service, assigning the responsibility for its supervision to OSINERGMIN and ordering its compliance by the electricity companies, as well as the clients of the sector. Likewise, it regulates the application of penalties and compensations in cases of non-compliance to parameters established by the NTCSE. The Law 28832 grants COES-SINAC authority to assign responsibilities in case of breach of the NTCSE, as well as calculate the corresponding compensations.

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

Official Document "Resolución Directoral" 025-2008-EM/DGE, dated August 8, 2008, modified sub-section 7.1.3 of the "Technical Standard for the Coordination of the Real Time Operation of the Interconnected Systems", which basically establishes that the rationing of electricity will be carried out by prioritizing the electricity supply for the public electricity service.

Technical standard for the real time exchange of information for the operation of the national interconnected electrical system

Official Document "Resolución Directoral" 243-2013-EM/DGE, dated November 27, 2013, approved the Technical Standard for the Real Time Exchange of Information for the Operation of the National Interconnected Electrical System, which established the technical responsibilities and the procedures related to the operation of the ICCP Network of the SEIN (RIS) for the real time exchange of information between the Control Center of the COES and the Control Centers of the members of the SEIN.

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E. Anti-monopoly and Anti-oligopoly Law

The Anti-monopoly and Anti-oligopoly Law in the Electricity Sector, Law 26876, was issued in November 1997, which establishes that vertical integration over 5% or horizontal integration over 15% that occur in companies that develop activities of generation, transmission, and distribution of electricity, will be subject to a prior authorization procedure in order to avoid concentrations that could affect competition in the electricity market.

Resolution 012-99/INDECOPI/CLC established conditions in defense of free competition and transparency in the sector. In Management's opinion, this standard does not affect the Company's operations. As mentioned in Note 1, I Squared Capital Advisors (US) LLC is required to obtain authorization from Indecopi, the Peruvian antitrust authority, before acquiring control over certain Peruvian entities in the acquisition, including the Company.

In November 2019, Emergency Decree 013-2019 was issued and established the general regime of prior control of business concentration operations. Subsequently, this Decree was replaced by Law 31112. This law replaces Law 26876 (Electricity sector).

F. Emergency Decree Assuring Continuity in the Provision of Electricity Services

Due to short-term constraints in the gas supply and power transmission systems, which were generating distorting price signals in the spot market, the Government of Peru issued Emergency Decree 049-2008, dated December 17, 2008, extended by Emergency Decree 079-2010, Law 30115 and Law 30513. Pursuant to this decree, COES is required to simulate energy spot prices without accounting for limitations due to shortage in supply and transportation of natural gas and for limitations on the transmission system. The latter scheme caps spot prices at a maximum amount per megawatt hour. Power generation companies with units that are called to dispatch and have a variable cost higher than the spot price determined pursuant to the referenced emergency decree are compensated for the difference in their cost by transmission surcharges imposed on all end consumers of the SEIN (i.e., regulated and non-regulated customers) and collected by distribution companies.

Additionally, such decree regulates the allocation to power generators of mandatory energy supplies without a contract. Such mandatory supplies are allocated to power generators based on their annual efficient firm energy less their energy sales per contract. The allocation of mandatory supplies without a contract will not generate economic losses to power generators since the demand shall pay an additional fee for the energy of these mandatory supplies when their supplying costs exceed Busbar tariffs.

Emergency decrees are legislative statutes that are exceptionally issued by the Executive branch of the Government of Peru, which can only be issued on circumstances and in areas specified in the Peruvian Constitution and are effective for a limited time. The aforementioned government decree was in force until October 1, 2017.

From October to the end of 2017, the COES had to calculate the Short-term Marginal Costs using the same models used to elaborate the daily operational program, with some adjustments. In addition, the COES had to reallocate the congestion charges paid by the generators.

Afterwards, the Supreme Decree No. 033-2017-EM established that the Regulation of the Wholesale Electricity Market, approved by Supreme Decree No. 026-2016-EM and the resolutions issued by OSINERGMIN regarding the Wholesale Electricity Market that approve, modify or repeal Technical Procedures of COES were effective from January 1, 2018.

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G. Standard "Rates and compensations for secondary transmission systems (STS) and complementary transmission systems (CTS)"

OSINERGMIN through Resolution No. 164-2016 OS/CD, dated June 30, 2016, approved the new standard "Procedure for allocation of Responsibility Payment of STS and CTS".

Under the previous methodology, only the "Relevant Power Generators" have assumed payment of STS and CTS; however, the new Resolution eliminates this concept and therefore all power generators would pay even transmission facilities that do not use.

Notwithstanding the above, the Resolution establishes a transitional period from May 2017 to April 2021 to reduce the impact of this measure established.

H. Single Distribution Rate, Supreme Decree 082-2009-EM

Supreme Decree 082-2009-EM, modified by Article 4° of Supreme Decree 048-2008-EM, introduced a mechanism to apply the Single Distribution Rate of Natural Gas applicable to power generators located in the concession area of the natural gas supplier of Lima and Callao. It establishes compensation mechanism for natural gas concessionaires through a single rate instead of individual distribution rates.

I. Resolution that sets busbar prices applicable to the period from May 1, 2021 to April 30, 2022

Published on Apr 15, 2021, by means of Resolution OSINERGMIN N° 067-2021-OS/CD, thereby establishing Busbar prices and their corresponding Nodal Electricity Factors and associated Power Loss Factors, which are effective from May 1, 2021 to April 30, 2022.

J. Value of the Applicable Discount Factor (FDA)

Published on April 28, 2016, by means of Resolution OSINERGMIN 074-2017-OS-CD. It established the value of the Applicable Discount Factor (FDA) from May 1, 2017 to April 30, 2018; such a factor is applicable to the natural gas transport rate. In the same way, through Resolution OSINERGMIN 062-2018-OS-CD, published on April 27, 2018, OSINERGMIN established the FDA applicable from May 2018 to April 2019.

K. Wholesale electricity market

Supreme Decree No. 026-2016-EM dated July 2, 2016: New regulation of the wholesale electricity market (MME, for its Spanish acronym). COES administrates the MME and it includes the Short-Term Market (MCP, for its Spanish acronym), ancillary services and other collateral payments necessary for the operation of the Peruvian Interconnected System (SEIN).

Participants authorized to sell in the MCP are the power generators members of the COES through the dispatch of their respective power plants (dispatch decided by the COES based on a marginal cost merit order).

Participants authorized to buy in the MCP are:

- Power Generators to supply their respective PPAs;
- Power Distributors to meet the demand of its non-regulated users (free clients), up to 10% of the maximum demand recorded by the total non-regulated users in the last 12 months; and
- Large Users, to meet up to 10% of its maximum demand in the last 12 months,
- The above percentage may be modified by Supreme Decree.

The participants must have guarantees or a top credit rating to ensure the payment of all of their obligations in the MME, according to the respective procedure. This measure does not apply to the generators, except that they fail the payment of their obligations in the power and energy transfers in the COES.

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The Supreme Decree No. 033-2017-EM established that the Regulation of the Wholesale Electricity Market, approved by Supreme Decree N° 026-2016-EM, be effective as of January 1, 2018. The Resolution No. 209-2017-OS/CD postponed the presentation of guarantees or credit ratings up to March 26, 2018, to be able to participate in the MME, from April 1, 2018.

L. Supreme Decree that modifies provisions applicable to the programming and coordination of the operation of the National Interconnected Electric System

Through Supreme Decree No. 043-2017-EM, the Energy and Mines Ministry modified the presentation of the natural gas price used by thermal generators, establishing a minimum price limit calculated using a formula, which considers the natural gas supply price paid by generators, the natural gas volume contracted (take or pay) and the efficiency of the units.

In June 2018 and 2019 the generators declared the natural gas price to COES in accordance with the provisions of Supreme Decree No. 043-2017-EM.

In 2019, Luz del Sur company filed a popular action against Supreme Decree No. 043-2017-EM, a process in which the Supreme Court of Justice declared said Decree null and void.

M. Supreme Decree that modifies provisions applicable to the programming and coordination of the operations of the National Interconnected Electric System

The Supreme Decree No. 040-2017-EM modifies, among others, the article 96 of the Regulations of the Electricity Concessions Law:

- The COES may issue provisions for the operation in cases of exceptional situations, which include temporary configurations of equipment and installations in the system, as well as programming and operating in real time with new reference values for voltage and frequency, which exceed the tolerances normal and the normal load limits of equipment and facilities; and, eventually, stop allocating rotating reserve for frequency regulation, in order to procure timely supply to users and minimize the effects of such exceptional situation.
- The information of the generation units corresponding to some Operating Inflexibilities of those units, will be delivered with the respective technical support to COES and OSINERGMIN, the latter being able to arrange the corresponding supervision and/or control actions. If the Generator does not send the information indicated above, or if OSINERGMIN determines its inconsistency, these Operating Inflexibilities will be communicated by OSINERGMIN to COES. In the cases deemed relevant by OSINERGMIN, it may request to COES its opinion supported to the values proposed by the Generator.

N. Procedure for the Supervision of the Parameters of the Operating Inflexibilities of the Generation Units of the SEIN

Resolution N°161-2019-OS/CD OSINERGMIN. In a period not exceeding sixty (60) calendar days of its entry into force, the Generators must send to OSINERGMIN the information referring to the parameters of the Minimum Time of Operation (TMO in Spanish), Minimum Time between Starts (TMA in Spanish) and Start Time (TA in Spanish), adding the corresponding Technical Support Report (IST in Spanish), as indicated in the approved procedure.

The procedure establishes that in case the generators do not present the information within the established time frame or if OSINERGMIN considers that the information presented is inconsistent with the guidelines contained in the approved standard, this entity will communicate to COES the parameters of operational inflexibilities that should be considered.

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The operational inflexibility parameters that the standard establishes as referential are those applicable to the US electrical system provided by the Federal Energy Regulatory Commission (FERC), which do not conform to the reality of the machines that operate in the electrical sector, either to the system of recognition of costs that would imply complying with said technical regime:

Technology	TMA (hours)	TMO (hours)	TA (hours)
Diesel	0.6	1	0.1
Open cycle	1.25	2	0.25
Combined cycle	3.5	4	0.5
Biomass	8	4	10
Steam power station	8	8	10

Also, Through Resolution 030-2021-OS / CD, OSINERGMIN approved the new COES Technical Procedure No. 04, on "Tests for the Determination of the Minimum Power of the Generation Units of the SEIN".

O. Water LAW, Law N° 29338 and its regulation by Supreme Decree N° 001-2010-AG, Dated March 23, 2010

The purpose of this Law is to regulate the use and integrated management of water, the performance of the Government and individuals in such management, as well as the assets associated with it.

P. Modification the Technical Standard for the Coordination of Real-Time Operation of Interconnected Systems

The Directorial Resolution N° 0136-2018-MEM/DGE establishes that once the Rationing Mechanism is activated (as established by Executive Order 017-2018-EM), for purposes of the operation, the COES will apply the efficiency criterion that allows the maximum use of natural gas. Within the electricity sector, the gas allocation will be pro rata of the Daily Contract Quantity or the Maximum Daily Amount of your gas supply contracts, whichever is greater.

Additionally, numeral 5.4.10 of the Technical Standard for the Coordination of the Real-time Operation of Interconnected Systems was modified, to establish when the Rationing Mechanism referred to in Supreme Decree No. 017-2018-EM is activated. When and the daily volume of gas available for electricity generation is insufficient for the economic dispatch without restriction of gas supply, the COES will apply in the programming of the operation and/or in real time the efficiency criterion that allows the best use of natural gas to generate electricity. Thus the operation of the SEIN is carried out at the minimum cost preserving the security of the system, reallocating the gas that would have corresponded to each generator having considered a pro-rata distribution of the amount of gas available for the priority level corresponding to Electric Generators, based on the Contractual Daily Quantity or the Maximum Daily Quantity, of their gas supply contracts, whichever is greater.

Finally, if required, the COES can consider in the programming of the operation and/or in real time, the changing the fuel from the dual units to liquid fuel.

Q. Regulation of Legislative Decree N° 1221

Approved by Supreme Decree N° 018-2016-EM: this regulation established some amendments to: (i) the Regulation of the electricity concessions law and (ii) to the Regulation of the Non-regulated Users in electricity market:

- i. In the case of use of water resources, the definitive concession request must include the study of the project feasibility level with an analysis of its optimal exploitation. The petitioner of a definitive power generation concession must prove that the requested area corresponds to the minimum required for power generation capacity provided in the application and does not affect the normal development of projects with definitive concessions granted through a Feasibility Study.

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- ii. It establishes that Users whose maximum annual demand of each supply point is equal to or less than 200 kW, have the status of Regulated User, and if it is greater than 200 kW to 2500 kW, are entitled to choose between the status of Regulated User or Non-Regulated User.

It adds that the Regulated Users whose maximum monthly demand (from several supply points) exceeds 2500 kW, will maintain that status for a period of one (1) year from the month in which exceeded that ceiling, unless otherwise agreed between the parties. In the case of users whose maximum annual demand of each supply point is greater than 2500 kW have the status of non-regulated users, except as indicated previously.

R. Through Resolutions 216, 217, and 218-2018-OS/CD the OSINERGMIN issued the prior authorization for the modification of the long-term supply contracts signed by Luz del Sur, Hidrandina, and Enel Distribución with the generators in the framework of Law 28832

Supreme Decree N° 022-2018-EM ("DS 022") modifies Article 18 of the Tender Regulation for the Supply of Electricity, establishing the modification of supply contracts that result from bids within the framework of Law 28832, by agreement of parties and exceptionally. DS 022 also establishes a transitory procedure for the evaluation of the addenda to contracts resulting from bids, applicable until December 31, 2018.

Within the framework of the provisions of supreme decree 022-2018-EM Orazul subscribed option agreements for the right to execute addendums to the PPAs with Luz del Sur, Hidrandina, and Enel Distribución. In this sense, for example, Orazul and Luz del Sur signed option agreements that give Orazul the right to extend the term of the PPAs (for a minimum of 7 years) in case the option is exercised. For such option Orazul had to pay the value of the option through monthly payments.

S. Incorporation of the third paragraph to article 122 of the Electricity Concessions Law

Legislative Decree 1451, within the framework of the strengthening of national, regional and local government entities, incorporated a third paragraph to article 122 of the Electricity Concessions Law, to submit to the Ministry of Energy and Mines the evaluation of definitive concessions or authorizations of generation that are processed in cases of vertical integration that do not qualify as acts of concentration according to the rule of the matter.

In practice, some distribution companies are expanding their investments through different companies linked to them to carry out the generation activity, without this qualifying as an "act of concentration" that must be previously evaluated by INDECOPI to have the respective authorization (because this assumption focuses on mergers and acquisitions between companies that develop different activity in the electricity market).

These situations, occasioned by those distribution companies also violates the prohibition established in article 122 of the Electricity Concessions Law, which expressly states that the generation, transmission and distribution activities cannot be carried out by the same owner or by anyone who directly or indirectly exercises control over it.

T. OSINERGMIN approved the modification of the PR-26 of the COES to determinate Firm Power to the generation plants with renewable energy resources.

Resolution N°144-2019-OS/CD OSINERGMIN. Since September 1, 2019, the Firm Power of the generation plants that use wind, solar or tidal technology will be determined considering the production of energy in the Peak Hours of the System defined by the Ministry of Energy and Mines (5:00 p.m. to 11:00 p.m.), according to the following formula:

$$PF_i = \frac{\sum_1^h EG}{h}$$

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Where:

PFi = Firm Power to the generation plant with renewable energy resources.

EG = Production of active energy of the RER Power Plant during the System Peak Hours of the last 36 months (evaluation period). If this series is not available, it will be necessary to consider the period from the date of Commercial Operation Start-up of the plant until the month of evaluation of the PFi.

h = Total number of Peak Hours of the System corresponding to the evaluation period of the EG.

U. OSINERGMIN approved modification of the Procedure "Conditions for the application of electricity generation and transmission rates"

The purpose of this standard is to establish the conditions for the application of generation and transmission prices for electrical energy supplies linked to:

- a) Electricity sales from Generator to Distributor, destined to the Public Electricity Service, which are made through the contracts referred to in subparagraph a) of section 3.2 of article 3 of Law No. 28832 (contracts without biddings).
- b) The tariff options for Regulated Users defined according to Article 1 of Law No. 28832 located in high and regular tension connected to the transmission system.
- c) The application of the tolls of the Transmission Systems.

V. OSINERGMIN modifies the Regulation of Supervision, Inspection and Sanctioning of energy and mining activities approved by Resolution No. 040-2017-OS/CD

Resolution 033-2020-OS/CD establishes that for the electrical subsector, OSINERGMIN's supervision authority covers the following activities: a) Power generation; b) Power Transmission; c) Distribution and commercialization of electricity; d) Planning, programming and economic dispatch of the National Interconnected Electric System (SEIN in Spanish); and e) other activities legally attributed to OSINERGMIN.

During the national emergency period, OSINERGMIN prioritizes the supervision in the energy sector, which is aimed at guaranteeing: the continuity of the public electricity service, the continuity of the public service of natural gas, the supply of LPG and other fuels.

During the national emergency period, OSINERGMIN's supervision is carried out remotely and, exceptionally, in person with restrictions, in line with this Protocol.

If the supervised agent does not comply with providing OSINERGMIN with the required information, or prevents the normal development of supervision, or does not communicate emergency reports, or fails to comply with an administrative measure, as the case may be, this agent will incur in an administrative infraction, and a sanctioning procedure will be initiated once the suspension of the stipulated terms has ended. Also, the administrative deadlines at the initiative of the party, as well as those of ex officio supervision and sanctioning are suspended according to the periods indicated by the OSINERGMIN protocol for each case.

W. New regulation of inspection and sanction of energy and mining activities of OSINERGMIN

Resolution N° 208-2020-OS-CD approves the "Regulation of Inspection and Sanctioning of energy and mining activities overviewed by OSINERGMIN", which will start the day following publication in the official newspaper El Peruano of the Methodological Guide for the Calculation of the Base Fine, referred to in numeral 26.3 of article 26. As of the effective date of this Regulation, the Regulation that was approved by Board Resolution N° 040-2017-OS/CD will be replaced.

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X. Complementary measures for the electricity sector during the national emergency period

Emergency Decree 035-2020 establishes that the electricity service receipts, issued in the month of March or that include consumption made during the national emergency period, may be divided up to 24 months. This benefit will be applicable only to residential users of the electricity service with consumption of up to 100 kWh per month; and residential users of non-conventional rural electrical systems supplied by autonomous photovoltaic power. To the amount to be fractioned, it is not applicable interests, fees or any other similar concept.

The Decree established that during the national emergency period and up to sixty (60) calendar days after its completion, any breach to the Technical Standard of Quality of Electrical Services approved by Supreme Decree No. 020- 97-EM and to the Technical Standard of Quality of Rural Electrical Services approved by Directorial Resolution No. 016-2008-EM / DGE, will not generate any sanctions or compensations, as a consequence of the sanitary measures and lockdown established by the Peruvian government to control COVID-19.

In addition, reporting obligations and delivery of physical information by the electricity companies and COES to MINEM and OSINERGMIN are suspended. In this sense, all information must be sent virtually to these entities.

Y. OSINERGMIN approved the Procedure for the Inspection of Contracts and Authorizations of the Electricity Subsector and Concession Contracts in Natural Gas activities

Resolution 166-2020-OS/CD approves the Procedure for the Inspection of Contracts and Authorizations of the Electricity Subsector and Concession Contracts in Natural Gas activities.

The supervision of compliance with the obligations contained in the Concession Contracts, Authorizations and Investment Commitment Contracts, carried out by Osinergmin, is developed through information requirements and field inspections without having specific guidelines that guide the inspection procedure. This creates difficulty in the exercise of the supervisory power and lack of predictability in the activities in the electricity and natural gas subsector.

The purpose of this Procedure is to establish clear parameters for the supervision of the obligations contained in the Concession Contracts, Authorizations and Investment Commitment Contracts in the Electricity Subsector, as well as in the Concession Contracts of activities Natural Gas and within OSINERGMIN's competence.

The inspection will include: (i) Construction; (ii) Partial and / or Commercial Commissioning; and (iii) Operation, Exploitation of Concession Assets and Maintenance. OSINERGMIN will be in charge of supervising, within the scope of its competence, compliance of the obligations contained in the Contracts and / or Authorizations in accordance with the provisions of the Procedure, without limitation to supervise other aspects.

Z. Value of the Fortuitous Unavailability Rate of the peak unit and the Target Firm Reserve Margin of the National Interconnected Electric System is set

Through Resolution 199-2020-OS / CD, the value of 4.18% is set as the Fortuitous Unavailability Rate of the peak unit from May 1, 2021 to April 30, 2025 is set at 4.18%.

Also, the Target Firm Reserve Margin of the National Interconnected Electric System (SEIN) from May 1, 2021 to April 30, 2025 is set as follow:

Period	Reserve Margin
May 2021- Apr 2022	37.4%
May 2022- Apr 2023	35.0%
May 2023- Apr 2024	33.9%
May 2024- Apr 2025	32.3%

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AA. The Rotating Reserve Margin for the Primary Regulation of Frequency of the National Interconnected Electric System is set for the flood period and low water period of the year 2022

Through Resolution 237-2021-OS / CD, the Rotating Reserve Margin for the Primary Regulation of Frequency of the National Interconnected Electric System is set at 2.8% for the flood period in the months of January to May and December 2022; and for the dry season in the months of June to November 2022.

BB. OSINERGMIN's "Methodological Guide for Calculating the Base Fine" is approved

Through Resolution N° 120-2021-OS/CD, OSINERGMIN approves the Methodological Guide for the Calculation of the Base Fine, which aims to provide greater predictability in relation to the criteria and components to be considered by Osinergrmin for the determination of the base fine, as part of the fine penalty grading process to be imposed on by the audited agents.

The Guide is mandatory for the investigating authority, the sanctioning authority and the Osinergrmin review authority, in the exercise of their respective functions.

CC. OSINERGMIN approved the modification of Technical Procedure 20 of the COES "Entry, Modification and Removal of Facilities in the SEIN"

Through Resolution 083-2021-OS/CD, it is provided to substitute numerals from 1 to 16 of the COES Technical Procedure No. 20 approved by Resolution No. 035-2020-OS/CD, and to incorporate numeral 17 in accordance with the content in Annex A of the published resolution.

In addition, Annexes 2 to 7 are replaced by Annexes 2 to 5, in accordance with the content of Annex B of the published resolution.

It is specified that Annex 1 of the Technical Procedure of COES No. 20 approved by Resolution No. 035-2013-OS/CD, remains valid.

Likewise, the processes for obtaining Certificates of Conformity of EPO, EO, Start of Commercial Operation, Integration of Transmission Facilities in the SEIN, Conclusion of Commercial Operation and Retirement of Facilities of the SEIN, as well as for the approval of the Connection of Installations to the SEIN initiated before the entry into force of the modification of this procedure, will be governed, until its conclusion, by the provisions contemplated in the Technical Procedure of COES No. 20 approved by Resolution No. 035-2013-OS/CD. Exceptions from the application of this provision are those processes related to projects that are outside the scope of this procedure or that do not comply with the requirements established in its scope, as well as processes that are no longer contemplated in the approved Technical Procedure.

DD. OSINERGMIN modifies COES Technical Procedure No. 07 "Determination of Short-Term Marginal Costs" (PR-07).

By Resolution N° 244-2021-OS/CD OSINERGMIN modifies COES Technical Procedure No. 07 "Determination of Short-Term Marginal Costs" (PR-07) approved by Resolution No. 179-2017-OS/CD and modified by Resolution No. 091-2019-OS/CD, in accordance with the provisions of the Annex to this resolution. On July 1, 2022 is established as the effective date of the modifications to the PR-07.

Likewise, until June 30, 2022, the COES must carry out the implementation and/or adaptation, realization of the tests and validations corresponding to the modifications established in the Annex of the approved resolution.

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EE. OSINERGMIN approves the request to modify the Supply Contracts signed by Enel Distribución Perú S.A.A. with Kallpa Generación S.A., Orazul Energy Perú S.A. and Termoselva S.R.L.

Through Resolution 077-2021-OS/CD approves the modification of the Supply Contracts signed by Enel Distribución Perú S.A.A. with the generating companies Kallpa Generación S.A., Orazul Energy Perú S.A. and Termoselva S.R.L. as a result of the Long Term Supply Bidding process: ED-01-2009-LP, ED-02-2009-LP, LDS-01-2011-LP-I and ED-01-2012-LP; LDS-01-2010-LP; and LDS-01-2010-LP; respectively, regarding the variable contracted power from the date of subscription of the respective addendum (after approval) until December 31, 2021.

3. Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. The Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements, unless otherwise stated.

A. Use of judgments and estimates

The preparation of the consolidated financial statements in conformity with IFRS requires Management to make judgments and estimates that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recorded prospectively.

i. Judgments

Information about judgments in applying accounting policies that have the most significant effects on the amounts recognized in the consolidated financial statements is included in the following notes:

- Note 7: Expected credit losses of trade receivables;
- Notes 11, 12 and 13: Useful life of the property, plant and equipment and intangible assets;
- Note 22: Utilization of tax losses.

ii. Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties on December 31, 2021 that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year is included as following notes:

- Note 23: revenue recognition: estimate of expected returns;
- Note 18: recognition of deferred tax assets: availability of future taxable profit against which deductible temporary differences and tax losses carried forward can be utilized;
- Note 13: impairment test of intangible assets and goodwill: key assumptions underlying recoverable amounts, including the recoverability of development costs;
- Note 29: recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources.

Measurement of fair values

A number of the Group accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the Chief Financial Officer.

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The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that these valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which the valuations should be classified.

Significant valuation issues are reported to the Board of Directors.

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognizes transfers between levels of their fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in note 4 – financial instruments.

B. Basis of accounting

i. Compliance with IFRS

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements comply with IFRS as issued by International Accounting Standards Board (IASB).

The consolidated financial statements as of December 31, 2021 have been authorized for issuance by the Management of the Company in February 9, 2022. These consolidated financial statements are to be submitted for consideration to the Obligatory General Shareholder's Meeting that will be held according to the term legally established. In Management's opinion, the General Shareholders' Meeting will approve the accompanying consolidated financial statements without modifications. The consolidated financial statements as of December 31, 2020 were approved by the Board of Directors on February 24, 2021.

ii. Historical cost basis

The consolidated financial statements have been prepared on the historical cost basis, except the following assets and liabilities measured at present value: provision for asset retirement obligation (note 3.Q).

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iii. Reclassifications

During 2021, and with the purpose of making the financial information comparable with the balances of the financial statements as of December 31, 2021, the Company's Management made certain reclassifications in the presentation of the comparative figures as of December 31, 2020.

Management considers that the reclassifications made do not imply changes in the decisions made based on them. The reclassified amounts and the affected accounts are summarized as follows:

<i>In thousands of U.S. dollars</i>	Previously informed	Reclassification (a)	Final balance
Assets			
Cost of sales	18,019	609	18,628
Administrative expenses	4,886	(609)	4,277

(a) Reclassifications correspond to property tax related to power plant.

C. Standards issued but not yet effective

A number of new standards are effective for annual periods beginning after January 1, 2021 and earlier application is permitted; however, the Group has not adopted the new or amended standards in preparing these consolidated financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the consolidated financial statements:

- Onerous contracts – cost of fulfilling a Contract (Amendment to IAS 37).
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12).
- COVID-19-Related Rent Concession beyond June 30, 2021 (Amendment to IFRS 16).
- Annual Improvements to IFRS 2018-2020.
- Property, Plant and Equipment: Proceeds before Intended Use (Amendment to IAS 16).
- Reference to Conceptual Framework (Amendments to IFRS 3).
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1).
- IFRS 17 Insurance contracts and amendments to IFRS 17 Insurance Contracts.
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2).
- Definition of Accounting Estimates (Amendments to IAS 8).

D. Basis of consolidation**i. Business combinations**

The Company account for business combinations using the acquisition method when the acquired set of activities and assets meets the definition of a business and control is transferred to the Company. In determining whether a particular set of assets and activities acquired includes, at a minimum, an input and substantive process and whether the acquired set can produce outputs.

The Company has an option to apply a concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The optional concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

The consideration transferred in the acquisition is measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase gain is recognized in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

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Any contingent consideration is measured at fair value at the acquisition date. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not re-measured, and settlement is accounted for within equity. Otherwise, other contingent consideration is re-measured at fair value at each reporting date and subsequent changes to the fair value of the contingent consideration are recognized in profit or loss.

ii. Subsidiaries

Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

iii. Non-Controlling Interest (NCI)

NCI are measured at their proportionate share of the acquiree identifiable net assets at the acquisition date.

Changes in the Company's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

iv. Loss of Control

When the Company loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognized in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

v. Reorganizations under Common Control Transactions

Common control transactions that involve the setup of a new group company and the combination of entities under common control are recorded using the book values of the parent company.

vi. Transactions Eliminated on Consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Company's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

E. Foreign currency translation

i. Functional and presentation currency

Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in U.S. Dollars, which is the Group functional and presentation currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

ii. Transactions and balances

Transactions in foreign currencies are translated to the functional currency of the Group at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction.

Foreign currency differences are generally recognized in profit and loss.

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F. Discontinued operation

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- Represents a separate major line of business or geographic area of operations;
- is part of a single coordinated plan to dispose of a separate major line of business or geographic area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale.

When an operation is classified as a discontinued operation, the comparative statement of profit or loss and OCI is re-presented as if the operation had been discontinued from the start of the comparative year.

G. Revenue

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognizes revenue when they transfer control over a product or service to a customer, net of value-added-tax, rebates and discounts.

The revenue recognition model applied to contracts with customers considers a transaction analysis based on five steps to determine whether, how much and when revenue is recognized:

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

Identify the contract with a customer and performance obligations in the Contract

Revenues from the generation business are recorded based upon energy output delivered and capacity provided at rates specified pursuant to our Power Purchase Agreements (PPAs), or at marginal costs determined on the spot market, if the sales are made on the spot market.

Determine the transaction price and allocation to the performance obligations

Performance obligation in the generation business are the sale of electrical energy and the sale of capacity.

Revenues and costs related to main and secondary toll services are recognized net since the Company merely pay for the use of the transmission lines, but there is no separate performance obligation.

The Revenue from generation business is determined substantially by long-term, U.S. dollar-linked PPAs. PPAs are usually entered into at prices that are equivalent to, or higher than, the prevailing spot market rates, the majority of which are indexed to the underlying fuel cost of the related long-term supply agreements. Under the terms of the majority of our PPAs, the power purchaser is contractually obligated to purchase its energy requirements, and sometimes capacity and/or ancillary services, from the power generator based upon a base price (denominated either in U.S. Dollars or in the local currency) that is generally adjusted for a combination of some of the following:

(1) fluctuations in exchange rates, (2) the U.S. inflation index, (3) a local inflation index, (4) fluctuations in the cost of operating fuel, (5) supply costs of natural gas, and (6) transmission costs. PPAs include provisions that change the contractual unitary energy prices in the case of an interruption of the supply or transportation of natural gas through the use of a methodology based on spot prices during on the dates in which the interruption event occurred.

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Many of the prices in our PPAs differentiate between peak and off-peak periods.

The Company and Termoselva have concluded that the variable considerations in the revenue of the generation businesses do not need to be estimated and included in the transaction price when determining the revenue due to the contracts contain fixed prices for each kWh of energy supplied and capacity.

Recognition of revenue

The following table provides information about the nature and timing of the satisfaction of performance obligation in contracts with customers, including significant payment terms, and the related revenue recognition policies:

Type of product/service	Nature, timing of satisfaction of performance obligations, significant payments terms	Revenue recognition
Sale of electricity and sales of capacity	The Company and Termoselva consider, based on all relevant facts and circumstances, that the obligation to deliver energy and capacity is viewed as services that are transferred consecutively over the contract term, which are simultaneously provided and consumed. That means, that the customer immediately consumes each unit of energy (kWh) and capacity.	Revenue is recognized over time as the electricity and the capacity are provided.
Sale of natural gasoline.	Income from the sale of LPG and natural gasoline of Aguaytia is recognized in full in the period in which the goods are delivered, the risks and benefits inherent to the property have been transferred to the buyer, and it is likely that the economic benefits related to the transaction will flow to the subsidiary.	
	Management evaluates the impact of the measures of progress over time. The purpose of measuring progress toward satisfaction of a performance obligation is to recognize revenue is a pattern that reflects the transfer of control of the promised good or services to the customer. Based on the contract terms, the amount that will be billed is based on the units of energy transferred to the client. Invoices are usually collected within 30 days.	

H. Finance income and finance costs

Finance income and finance costs of the Group are recognized on an accrual basis and include the following:

- Interest income.
- Interest expense.
- Foreign currency gain or losses on financial assets and financial liabilities.
- Reclassification of the net earnings previously recognized in other comprehensive income.
- Interest income or expense is recognized using the effective interest method.

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i. Income tax

Income tax expense comprises current, deferred tax and uncertain income tax provisions. It is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in OCI.

The Group has determined that interest and penalties related to income taxes, do not meet the definition of income taxes, and therefore accounted for them under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

ii. Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount to be paid or received that reflects uncertainty related to income taxes. It is measured using tax rates enacted or substantively enacted at the reporting date, current Tax also includes any tax arising from dividends.

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

iii. Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for:

- Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- Temporary differences related to investments in subsidiaries and associates to the extent that the Group are able to control the timing of the reversal of the temporary differences and it is not probable that they will reverse in the foreseeable future; and,
- Taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on business plans for individual subsidiaries in the Group.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable profit improves.

Unrecognized deferred tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

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The Group regularly reviews its deferred tax assets for recoverability, taking into consideration all available evidence, both positive and negative, including historical pre-tax and taxable income, projected future pre-tax and taxable income and the expected timing of the reversals of existing temporary differences. In arriving at these judgments, the weight given to the potential effect of all positive and negative evidence is commensurate with the extent to which it can be objectively verified.

The Group believes its tax positions are in compliance with applicable tax laws and regulations. Tax benefits are recognized only for tax positions that are more likely than not to be sustained upon examination by tax authorities. The Group believes that its liabilities for unrecognized tax benefits, including related interest, are adequate in relation to the potential for additional tax assessments. There is a risk, however, that the amounts ultimately paid upon resolution of audits could be materially different from the amounts previously included in our income tax expense and, therefore, could have a material impact on our tax provision, net income and cash flows.

iv. Uncertain income tax provision

A provision for uncertain income tax positions, including additional income tax payable or income tax receivable are recognized by the Companies when they analyze an Uncertain Tax Treatment (UTT). If the Company concludes that it is probable that the tax authority will accept an UTT that has been taken or is expected to be taken on a tax return, it should determine its accounting for income taxes consistently with that tax treatment. If the Company concludes that it is not probable that the treatment will be accepted, it should reflect the effect of the uncertainty in its income tax accounting in the period in which that determination is made as an additional income tax liability.

The Group measures the impact of the uncertainty using the method that best predicts the resolution of the uncertainty; either "the most likely amount method" or "the expected value method".

In selecting the most appropriate method, the Company uses the "most likely method" in those cases where there are binary outcomes and the concentration in one value is greater than 75%. If the outcomes are binary and the concentration in one value is 75% or less, the Company uses the "expected value method".

Assets and liabilities balances related to uncertain income tax provisions must be included in the assets and liabilities balances from current and deferred income tax; therefore, those balances are not presented as provisions nor in other lines of the Companies statement of financial position as other receivable or other payables.

I. Inventories

Inventories consist of fuel, spare parts, materials and supplies and are valued at the lower of cost or net realizable value. Cost is determined by using the average cost method.

J. Trade receivables

Trade receivables are amounts due from customers for the energy and capacity in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

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K. Property, plant and equipment

i. Recognition and measurement

Property, plant, and equipment includes to Aguaytia plant, electrical energy hydroelectric power plants Cañon del Pato and Carhuaquero (Orazul). The cost of an item of property, plant, and equipment comprises its acquisition cost, non-recoverable taxes, decommissioning costs, including disbursements directly attributable to the acquisition or manufacturing of these items and capitalized borrowing costs. Items of property, plant, and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

The historical cost of an item of property, plant, and equipment comprises its acquisition cost, non-recoverable taxes, decommissioning costs, including disbursements directly attributable to the acquisition or manufacturing of these items and capitalized borrowing costs.

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss resulting from the disposal of an item of property, plant and equipment is recognized in profit or loss.

ii. Subsequent costs

Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Group, and its cost can be measured reliably.

Disbursements for maintenance and repairs are recognized as expenses in the period when incurred.

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

iii. Depreciation

Depreciation is calculated to write-off the cost of items of property, plant and equipment less their estimated residual values, using the straight-line method over its estimated useful lives and is generally recognized in profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives, unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives of property, plant, and equipment are as follows:

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

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

L. Intangible assets

i. Recognition and measurement

Goodwill	Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment; and any impairment loss is allocated to the carrying amount of the equity investee as a whole.
Research and development	Expenditure on research activities is recognized in profit or loss as incurred. Development expenditure is capitalized only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, it is recognized in profit or loss as incurred. Subsequent to initial recognition, development expenditure is measured at cost less accumulated amortization and any accumulated impairment losses.
Concession	The electric and hydrocarbon concessions correspond to intangible assets identified at the acquisition date on December 20, 2016. The useful life of electric concessions is indefinite, and a useful life of 18 years has been determined for hydrocarbon concession.
Option agreements	Comprise the payments made by the Company to distribution companies to obtain the extension of certain PPAs. This amount should be capitalized as an asset and amortized over the extended contract term of the energy supply contract, reducing revenue generated throughout the extension period.
Other intangible assets	Other intangible assets, including licenses and software licenses which is acquired by the Company and has finite useful lives, are measured at cost less accumulated amortization and any accumulated impairment losses.

ii. Subsequent cost

Subsequent cost is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including cost on internally generated goodwill is expensed as incurred.

iii. Amortization

Amortization is calculated to write-off the cost of intangible assets using the straight-line method over their useful lives and is generally recognized in profit or loss.

The estimated useful lives for current and comparative period are as follows:

	Years
Option agreements	7 – 10

Amortization methods and useful lives are reviewed at each reporting date and adjusted if appropriate.

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M. Financial instruments

i. Recognition and initial measurement

The Group initially recognize trade receivables issued are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Group becomes as party to the contractual provisions of the instrument.

A financial asset (unless is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

ii. Classification and subsequent measurement

Financial assets are classified as measured at: amortized cost, fair value through profit and loss (FVTPL) and fair value through other comprehensive income (FVOCI). Classification is driven by the Successor business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Financial assets are not reclassified subsequent to their initial recognition unless the Companies changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortized cost if: a) it is held within a business model whose objective is to hold assets to collect contractual cash flows, and b) the contractual term give rise on specified dates to cash flows that are solely payments of principal and interest.

All financial assets not classified as measured at amortized cost are measured at FVTPL. This includes all derivative financial assets.

Financial liabilities are classified as FVTPL (derivatives) and other financial liabilities. Financial liabilities classified as other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

iii. Derecognition

Financial assets

The Group derecognize a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfer nor retain substantially all of the risks and rewards of ownership and it does not retain control over the financial asset.

Financial liabilities

The Group derecognize a financial liability when its contractual obligations are discharged, cancelled or expire. The Group also derecognize a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

On de-recognition a financial liability, the difference between the carrying amount extinguished and the consideration paid is recognized in profit or loss.

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iv. Offsetting

Financial assets and financial liabilities are offset, and the net amount presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

N. Share capital - Ordinary shares

Incremental costs directly attributable to the issue of ordinary shares, net of any tax effects, are recognized as a deduction from equity. Income tax relating to transactions costs of an equity transaction is accounted for in accordance with IAS 12.

O. Impairment

i. Non-derivative Financial Assets

The Group shall recognize a loss allowance for expected credit losses (ECL) on a financial asset subsequently measured at amortized cost or fair value through other comprehensive income, a contract asset or a loan commitment and a financial guarantee contract to which the impairment requirements apply.

The Group measure the loss allowance for a financial instrument, at each reporting date, at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group consider reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Group historical experience and informed credit assessment including forward-looking information.

In the generation business, the Group assume that has no significant credit risk due to collections are made within 30 days.

The Group considers a financial asset to be in a default when:

- The borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realizing security (if any is held); or,
- The financial asset is more than 90 days past due.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e., the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the entity expects to receive).

Lifetime ECLs are the ECL that results from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Company are exposed to credit risk.

ELC are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortized cost are credit impaired. A financial asset is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

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Evidence that financial asset is credit-impaired includes

- Default or delinquency by a debtor;
- Restructuring of an amount due to the Group on terms that the Group would not consider otherwise;
- Indications that a debtor or issuer will enter bankruptcy;
- Adverse changes in the payment status of borrowers or issuers;
- The disappearance of an active market for a security because of financial difficulties; or,
- Observable data indicating that there is measurable decrease in expected cash flows from a group of financial assets.

Presentation of allowances for ECL in the statement of financial position

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group procedures for recovery of amounts due.

ii. Non-financial assets

At each reporting date, the Group review the carrying amounts of its non-financial assets (other than inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment or whenever impairment indicators exist.

The recoverable amount of an asset or cash generating unit (hereinafter, "CGU") is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognized in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an assessment is performed at each reporting date for any indications that these losses have decreased or no longer exist. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

P. Energy purchase

Costs from energy purchases either acquired in the spot market or from contracts with suppliers are recorded on an accrual basis according to the energy actually received. Purchases of electric energy, including those which have not yet been billed as of the reporting date, are recorded based on estimates of the energy supplied at the prices prevailing in the spot market or agreed-upon in the respective purchase agreements, as the case may be.

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Q. Asset retirement obligation (ARO)

Provision is made for closedown, restoration and for environmental rehabilitation costs (which include the dismantling and demolition of infrastructure, removal of residual materials and remediation of disturbed areas) in the financial period when the related environmental disturbance occurs, based on the estimated future costs using information available at the statement of financial position date. At the time of establishing the provision, a corresponding asset is capitalized where it gives rise to a future benefit and depreciated over future production.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

R. Provisions

A provision is recognized if it is a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

S. Leases

At inception contract, the Companies assess whether a contract is or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use an identified asset for a period of time in exchange of consideration.

As a Lessee

At commencement or on modification of a contract that contain a lease component, the Companies allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the lease of property, the Companies has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Companies recognize a right of use asset and lease liability at the lease commencement date. The right of use assets initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made t or before the commencement date, plus any initial direct cost incurred and an estimate co costs to dismantle and remove the underlying asset or to restore the underlying asset or the site in which it is located, less any lease incentive received.

The right of use is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Companies by the end of the lease term or the cost of the right of use asset reflects that the Companies will exercise a purchase option. In that case the right of use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those property and equipment. In addition, the right of use -asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Companies incremental borrowing rate.

The Companies determined its incremental borrowing rate obtaining interest rate from various external financing sources and makes certain adjustment to reflect the terms of the lease and type of asset leased.

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Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments, including in substance fixed payments;
- Variable lease payments that depend on an index or rate, initially measured using the index rate as the commencement date;
- Amounts expected to be payable under a residual value guarantee; and
- The exercise price under a purchase option that the Companies are reasonably certain to exercise, lease payments in an optional renewal period if the Companies are reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Companies are reasonably not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Companies estimate of the amount expected to be payable under a residual value guarantee, if the Companies change its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right of use asset, or it is recorded in profit or loss if the carrying amount of the right of use asset has been reduced to zero.

The Companies present right of use assets and lease liabilities in separate lines in the statement of financial position.

Short term leases and leases of low value assets

The Companies has elected no to recognize right of use assets and lease liabilities for lease of low value assets and short-term leases, including IT equipment. The Companies recognize the lease payment associated with these leases as an expense on straight line over the lease term.

4. Financial Instruments - Fair Value and Risk Management

A. Carrying amounts and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Carrying amount			Fair value
	Current	Non-current		
	Amortized cost	Other financial liabilities	Other financial liabilities	Level 2
<i>In thousands of U.S. dollars</i>				
As of December 31, 2021				
Financial assets not measured at fair value				
Cash	20,849	-	-	20,849
Trade receivables	16,916	-	-	16,916
Other receivables (*)	341	-	-	341
Intercompany receivables	261	-	-	261
Financial liabilities not measured at fair value				
Trade payables	-	(6,540)	-	(6,540)
Other payables (*)	-	(6,137)	-	(6,137)
Intercompany payables	-	(1)	(21,713)	(21,714)
Debentures	-	-	(358,715)	(358,715)
Lease liabilities	-	(148)	(148)	(296)
	38,367	(12,826)	(380,576)	(355,035)
				(353,210)

(*) It does not include tax assets, tax liabilities, employee benefits and advances.

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	Carrying amount				Fair value
	Current		Non-current	Total	Level 2
	Amortized cost	Other financial liabilities	Other financial liabilities		
<i>In thousands of U.S. dollars</i>					
As of December 31, 2020					
Financial assets not measured at fair value					
Cash	153,445	-	-	153,445	-
Trade receivables	24,642	-	-	24,642	-
Other receivables (*)	1,520	-	-	1,520	-
Intercompany receivables	419	-	-	419	-
Financial liabilities not measured at fair value					
Trade payables	-	(9,095)	-	(9,095)	-
Other payables (*)	-	(14,234)	-	(14,234)	-
Intercompany payables	-	(766)	(22,710)	(23,476)	-
Debentures	-	-	(542,396)	(542,396)	(579,568)
Lease liabilities	-	(312)	(634)	(946)	-
	180,026	(24,407)	(565,740)	(410,121)	(579,568)

(*) It does not include tax assets, tax liabilities, employee benefits and advances.

B. Fair value measurements

Valuation techniques and significant unobservable inputs

The following table shows the valuation techniques used in the determination of fair values of financial instruments – Level 2 as of December 31, 2021 and 2020:

Financial instruments not measured at fair value

Type	Valuation techniques	Key unobservable data	Interrelationship between key unobservable inputs and fair value
Loans from banks, debentures and others	Discounted cash flows using current market interest rate	Not applicable	Not applicable

C. Financial risk management

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

- Credit risk (see C.i.)
- Liquidity risk (see C.ii.); and
- Market risk (see C.iii.)

Risk management structure

The Board of Directors of the Group is responsible for establishment and supervising the risk management structure. Management is responsible for the development and monitoring of risk management policies of the Group. Also, it regularly informs the Board of Directors about its activities.

The Group risk management policies are established to identify and analyze Group risks, set appropriate risk limits and controls, and monitor risks and compliance with limits. Risk policies and management systems are regularly reviewed in order to reflect the changes in market conditions and the Group activities.

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The Group, through its management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

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

i. Credit risk

Credit risk is the risk of financial loss to the Group if a counterparty to a financial instrument fails to meet its contractual obligations. The carrying amount of financial assets represents the maximum credit exposure.

The Group financial assets potentially exposed to significant credit risk concentrations are mainly checking accounts and accounts receivable presented in the statement of financial position.

As of December 31, 2021 and 2020, the maximum exposure to credit risk for the Group financial assets was the following:

<i>In thousands of U.S. dollars</i>	Carrying amount	
	2021	2020
Cash (a)	20,849	153,445
Trade receivables (b)	16,916	24,642
Account receivables from related parties	261	419
Other receivables	341	1,520
	38,367	180,026

- (a) The Group holds bank accounts at different local and foreign financial entities that have an "A" and "A+" credit rating (note 6). As of December 31, 2021 and 2020, the Group maintains guarantees with local financial entities such as Banco de Crédito del Perú and Scotiabank Perú. It does not include statutory liabilities and advances.
- (b) As of December 31, 2021 and 2020, the composition of trade receivables is related to regulated and non-regulated customers, and to the Peruvian system operator, the Committee of Economic Operation of the National Interconnected System (COES), that acts as a clearing-house and settles the payments for power generation companies.

Expected credit loss assessment for corporate customers

The Group allocates each exposure to a credit risk grade based on data that is determined to be predictive of the risk of loss (including but not limited to external ratings, audited consolidated financial statements, management accounts and cash flow projections and available press information about customers) and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default and are aligned to external credit rating definitions from agencies.

The Group has classified its electricity business customers according to homogeneous risk characteristics that represent the ability to pay for each customer segment for the appropriate amounts. This segmentation has been made based on three portfolios:

Portfolio 1: COES

Portfolio 2: Regulated customers

Portfolio 3: Free customers

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Credit risk is the risk of financial loss faced by the Group if a customer does not meet its contractual obligations. The Group's management states that the credit risk for its electricity business customers is low. The factors leading to this conclusion on the part of the Group are as follows:

- The Company is part of a market that has regulated customers: The Ministry of Energy and Mines (MEM) and the Supervisory Agency for Investment in Energy and Mining (OSINERGMIN) are the two key entities responsible for the implementation of the regulatory framework and compliance with the regulations of the Peruvian energy sector. These entities focus on mitigating market deficiencies by seeking to minimize regulatory failures and excessive distortions.
- Sales are supported by contracts that stipulate penalty clauses for non-compliance. The clauses contemplate compensatory and default interest, service cut-off, contract termination and monetary penalties for early termination of future economic flows.
- Customer portfolio quality: The Group contemplates customer credit evaluation procedures prior to signing contracts, in order to mitigate future economic risks. Additionally, after the second month of delay, the Company may restrict the supply of electricity to its customers. Given the type of customers that the Company has: (i) free customers, who are industrial, mining companies and need the energy to operate their plants; and (ii) regulated customers, electricity distribution companies, use the energy for sale and thereby generate income. They cannot afford to be sanctioned or blocked from the energy supply; therefore, the history of past dues is low.
- Finally, COES can impose penalties for those companies that do not comply with their payment obligations.

ii. Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

As of December 31, 2021 and 2020, the Group has a positive working capital. The principal sources of liquidity have traditionally consisted of cash flows from operating activities. The Group does not have funds designated for, or subject to, permanent reinvestment.

The Group needs for liquidity generally consist of capital expenditures related to working capital requirements (e.g., maintenance costs that extend the useful life of our generation units).

Liquidity is controlled by the balancing of the maturities of assets and liabilities, keeping a proper number of financing sources, and obtaining credit lines that enable the normal development of its activities. The Group has an appropriate level of resources and continues financing lines with banking entities. Moreover, the Group believes that its cash generated by operations will be adequate to meet all capital expenditure requirements related to ongoing maintenance and environmental improvements and all working capital needs in the ordinary course of our business in the near term. Consequently, in Management's opinion, there is no significant liquidity risk as of December 31, 2021 and 2020.

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The Company's financial liabilities are classified based on their maturity, considering their maturity from the date of the statement of financial position until contractual maturity. The disclosed amounts correspond to the contractual undiscounted cash flows and include contractual interest payments and exclude the impact of netting agreements:

		Contractual cash flows							
<i>In thousands of U.S. dollars</i>	<i>Note</i>	Carrying amount	Total	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years
2021									
Non-derivative financial liabilities									
Debentures	17	358,715	472,044	20,430	20,430	20,430	20,430	20,430	369,894
Trade payables	14	6,540	6,540	6,540	-	-	-	-	-
Other payables (*)	15	6,137	6,137	6,137	-	-	-	-	-
Account payables to related parties	28.C	21,714	21,714	1	21,713	-	-	-	-
Lease liabilities	16	296	312	-	156	156	-	-	-
		393,402	506,747	33,108	42,299	20,586	20,430	20,430	369,894
2020									
Non-derivative financial liabilities									
Debentures	17	542,396	745,769	30,938	30,938	30,938	30,938	30,938	591,079
Trade payables	14	9,095	9,095	9,095	-	-	-	-	-
Other payables (*)	15	14,234	14,234	14,234	-	-	-	-	-
Account payable to related parties	28.C	23,476	23,483	766	22,717	-	-	-	-
Lease liabilities	16	946	1,005	336	336	333	-	-	-
		590,147	793,586	55,369	53,991	31,271	30,938	30,938	591,079

(*) It does not include tax assets, tax liabilities, employee benefits and advances.

iii. Market risk

Currency risk

As of December 31, 2021 and 2020, the Group has a portion of assets and liabilities stated in soles; therefore, its exposure to fluctuations in exchange rate is not significant.

As of December 31, 2021, the weighted average market exchange rates used were US\$ 0.2501 per S/ 1.00 for sell rate and US\$ 0.2516 per S/ 1.00 for offer rate (US\$ 0.2759 per S/ 1.00 for sell rate and US\$ 0.2764 per S/ 1.00 for offer rate as of December 31, 2020).

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

<i>In thousands of soles</i>	2021	2020
Asset		
Cash	17,960	82,760
Trade receivables	13,490	85,150
Other receivables	60	154
	31,510	168,064
Liabilities		
Trade payables	(5,016)	(27,521)
Other payables	(6,707)	(34,109)
	(11,723)	(61,630)
Net asset position	19,787	106,434

In 2021, net foreign exchange loss amounts US\$ 1,108 thousand (net foreign exchange loss of US\$ 1,143 thousand in 2020).

As of December 31, 2021, if the U.S. dollar had been revalued/devalued in relation to the Peruvian sol – with all its variables remaining constant – the profit before tax would have increased/decreased as shown in the following table:

Period	Increase/decrease in Soles/US\$ exchange rate	Effects in profit before tax
2021		
Revaluation	5%	238
Devaluation	(5%)	(263)
2020		
Revaluation	5%	(1,402)
Devaluation	(5%)	1,550

Management considers that the foreign exchange risk will not originate a significant unfavorable impact on the profit or loss of the Group; therefore, its policy is to assume the risk of any fluctuation in the foreign exchange rates of the sol with the results of its operations. In this regard, Management does not consider it necessary to cover the Group for currency risk with derivative financial instruments.

Interest rate risk

The Group exposure to this risk is due to the change in the interest rate, due to its borrowings. The Group mitigates this risk by maintaining its borrowings at fixed interest rates.

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

<i>In thousands of U.S. dollars</i>	Fixed rate	Weighted average interest rate (%)
2021		
Financial liabilities:		
Interest-bearing loans	358,715	5.625%
2020		
Financial liabilities:		
Interest-bearing loans	542,396	5.625%

5. Discontinued Operations and Assets Held for Sale

a. Orazul Energy Group II S.A.C.

In the first half of 2021, the Company received an indication of interest for the gas to power business in Peru, which included the thermal power generation and hydrocarbon business.

In that context, in line with its aspiration of generating value through portfolio optimization, on June 25, 2021, the Company announced its decision to initiate a sale process of its indirect interest in the thermal power generation and hydrocarbon businesses in Peru (Termoselva and Aguaytía).

On September 30, 2021, the Shareholders approved the sale of OEG II. On October 1, 2021, the Company signed a Stock Purchase Agreement with Nautilus Partners III Perú S.A.C., a special purpose vehicle of Nautilus Energy Partners LLC, to sell the gas to power business in Peru, for a total consideration of US\$ 41,796 thousand. The sale included the Company's indirect ownership in the thermal power generation and hydrocarbon companies, Termoselva and Aguaytía, the total amount was paid on October 4, 2021.

The sale was compliant with the requirements of the Company's notes indenture and all requirements for related party transactions. OEG II was classified as held for sale as of September 30, 2021.

b. Orazul Energy Group S.A.C.

On March 10, 2020, the Company and Orazul Energía (UK) Holdings LTD signed a purchase agreement with Interconexión Eléctrica - ISA Peru, to sell its 100% ownership in Orazul Energy Group S.A.C. ("OEG"). OEG is a subsidiary of OEP, domiciled in Peru and the owner of 99.99% of the shares of Etenorte S.R.L. and Eteselva S.R.L. The closing of the sale agreement was subject to the approval from Peruvian authorities.

On August 11, 2020, INDECOPI, the Peruvian antitrust authority, approved the acquisition by Interconexión Eléctrica - ISA Peru without any conditions.

On August 24, 2020, the Company sold its 100% ownership of OEG to Interconexión Eléctrica - ISA Peru for US\$ 158,254 thousand total consideration after working capital adjustments. Related to the Purchase and Sale Agreement, dated March 10, 2020, there was a 60-day period for the Buyer to provide working capital adjustments over the total consideration to the Seller. On October 20, 2020, the amount calculated by the Buyer payable by the Sellers amounted to US\$ 209 thousand. This amount was agreed by the Seller and was fully paid on October 30, 2020.

OEG was classified as held-for-sale since March 1, 2020, as the 10-day results were not considered material for consolidated purposes.

A. Results of discontinued operation

As of September 30, 2021 and 2020, the discontinued operations comprise the results of OEG II and OEG Subsidiaries:

OEG II

	Ten – month period ended October 1, 2021	For the year ended December 31, 2020
<i>In thousands of U.S. dollars</i>		
Revenue	38,023	50,345
Cost of sales (excluding depreciation and amortization)	(17,933)	(19,426)
Depreciation	(10,563)	(12,848)
Impairment loss	(117,249)	-
General, selling and administrative expenses	(2,093)	(2,885)
Other income, net	149	435
Finance cost, net	(1,148)	(743)
(Loss) profit before income tax and discontinued operations	(110,814)	14,878
Income tax income (expense)	27,718	(5,879)
(Loss) profit from discontinued operations, net of tax	(83,096)	8,999
Consideration received	41,796	-
Net assets of disposal group	(41,796)	-
Transaction costs	(471)	-
(Loss) profit from discontinued operations	(83,567)	8,999

As of September 30, 2021, part of the revenues from the energy services came from sales made to the Company for US\$ 217 thousands (US\$ 461 thousands as of December 31, 2020).

OEG

	Eight-month period ended August 24, 2020
<i>In thousands of U.S. dollars</i>	
Revenues from transmission	5,919
Costs of sales of transmission	(616)
Depreciation	(978)
Administrative expenses	(238)
Other income, net	56
Finance cost, net	(136)
Results from operating activities	4,007
Income tax	(2,071)
Profit from discontinued operations, net of tax	1,936
Consideration received	158,254
Net assets of disposal group	(38,646)
Transaction costs	(3,416)
Profit from discontinued operations, net of tax	118,128

As of August 24, 2020, part of the revenues from the transmission services came from sales made to the Company and Termoselva for US\$ 2,016 thousand.

B. Cash flow from discontinued operation

	OEG II Ten-month period ended October 1, 2021	OEG Eight-month period ended August 24, 2020
<i>In thousands of U.S. dollars</i>		
For the period		
Opening balance	9,015	-
Net cash provided by operating activities	9,220	5,832
Net cash used (provided) in investing activities	33,570	147,907
Net cash used in financing activities	(207)	-
Net cash flow from discontinued operations	51,598	153,739

C. Effect of disposal on the financial position of the Group

	OEG II October 1, 2021	OEG August 24, 2020
<i>In thousands of U.S. dollars</i>		
Cash	9,802	7,043
Trade receivables	6,934	817
Other receivables	2,154	31
Income tax receivable	2,698	207
Inventories	5,501	407
Intercompany receivables	436	-
Other assets	1,213	235
Property, plant and equipment, net (a)	10,766	34,313
Deferred tax assets	19,465	133
Assets held for sale	58,969	43,186
Operating leasing	531	-
Trade payables	2,971	86
Other payables	793	116
Income tax payable	20	713
Deferred income	-	177
Asset retirement obligation	12,858	-
Deferred tax liabilities	-	3,448
Liabilities held for sale	17,173	4,540
Net assets of disposal group held for sale	41,796	38,646
Consideration received, satisfied in cash	41,796	158,254
Transaction costs	(471)	(2,887)
Cash from discontinued operations	(9,802)	(7,043)
Net cash inflows	31,523	148,324

- (a) As of September 30, 2021, based on a Fairness Opinion from a financial institution, the Company recorded an impairment loss of US\$ 117,249 thousand writing down the carrying amount of the OEG II disposal group to its fair value less costs to sell. It was included in discontinued operations in the consolidated statement of profit or loss and OCI.

6. Cash

Comprises the following:

<i>In thousands of U.S. dollars</i>	2021	2020
Checking accounts	20,844	153,437
Petty cash	5	8
	20,849	153,445

- (a) The Company holds checking accounts in different local and foreign financial entities and the funds are available. As of December 31, 2021, checking accounts at Banco de Crédito del Perú bear interest at current market rates of 0.07% in US dollars and 0.15% in soles (0.07% in U.S. dollars and 0.15% in soles in 2020) and Scotiabank Perú bear interest at current market rates of 0.35% in US dollars and 0.50% in soles (0.15% in US dollars and 0.15% in soles in 2020) and Bank of America bear interest at current market rates of 0.05% in U.S. dollars (0.05% in U.S. dollars in 2020).

Credit ranking

According to Apoyo & Asociados S.A.C. (for local financial entities) and Standard & Poor's (for foreign financial entity), the credit quality that safeguard the Group bank deposits was evaluate as follows:

	2021	2020
Banco del Crédito del Perú S.A.	A+	A+
Scotiabank Perú S.A.A.	A+	A+
Bank of America	A+	A+

7. Trade Receivable

Comprises the following:

<i>In thousands of U.S. dollars</i>	December 31, 2021	December 31, 2020
Regulated Customers	8,838	11,186
Non-regulated customers	5,626	6,804
COES (a)	2,627	6,702
Other	-	19,243
Subtotal	17,091	43,935
Impairment loss allowance (e)	(175)	(19,293)
Total	16,916	24,642

Trade receivables are denominated in U.S. dollars (non-regulated customers) and soles (COES and regulated customers). They have current maturity and do not generate interest, except in the case of payment delays. Balance of trade receivables as of December 31, 2021, corresponds to 8 non-regulated, 9 regulated customers (7 non-regulated, 4 regulated customers and 2 hydrocarbon customers as of December 31, 2020). The receivables are considered to be held whiting a held to collect business model consisted with the Group continuing recognition of the receivable.

The average credit period granted to customers of the Group ranges between 7 and 30 days. Once the terms indicated above expire, overdue balances accrue interests. The interest rate is determined by the annual average of the lending and borrowing rates of the foreign and local currency. As of December 31, 2021, the annual average interest rates for the Group are 5.91% and 3.30% for local and foreign currency, respectively (7.23% and 3.58% as of December 31, 2020 for local and foreign currency, respectively).

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- (a) The Committee of Economic Operation of the National Interconnected System (COES) as the system operator acts as a clearing house and settles the payments for power generation companies.
- (b) As of December 31, 2021 and 2020, past due commercial loans (more than 360 days) represent, less than 2% and 2.5%, of the total balance of trade receivables, respectively. These correspond mainly to commercial accounts receivable with non-regulated customers.
- (c) As of December 31, 2021 and 2020, trade receivables comprise accounts receivables with its related parties of US\$ 694 thousand and US\$ 532 thousand, respectively, (note 28.C).
- (d) The aging of trade receivables is the following:

<i>In thousands of U.S. dollars</i>	2021	2020
Unexpired	16,619	19,288
Less than 30 days	191	1,723
31 to 90 days	2	2,153
181 to 360 days	28	1,478
More than 360 days	251	19,293
	17,091	43,935

- (e) The movement of the impairment estimate of accounts receivable was as follows:

<i>In thousands of U.S. dollars</i>	2021	2020
Opening balance	19,293	19,319
Addition	43	(1)
Write off	(131)	-
Assets held for sale	(19,048)	-
Exchange difference	18	(25)
	175	19,293

In 2020, the main amount for receivables of more than 360 days corresponds to the non-collectability of the invoices issued to Maple for natural gasoline sales which were part of the disposal group of OEG.

- (f) The aging of account receivables and the status of customers are constantly monitored to ensure the appropriateness of the estimate in the consolidated financial statements. As a result, Management considers that the impairment estimate of accounts receivables covers sufficiently the risk of loss of doubtful accounts as of December 31, 2021 and 2020.

8. Other Receivables

Comprises the following:

<i>In thousands of U.S. dollars</i>	2021	2020
Current portion		
Guarantee deposits (a)	-	1,291
Work for taxes mechanisms	-	1,291
Other receivables	341	229
	341	2,811
Non-current portion		
Credit on temporary taxes on net assets	-	388
	-	388
Total	341	3,199

- (a) In 2019, the subsidiary Aguaytia, as part of the procedure to recover the account receivable from Maple Gas Corporation del Peru S.R.L., granted a deposit in favor of its collection managers in the United States. This deposit would be used to satisfy any liability or claims, expense, cost, damage and legal expenses that may be incurred during the recovery process. During 2021, Management's request to withdraw the guarantee was granted, and therefore it was collected on December 10, 2021.
- (b) Asset disposed within the sale of OEG II.

9. Income Tax Receivable and Payable

Comprises the following:

<i>In thousands of U.S. dollars</i>	2021	2020
Income tax receivable	2,390	2,315
Income tax payable	-	1,585

It corresponds to the current income tax, which will be consumed or paid during the period 2022.

10. Inventories

Comprises the following:

<i>In thousands of U.S. dollars</i>	2021	2020
Supplies and spare parts (a)	1,314	5,802
Fuel and lubricants	39	93
Fuel to sale	5	71
	1,358	5,966
Write off (b)	(23)	(337)
	1,335	5,629

- (a) Mechanical spare parts correspond mainly to items use in programmed maintenance for hydropower plant, Carhuaquero and Cañon del Pato for enabling appropriate operations until major maintenance. There were no inventory write-downs recorded during the years ended December 31, 2021 and 2020.
- (b) The movement of write off is as follows:

<i>In thousands of U.S. dollars</i>	2021	2020
Balance as of January 1	337	630
Destructions	-	(293)
Held for sale	(314)	-
Balance as of December 31	23	337

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11. Property, Plant and Equipment

Comprises the following:

<i>In thousands of U.S. dollars</i>	Land	Buildings and other constructions	Machinery and equipment	Asset retirement obligation	Vehicles	Furniture and fixtures	Sundry equipment	Works in progress (a)	Total
Cost									
As of January 1, 2020	8,823	359,766	439,033	6,448	2,985	1,140	20,531	3,429	842,155
Additions	-	4	20	3,521	1,197	-	30	1,160	5,932
Disposals	-	(10,600)	(2,378)	-	(426)	(230)	(2,721)	-	(16,355)
Transfers and others	(40)	(1,694)	3,940	-	(163)	(471)	901	(2,473)	-
Discontinued operation (b)	-	(2,244)	(142,952)	-	-	-	(3,322)	(583)	(149,101)
As of December 31, 2020	8,783	345,232	297,663	9,969	3,593	439	15,419	1,533	682,631
Additions	-	25	314	220	217	56	415	1446	2693
Disposals	-	-	-	-	(473)	-	(225)	-	(698)
Transfers and others	-	467	951	-	-	(138)	429	(1,709)	-
Discontinued operation	(178)	(2,564)	(117,700)	(917)	(902)	(12)	(346)	(702)	(123,321)
As of December 31, 2021	8,605	343,160	181,228	9,272	2,435	345	15,692	568	561,305
Accumulated depreciation									
As of January 1, 2020	-	(201,590)	(302,769)	(94)	(2,618)	(988)	(16,910)	-	(524,969)
Depreciation (e)	-	(5,611)	(11,446)	(149)	(186)	(13)	(1,005)	-	(18,410)
Disposals	-	9,979	2,004	-	344	424	2,308	-	15,059
Transfers and others	-	1,535	(1,096)	(66)	(122)	300	(551)	-	-
Discontinued operation (c)	-	580	111,426	-	-	-	2,782	-	114,788
As of December 31, 2020	-	(195,107)	(201,881)	(309)	(2,582)	(277)	(13,376)	-	(413,532)
Depreciation (e)	-	(5,507)	(10,538)	(282)	(365)	(19)	(674)	-	(17,385)
Disposals	-	-	49	-	422	-	212	-	683
Discontinued operation	-	1,483	73,599	162	441	5	190	-	75,880
As of December 31, 2021	-	(199,131)	(138,771)	(429)	(2,084)	(291)	(13,648)	-	(354,354)
Impairment loss									
As of January 1, 2020	-	(389)	(149)	-	(1)	(2)	(2)	-	(543)
Retirements	-	389	149	-	1	2	2	-	543
As of December 31, 2020	-	-	-	-	-	-	-	-	-
Carrying amount									
As of January 1, 2020	8,823	157,787	136,115	6,354	366	150	3,619	3,429	316,643
As of December 31, 2020	8,783	150,125	95,782	9,660	1,011	162	2,043	1,533	269,099
As of December 31, 2021	8,605	144,029	42,457	8,843	351	54	2,044	568	206,951

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- (a) As of December 31, 2021 the additions correspond mainly to major maintenance works and automation of the plant for US\$ 1,446 thousand (in 2020 work in progress includes mainly turbine injector for US\$ 360 thousand, tunnel structure improvement for US\$ 125 thousand, Fire System US\$ 136 thousand, Oil retaining wall construction for US\$ 99 thousand and other projects for US\$ 103 thousand).
- (b) Correspond mainly to machinery and equipment held for sale related with operation activities of Aguaytia and Termoselva (in 2020 correspond to Eteselva and Etenorte) (note 5).
- (c) During 2021 the Company and Subsidiary Termoselva recorded assets retirement obligation for US\$ 385 thousand (US\$ 3,521 thousand in 2020) (note 19). As of December 31, 2020, included balance of Termoselva S.R.L., which is part of the assets sold.
- (d) Property, plant and equipment includes right-of-use assets US\$ 266 thousand as of December 31, 2021 (US\$ 404 thousand as of December 31, 2020):

<i>In thousands of U.S. dollars</i>	Buildings and other constructions	Vehicles	Sandy equipment	Total
Cost				
Balance as of January 1, 2020	3,036	297	127	3,460
Addition (g)	-	1,197	-	1,197
Retirements	(3,036)	(302)	(127)	(3,465)
Balance as of December 31, 2020	-	1,192	-	1,192
Addition (g)	-	216	-	216
Discontinued operations	-	(864)	-	(864)
Balance as of December 31, 2021	-	544	-	544
Accumulated depreciation				
Balance as of January 1, 2020	(3,036)	(210)	(127)	(3,373)
Depreciation	-	(387)	-	(387)
Retirements	3,036	297	127	3,460
Balance as of December 31, 2020	-	(300)	-	(300)
Depreciation	-	(337)	-	(337)
Discontinued operations	-	359	-	359
Balance as of December 31, 2021	-	(278)	-	(278)
Carrying amount				
As of January 1, 2020	-	87	-	87
As of December 31, 2020	-	892	-	892
As of December 31, 2021	-	266	-	266

- (e) Distribution of depreciation was as follows:

<i>In thousands of U.S. dollars</i>	Note	2021	2020
Cost of sales		13,214	13,678
Administrative expenses	24	400	429
Discontinued operation	5	3,771	4,303
		17,385	18,410

- (f) Correspond to a 4-year contract with a renting company for an operational leasing for the Group's vehicles signed in January 2020.
- (g) As of December 31, 2021 and 2020, the Group does not have guarantees related to the acquisition of property, plant and equipment.

12. Gas Investments

Comprises the following:

<i>In thousands of U.S. dollars</i>	Gas and fractionation plant	Asset retirement obligation	Spare parts	Vehicles	Furniture and fixture	Sundry equipment	Works in progress	Total
Cost								
Balance as of January 1, 2020	156,759	10,261	-	346	255	3,098	967	171,686
Additions	-	1,057	-	82	-	80	3,669	4,888
Disposals	-	-	-	-	(45)	(57)	-	(102)
Transfers and others	2,275	-	-	(8)	18	263	(2,548)	-
Balance as of December 31, 2020	159,034	11,318	-	420	228	3,384	2,088	176,472
Additions	113	(137)	35	-	18	92	4,453	4,574
Transfers and others	(5)	-	291	-	-	-	(286)	-
Discontinued operation	(159,142)	(11,181)	(326)	(420)	(246)	(3,476)	(6,255)	(181,046)
Balance as of December 31, 2021	-	-	-	-	-	-	-	-
Accumulated depreciation								
As of January 1, 2020	(101,801)	(474)	-	(172)	(190)	(878)	-	(103,515)
Depreciation	(7,602)	(809)	-	(13)	(25)	(153)	-	(8,602)
Disposals	-	-	-	-	34	55	-	89
Balance as of December 31, 2020	(109,403)	(1,283)	-	(185)	(181)	(976)	-	(112,028)
Depreciation	(5,176)	(696)	(3)	(21)	(12)	(197)	-	(6,105)
Transfers and others	189	-	(189)	-	-	-	-	-
Discontinued operation	114,390	1,979	192	206	193	1,173	-	118,133
Balance as of December 31, 2021	-	-	-	-	-	-	-	-
Carrying amount								
As of January 1, 2020	54,958	9,787	-	174	65	2,220	967	68,171
As of December 31, 2020	49,631	10,035	-	235	47	2,408	2,088	64,444
As of December 31, 2021	-	-	-	-	-	-	-	-

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- (a) Gas investment was classified as held for sale on September 30, 2021 and disposed on October 4, 2021 within the sale of OEG II. As of September 30, 2021, work in progress mainly included: Workover for US\$ 2,619 thousand, detection system for US\$ 766 thousand, extension of the concession for US\$ 481 thousand, erosion control for US\$ 140 thousand and others minors of US\$ 447 thousands (As of September 30, 2020 work in progress mainly includes erosion control for US\$ 288 thousand, major maintenance of moto compressor for US\$ 234 thousand and Internal corrosion control system for US\$ 175 thousand).
- (b) As of December 31, 2020, the Company do not have guarantees related to the acquisition of gas investments.

13. Intangible Assets

Comprises the following:

<i>In thousands of U.S. dollars</i>	Goodwill	Electric and hydrocarbon concessions (c)	Softwares	Other rights	Total
	(a)				
Cost					
Balance as of January 1, 2020	395,456	93,614	7,815	18,395	515,280
Disposals (b)	-	-	(4,822)	-	(4,822)
Additions	-	-	31	7,599	7,630
Balance as of December 31, 2020	395,456	93,614	3,024	25,994	518,088
Disposals (b)	-	-	(1,239)	-	(1,239)
Additions	-	-	-	2,197	2,197
Discontinued operation	3,971	(13,660)	-	(12,343)	(22,032)
Balance as of December 31, 2021	399,427	79,954	1,785	15,848	497,014
Accumulated amortization					
Balance as of January 1, 2020	-	(2,757)	(6,367)	-	(9,124)
Disposals (b)	-	-	4,822	-	4,822
Amortization (d)	-	(921)	(118)	-	(1,039)
Balance as of December 31, 2020	-	(3,678)	(1,663)	-	(5,341)
Disposals (b)	-	-	1,229	-	1,229
Amortization (d)	-	(684)	(567)	-	(1,251)
Discontinued operation	-	4,362	6	-	4,368
Balance as of December 31, 2021	-	-	(995)	-	(995)
Carrying amount					
As of January 1, 2020	395,456	90,857	1,448	18,395	506,156
As of December 31, 2020	395,456	89,936	1,361	25,994	512,747
As of December 31, 2021	399,427	79,954	790	15,848	496,019

- (a) The goodwill corresponds to (i) the excess of the net fair value of assets and liabilities identified during the acquisition of the Peruvian operating business on December 20, 2016 for US\$ 364,908 thousand, net of the deferred income tax liabilities arising from intangible assets acquired; and (ii) the adjustment of fair value of fixed assets for US\$ 34,519 thousand.
- (b) The disposals correspond to retirements of software, licenses and ERP that were discontinued for obsolescence and which were totally depressed.
- (c) The electric concessions correspond to intangible assets identified at the acquisition date on December 20, 2016. The useful life of electric concessions is indefinite. As of December 31, 2021 and 2020, Management is not required to establish reserves for the possible impairment of its intangible assets with an indefinite life.

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- (d) Amortization of intangibles was as follows:

<i>In thousands of U.S. dollars</i>	<i>Note</i>	2021	2020
Administrative expenses	24	567	118
Discontinued operation	5	684	921
		1,251	1,039

- (e) Other rights correspond to the agreements signed between the Company and its subsidiary Termoselva, with regulated customers, by which regulated customers grant an option to sign addendums to the original public tender of certain PPAs, extending their contract term, modifying the contracted capacity and associated energy and maintaining the current fixed prices with framework of the Supreme Decree 022-2018 EM (note 15).

Management analysis indicated there were no impairment indicators on the value of the intangibles as of December 31, 2021 and 2020.

14. Trade Payables

Comprises the following:

<i>In thousands of U.S. dollars</i>	2021	2020
Energy purchases and transmission tolls	4,420	4,301
Other purchases (a)	2,120	4,794
	6,540	9,095

- (a) Corresponds mainly to the purchase of spare parts, supplies and services related to the operation.

Trade account payables are mainly denominated in U.S. dollars, have current maturities, do not accrue interest expenses, and do not have specific guarantees.

15. Other Payables

Comprises the following:

<i>In thousands of U.S. dollars</i>	2021	2020
Interest payables-debentures	3,518	5,328
Option agreements (a)	2,166	8,529
Value-Added Tax	1,162	1,048
Other taxes	355	1,133
Rural electricity contribution	160	283
Various accruals and other accounts payables	293	94
Labor liability	3	2
	7,657	16,417

- (a) As of December 31, 2021, the decrease corresponds to the execution of certain option agreements signed by the Company with distribution companies by which distribution companies grant an option to sign addendums to the original public tender of certain PPAs, extending the contract term, modifying the contracted capacity and associated energy and maintaining the current fixed prices within framework of the Supreme Decree 022-2018 EM (note 13(e)).

16. Lease Liabilities

Comprises the following:

<i>In thousands of U.S. dollars</i>	<i>Note</i>	2021	2020
Balance as of January 1		946	93
Additions (a)	11(e)	216	1,197
Payments	17.B	(379)	(392)
Unwind of discount		45	53
Liabilities held for sale		(532)	-
Early termination of contract		-	(5)
Balance as of December 31		296	946

(a) Correspond to a 4-year contract with a renting company for an operational leasing for the Group's vehicles signed in January 2020.

(b) The lease liability is distributed as follows:

<i>In thousands of U.S. dollars</i>	2021	2020
Current portion		
Lease liabilities	429	312
Liabilities held for sale	(281)	-
Subtotal	148	312
Non-current portion		
Lease liabilities	399	634
Liabilities held for sale	(251)	-
Subtotal	148	634
Total	296	946

17. Debentures

Comprises the following:

<i>In thousands of U.S. dollars</i>	2021	2020
Orazul Energy Perú 2027 notes (a)	363,198	550,000
Transaction costs	(4,483)	(7,604)
	358,715	542,396

(a) On April 25, 2017, the Company priced its notes in the international capital market for the amount of US\$ 550,000 thousand under Rule 144A Regulation S of the Securities Market Law of the United States of America with a final maturity in April 2027. The Notes are rated BB by Fitch Ratings and BB- by Standard & Poor's. Those notes will be redeemed upon maturity in April 2027, accrue interests at a nominal annual rate of 5.625% and coupon interest is paid semi-annually.

On June 25, 2021, the Company announced the commencement of a cash tender offer (the "Transmission Tender Offer") for up to an amount of its outstanding Senior Notes that would not result in the aggregate purchase price exceeding US\$ 150,400 thousand (the "Maximum Transmission Tender Amount").

The Transmission Tender Offer constituted an Asset Sale Offer pursuant to the requirements of the indenture governing the Notes, in connection with the Company's sale in August 2020 of its indirect ownership in the transmission business companies, Etenorte S.R.L. and Eteselva S.R.L.

On August 12, 2021, the Company announced the final tender results for its Transmission Tender Offer. The Company informed that a total of US\$ 362,521 thousand aggregate principal amount of the Notes was validly tendered. Since the aggregate principal amount of the Notes validly tendered resulted in an aggregate purchase price that exceeded the Maximum Tender Amount of US\$ 150,400 thousand, the Company accepted for purchase US\$ 145,314 thousand aggregate principal amount of the Notes, using a proration factor of approximately 40.1%.

The Total Consideration for the Notes validly tendered and accepted pursuant to the Transmission Tender Offer was \$ 1,035 per \$ 1,000 principal amount of Notes. In addition to the Total Consideration, holders received accrued and unpaid interest on all Notes tendered and accepted for payment in the Transmission Tender Offer from the last interest payment date up to, but not including August 13, 2021 (the "Settlement Date").

After the Transmission Tender Offer was completed, our Notes amounted to US\$ 404,686 thousand.

On October 29, 2021, the Company announced the commencement of a cash tender offer (the "Gas-to-Power Tender Offer") for up to an amount of its outstanding Senior Notes that would not result in the aggregate purchase price exceeding US\$ 41,799 thousand (the "Maximum Gas to Power Tender Amount").

The Gas-to-Power Tender Offer constitutes an asset sale offer pursuant to the requirements of the indenture governing the Notes, in connection with the Company's sale in October 2021 of its indirect ownership in the thermal power generation and hydrocarbon businesses, Termoselva and Aguaytía.

On November 30, 2021, the Company announced the final tender results for its Gas-to-Power Tender Offer. A total of US\$ 180,282 thousand aggregate principal amount of the Notes was validly tendered. Since the aggregate principal amount of the Notes validly tendered resulted in an aggregate purchase price that exceeded the Maximum Gas to Power Tender Amount of US\$ 41,799 thousand, the Company accepted for purchase US\$ 41,488 thousand aggregate principal amount of the Notes, using a proration factor of approximately 23%.

The total consideration for the Notes validly tendered and accepted pursuant to the Gas-to-Power Tender Offer was US\$ 1,007.5 per US\$ 1,000 principal amount of Notes. In addition to the Total Consideration, holders received accrued and unpaid interest on all Notes tendered and accepted for payment from the last interest payment date up to, but not including, December 1, 2021, together with additional amounts thereon.

After the Gas-to-Power Tender Offer was completed, our Notes amount to US\$ 363,198 thousand.

Conditions of the Notes

During the effective term of the notes, the Company will be subject to restrictions and responsibilities, the most relevant are as follows:

- The Company agrees to some restrictions for the payments outside its usual operations, new investments and in the sale of assets.
- The Company and its guarantors agree to keep their accounting records under IFRS and report their separate financial statements within the periods established in the agreement.

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- The Company agrees to comply with certain restrictions for new indebtedness.
- The Company agrees to maintain effective insurance policies that cover its generation and transmission assets and that have coverage, deductibles and insured amounts that are reasonable and usual for private companies engaged in the generation and distribution of electrical energy.

Management considers that these restrictions and responsibilities required for the Company were compiled appropriately as of December 31, 2021, and 2020.

A. Terms and debt repayment schedule

The terms and conditions of debentures are as follows:

<i>In thousands of U.S. dollars</i>	Nominal annual interest rate	Currency	Maturity	Fair value		Carrying amount	
				2021	2020	2021	2020
OEP 2027 Notes	5.625%	US\$	April 2027	363,198	550,000	358,715	542,396

The table below presents the payment schedule of the non-current portion of the long-term debt as of December 31, 2021:

<i>In thousands of U.S. dollars</i>	
2027	363,198
	363,198

B. Reconciliation of movements of liabilities to cash flows from financing activities

The reconciliation of movements of liabilities to cash flows arising from financing activities, as follows:

<i>In thousands of U.S. dollars</i>	Liabilities					Equity	
	Other payables	Debentures	Lease liabilities	Intercompany payables	Total	Other reserves	Total equity
	(note 15)	(note 17)	(note 16)	(note 28.C)	liabilities		
Balance as of January 1, 2021	16,417	542,396	946	23,476	583,235	5,675	5,675
Payment of notes	-	(186,802)	-	-	(186,802)	-	-
Payment to related parties' loan - interest	-	-	-	(1,000)	(1,000)	-	-
Interest paid	(36,084)	-	-	-	(36,084)	-	-
Payment of withholding tax	(2,522)	-	-	-	(2,522)	-	-
Payment of lease liabilities	-	-	(379)	-	(379)	-	-
Net cash used financing activities	(38,606)	(186,802)	(379)	(1,000)	(226,787)	-	-
Interest expenses	27,639	-	18	-	27,657	-	-
Transaction cost	-	3,121	-	-	3,121	-	-
Held for sale	-	-	(289)	(755)	(1,044)	-	-
Others	2,207	-	-	(7)	2,200	-	-
Balance as of December 31, 2021	7,657	358,715	296	21,714	388,382	5,675	5,675

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	Liabilities					Equity	
	Other payables (note 15)	Debentures (note 17)	Lease liabilities (note 16)	Intercompany payables (note 28.C)	Total liabilities	Other reserves	Total equity
<i>In thousands of U.S. dollars</i>							
Balance as of January 1, 2020	18,028	541,384	93	82,942	642,447	6,438	6,438
Payment to related parties' loan - interest	-	-	-	(64,000)	(64,000)	-	-
Interest paid	(30,938)	-	-	-	(30,938)	-	-
Payment of withholding tax	(3,641)	-	-	-	(3,641)	-	-
Lease payment	-	-	(418)	-	(418)	-	-
Net cash used financing activities	(34,579)	-	(418)	(64,000)	(98,997)	-	-
Interest expenses	30,938	-	-	-	30,938	-	-
Transaction cost	-	1,012	-	-	1,012	-	-
New leases	-	-	1,192	-	1,192	-	-
Others	2,030	-	79	4,534	6,643	(763)	(763)
Balance as of December 31, 2020	16,417	542,396	946	23,476	583,235	5,675	5,675

18. Current and Deferred Income

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

	Additions/recoveries				
	Opening balance	Profit or loss (P&L)	Discontinued PL	Held for Sale	Final balance
<i>In thousands of U.S. dollars</i>					
2021					
Deferred assets					
Tax losses carryforward	117,549	130,597	-	-	248,146
Financial cost	(2,243)	921	-	-	(1,322)
Fair value loan	(2)	1	-	-	(1)
Property, plant and equipment	(77,093)	1,416	-	-	(75,677)
Various provisions	(99)	(1,491)	-	-	(1,590)
	38,112	131,444	-	-	169,556
Deferred liabilities					
Fair value assets	(6,421)	-	486	5,935	-
Tax losses carryforward	3,019	-	(2,642)	(377)	-
Property, plant and equipment	(7,043)	-	(3,684)	10,727	-
Other provisions	651	-	187	(838)	-
	(9,794)	-	(5,653)	15,447	-
Net effect	28,318	131,444	(5,653)	15,447	169,556

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	Additions/recoveries					
<i>In thousands of U.S. dollars</i>	Opening balance	Profit or loss (P&L)	Discontinued PL	Equity (note 28 (c))	Held for Sale	Final balance
2020						
Deferred assets						
Tax losses carryforward	-	117,549	-	-	-	117,549
Financial cost	-	(2,243)	-	-	-	(2,243)
Fair value loan	-	(321)	-	319	-	(2)
Property, plant and equipment	1,121	(78,475)	(467)	-	728	(77,093)
Various provisions	249	(313)	(5)	-	(30)	(99)
	1,370	36,197	(472)	319	698	38,112
Deferred liabilities						
Fair value assets	(38,292)	28,631	553	-	2,687	(6,421)
Tax losses carryforward	9,022	(6,164)	161	-	-	3,019
Fair value loan	(1,114)	1,114	-	-	-	-
Financial cost	(2,572)	2,572	-	-	-	-
Property, plant and equipment	(54,040)	48,187	(1,125)	-	(65)	(7,043)
Other provisions	(2,059)	2,504	212	-	(6)	651
	(89,055)	76,844	(199)	-	2,616	(9,794)
Net effect	(87,685)	113,041	(671)	319	3,314	28,318

Income tax expense shown in the statement of profit or loss for years 2021 and 2020 is composed as follows:

<i>In thousands of U.S. dollars</i>	2021	2020
Current tax	(5)	(1,055)
Deferred tax	131,444	113,041
	131,439	111,986

The table below presents the reconciliation of the effective income tax rate as for the years ended December 31, 2021 and 2020 to the tax rate:

<i>In thousands of U.S. dollars</i>	2021		2020	
Profit before income tax	14,003	100%	25,338	100.00%
Theoretical expense	4,131	29.5%	7,475	29.50%
Effect of non-taxable income and non-deductible expenses	7,181	51.28%	(165)	(0.65%)
Exchange difference taxable base	(10,043)	(71.72%)	(11,819)	(46.65%)
Income from sale of subsidiary	(132,177)	(943.91%)	(108,777)	(429.30%)
Others	(530)	(3.79%)	1,300	5.13%
Income tax expenses	(131,438)	(938.64%)	(111,986)	(441.97%)

19. Asset Retirement Obligation

Comprises the following:

<i>In thousands of U.S. dollars</i>	Note	2021	2020
Balance as of January 1		22,141	17,224
Additions	11, 12	83	4,578
Unwind of discount		185	342
Payments		-	(3)
Liabilities held for sale		(12,858)	-
Balance as of December 31		9,551	22,141

The provision for dismantling liabilities corresponds to the Cañón del Pato and Carhuaquero hydroelectric plants and has been determined taking into consideration all the costs necessary to dismantle and rehabilitate the area where the operation is located. The future value, considering the effect of inflation, amounts to US\$ 18,300 thousand and has been discounted using a risk-free annual rate of 1.26% and 1.31% for liabilities exceeding 20 years for 2021 and 2020, respectively.

20. Equity

(A) Share capital

Comprises the following:

<i>In thousands of U.S. dollars</i>	December 31, 2021	December 31, 2020
Orazul Energia (UK) Holdings Ltd.	384,982	196,066
Others	54	20
	385,036	196,086

On February 24, 2021, the Company capitalized the retained earnings of the 2020-year end US\$ 188,950 thousand and issued additional shares for 690,801,200 with a nominal value of S/ 1.00 per share.

As of December 31, 2021, issued capital stock is represented by 1,342,025,489 common shares with a nominal value of S/ 1.00 per share, duly authorized, issued and paid.

Shareholders	Number of shares	%
Orazul Energia (UK) Holdings Ltd.	1,341,835,923	99.99
Others	189,566	0.01
	1,342,025,489	100.00

As of December 31, 2020, issued capital stock was represented by 651,224,289 common shares with a nominal value of S/ 1.00 per share, duly authorized, issued and paid.

Shareholders	Number of shares	%
Orazul Energia (UK) Holdings Ltd.	651,132,301	99.99
Others	91,988	0.01
	651,224,289	100.00

(B) Legal reserve

According to the Companies Act, the Company is required to allocate at least 10% of its annual net income to a legal reserve after deducting accumulated losses. This allocation is required until the reserve equals 20% of paid-in capital. In the absence of non-distributed earnings or freely available reserves, the legal reserve must be applied to offset but it must be replaced with the earnings of the subsequent years. This reserve can also be capitalized but its subsequent replenishment is equally mandatory.

21. Capital Management

The Group policy is to maintain an adequate capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management monitors the return on capital, as well as the level of dividends to ordinary Shareholders.

The Board of Directors seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

The Group monitors capital using a ratio of 'adjusted net debt' to 'adjusted equity'. For this purpose, adjusted net debt is defined as main part of total loans and financial obligations. Net debt is calculated as total liabilities (as shown in the statement of financial position) less cash. Adjusted equity comprises all components of equity other than amounts accumulated in the cash flow hedging reserve. The Group adjusted net debt to equity ratio as of December 31, 2021 and 2020 was as follows:

<i>In thousands of U.S. dollars</i>	<i>Note</i>	2021	2020
Total liabilities		404,847	626,346
Less: Cash	6	(20,849)	(153,445)
Total adjusted net debts (A)		383,998	472,901
Total equity (B)		510,088	448,392
Gearing ratio (A/B)		0.75	1.05

22. Tax Issues

A. Tax Situation

Income tax return for the years ended December 31, 2018 to 2021 have not been reviewed by the Tax Administration yet, which is empowered to conduct those reviews within four years immediately after the submission date of pertinent tax returns.

In April 2019, the Tax Administration began the definitive tax audit for the fiscal year 2017, which was concluded in 2020.

Due to possible interpretations that tax authorities may have on current applicable regulations every year, it is not possible to determine to date whether liabilities for the Company will arise or not from the reviews to be conducted. Therefore, any income tax or charge that may result from those tax reviews would be applied to profit or loss for the year when determined. Management of the Company believes that any additional tax payment would not be significant for the Company and Subsidiaries' financial statements as of December 31, 2021 and 2020.

B. The income tax rate for legal entities domiciled in Peru shall be determined by applying the rate of 29.5% on their net income.

Legal entities domiciled in Peru are subject to an additional rate of 5% on any amount that may be considered as indirect income provision, including amounts charged to expenses and unreported income; that is, expenses which may have benefited shareholders, interest holders, among others; other expenses not related to the business; expenses of shareholders, interest holders, among others, which are assumed by the legal entity.

C. According to the Income Tax Peruvian legislation, tax losses may be offset according to either of the following systems: (A) against net income generated within the following four fiscal years after the year in which the loss was incurred (any losses that are not offset within such period may not be carried forward to any future year); or (B) against 50% of the net income generated in the following fiscal years after the year in which the loss was generated (under this system, there is no time limit for carrying the losses forward).

On March 24, 2020, the Company amended its Income Tax Return 2018, changing its tax loss carryforward system from System A to System B.

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- D. Temporary Tax on Net Assets is applicable to third category recipients subject to the general income tax regime. Since 2009, the tax rate of 0.4% is applicable to the amount of net assets exceeding S/ 1 million. The paid amount can be used as credit against the payments in advance related with the general income tax regime or against the regularization payment of income tax of the corresponding taxable period. As of December 31, 2021, the Company has US\$ 1,164 thousand as ITAN balance to recover.
- E. Tax amendments of greater relevance in force since January 1, 2019 and applicable through 2021:

- i. New legal concept of accrual Legislative Decree N° 1425 introduced the definition of a legal accrual for purposes of Income Tax, establishing that income in the case of:
- a) transfer of goods occurs when: i) occurs the change of control (according to IFRS 15); or ii) occurs the transfer of the risk to the acquirer (Risk Theory established in the Civil Code), whichever occurs first; and b) in the case of service provision, the degree of completion of the service has been established.

The new legal concept of accrual is applicable to lessees for purposes of establishing the tax treatment of the expense associated with the lease agreements regulated by IFRS 16 (i.e. operating leases for fiscal purposes).

It should be noted that the concept subject matter of comment will not be applicable for those entities that earn income or expenses for Income Tax according to provisions of a tax nature that establish a special regime (sector) of accrual.

- ii. Sub-capitalization
Beginning in 2019 and until December 31, 2020, the financial expense generated by indebtedness, both between independent and related parties, is subject to the sub-capitalization limit of (3: 1 Debt-Equity Ratio) calculated at the close of the previous year. As of January 1, 2021, the financial expenses will be deductible up to the limit of 30% of the tax EBITDA (Net Income - Compensation of Losses + Net Interest + Depreciation + Amortization) of the previous year. There are some exceptions to the application of this limitation in the case of banks, taxpayers with incomes not exceeding 2,500 UITs, infrastructure, public services, etc.
- iii. Deduction of expenses or costs incurred in transactions with non-domiciled parties Legislative Decree 1369 ° requires that costs and / or expenses (including outbound interest) incurred with non-domiciled counterparts must have been paid effectively in order to be deducted in the year in which they were incurred. If not, its impact on the determination of net income will be deferred to the year in which the opportunity in which the corresponding withholding will be applied is actually paid. This rule eliminated the obligation to pay the amount equivalent to the withholding on the amount recorded as cost and / or expense.
- iv. Rule XVI
According to the Legislative Decree N° 1422 - Rule XVI (General Anti-Avoidance Rule) establishes the obligation of the Board of Directors to approve, ratify or modify the acts, situations and economic relations to be carried out within the framework of fiscal planning. The deadline for the aforementioned ratification of modifies expired on March 29, 2019.
- v. Final beneficiaries
The Legislative Decree 1372 requires legal entities in Peru to file an information return with the Peruvian tax authorities that identifies their "final beneficiaries".

23. Revenue

In the following table, revenue is disaggregated by service line:

<i>In thousands of U.S. dollars</i>	2021	2020
Sale of electrical energy		
Sale of energy and capacity		
Energy	60,488	59,448
Capacity	18,935	18,683
COES		
Energy	7,696	3,281
Capacity	4,016	2,885
Other	108	312
	91,243	84,609

During 2021, the Company sold 1,443 GWH (1,587 GWH during 2020).

As of December 31, 2021, there was estimated pending revenues to be invoiced for US\$ 12,864 thousand (US\$ 11,080 thousand in 2020). According to Management's evaluation, there would not be significant variation between the amounts invoiced and those estimated. The Company's income is recognized as the electric energy generation service is provided.

24. Expenses by Nature

Comprises the following:

<i>In thousands of U.S. dollars</i>	<i>Note</i>	Cost of sales		Administrative expenses		Total	
		2021	2020	2021	2020	2021	2020
Intercompany services	28.C	4,646	4,642	1,528	2,128	6,174	6,770
Power purchase		3,101	4,965	-	-	3,101	4,965
Taxes		2,961	2,877	17	26	2,978	2,903
Transmission services to third parties		2,685	712	-	-	2,685	712
Insure		2,487	715	-	-	2,487	715
Transmission services to related parties	28.C	2,188	2,284	-	-	2,188	2,284
Supplies and spare parts		1,624	1,541	-	-	1,624	1,541
Third party services		1,150	585	960	958	2,110	1,543
Sundry management charges		558	273	676	616	1,234	889
Personnel expenses		61	34	18	2	79	36
Depreciation and amortization	11,13	-	-	967	547	967	547
		21,461	18,628	4,166	4,277	25,627	22,905

25. Other Income

Comprises the following:

<i>In thousands of U.S. dollars</i>	<i>Note</i>	2021	2020
Other non-operating income		1,529	517
Intercompany services	28.C	197	228
Net profit for the sale of fixed assets		60	-
		1,786	745

26. Net Finance Costs

Comprises the following:

<i>In thousands of U.S. dollars</i>	<i>Note</i>	2021	2020
Interest expenses – debentures		27,639	30,741
Other financial expenses (a)		6,958	251
Transaction cost amortization		3,121	1,038
Withholding tax on interest		1,393	2,304
Unwind of discount on provision for decommissioning		120	104
Unwind of discount on lease liabilities		19	26
Interest expenses - related parties	28.C	3	2,687
		39,253	37,151

- (a) In 2021, other borrowing costs mainly correspond to the financial cost related to the premium paid to the bondholders in connection with the Transmission Tender Offer and the Gas-to-Power Tender Offer (note 17).

27. Commitments

Electricity Supply Contracts

As of December 31, 2021 and 2020, the Company has 8 contracts with non-regulated customers (11 contracts with non-regulated customers in 2020), whose maturities vary between year 2022 and 2027. The off-peak capacity agreed in these contracts amounts to 201 MW as of December 31, 2021 (208 MW as of December 31, 2020). In relation to regulated customers, the Company signed 15 contracts with 9 distribution companies for 174 MW, effective as of December 31, 2021 and 2020.

28. Related Party Transactions

A. Parent Company and Ultimate Parent Company

The Company's main shareholder is Orazul Energía (UK) Holdings Ltd, which belongs to the group of subsidiaries owned by ISQ Global Infrastructure Fund I & II (Delaware and Cayman exempted limited partnership), ultimate parent of the group.

B. Transactions with key management

i. Loans to directors

As of December 31, 2021 and 2020 there are no loans to directors.

ii. Key management personnel compensation

As of December 31, 2021 and 2020, there is a Management Services Agreement and an Operation and Maintenance Agreement (O&M) between the Company and Kallpa related to the services Kallpa provides for managing the Company's operations. Both agreements were terminated effective on January 1, 2022.

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iii. Transactions with key management personnel

During the year ended December 31, 2021 and 2020, there were no transactions between the Company and Key Management, other than those in (ii).

C. Other Related Parties Transactions

In 2021 and 2020, the Group performed the following significant transactions with related parties, during the normal course of operations:

			Transaction value	
<i>In thousands of U.S. dollars</i>	<i>Note</i>	<i>Transaction type</i>	2021	2020
Sales				
Kallpa Generación S.A.		COES	3,107	3,893
Samay I S.A.		COES	8	3
Termoselva S.R.L.		COES	264	-
Costs	24			
Samay I S.A.		COES	(1,639)	(1,910)
Kallpa Generación S.A.		COES	(524)	(374)
Termoselva S.R.L.		COES	(25)	-
Other				
Kallpa Generación S.A. (a)		Management service and O&M	(6,174)	(6,770)
Orazul Energía Partners LLC (b)		Fair value	(3)	(2,687)
Eléctrica Cobee-Sucursal	25	Others	197	228
			(4,789)	(7,617)

		Outstanding balances	
<i>In thousands of U.S. dollars</i>	Transaction type	2021	2020
Account receivables			
Kallpa Generación S.A.	COES	575	532
Termoselva S.R.L.	COES	118	-
Samay I S.A.	COES	1	-
Trade accounts receivable		694	532
Kallpa Generación S.A.	Management service and O&M	258	360
Samay I S.A.	PPE sales	3	-
Eléctrica Cobee-Sucursal	Services	-	59
Accounts receivable from related parties		261	419
Account payables			
Samay I S.A.	COES	(166)	(275)
Kallpa Generación S.A.	COES	(43)	(55)
Termoselva S.R.L.	COES	(1)	-
Trade accounts payable		(210)	(330)
Kallpa Generación S.A.	Management service and O&M	-	(766)
Other accounts payable		-	(766)
Orazul Energía Partners LLC (a)	Loan	(21,713)	(22,710)
Orazul Energy Hidrocarburos	Dividends	(1)	-
Account payables to related parties		(21,714)	(22,710)
		(20,969)	(22,855)

The outstanding balances with related parties have current maturity and do not accrue interest. None of these balances are guaranteed.

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- (a) The Group and Kallpa Generacion S.A. entered into a Management Service and Operational Service Agreement, which can be renewed under the express consent of the parties each period. (note 24)
- (b) On December 20, 2016, Orazul Energía Partners LLC, granted a subordinated loan in favor of the Company for an aggregate amount of US\$ 255,950 thousand to fund the acquisition of Orazul Energy Group Shares. The loan accrued annual interest rate of 6% until final maturity on December 20, 2026. (note 26)

On July 4, 2017, Orazul Energía Partners LLC assigned a portion of the subordinated loan in the amount of US\$ 127,950 thousand to Orazul Energia (UK) Holdings Ltd. On the same date, Orazul Energia (UK) Holdings Ltd. approved the capitalization of such debt and increased the capital stock issued of the Company. As of December 31, 2018, the updated interest was US\$ 22,652 thousand.

On January 2019, Orazul Energy Partners LLC modified the subordinated loan rate from 6% to 0%, without modifying the terms of maturity and payment. As a result of this change, the liability was reduced, and equity increased by US\$ 9,132 thousand net of a deferred tax of US\$ 2,694 thousand, generating a net effect of US\$ 6,438 thousand. In 2020, the Company paid a total of US\$ 64,000 thousand that generated an increase in equity of US\$ 1,082 thousand, net of deferred tax of US\$ 319 thousand, generating a net effect of US\$ 763 thousand.

As mentioned, in May, September, November and December 2020, the Company paid US\$ 19,000 thousand, US\$ 20,000 thousand, US\$ 20,000 thousand and US\$ 5,000 thousand respectively. As a result of these payments, the fair value of the loan was adjusted.

In May, September, November and December 2020, the Company paid US\$ 19,000 thousand, US\$ 20,000 thousand, US\$ 20,000 thousand and US\$ 5,000 thousand, respectively

In February 2021, the Company paid US\$ 1,000 thousand corresponding to the balance of interest accrued until December 2018. The balance for the interest accrued amounts to US\$ 21,652 thousand.

29. Contingencies

As of December 31, 2021 and 2020, the Company has the following contingencies:

- (a) The Company is involved in certain labor claims, mostly related to vacations, job reinstatement, compensation for damages (including moral damages) and profit sharing, for which, after being evaluated individually, as of December, 2021. The Company recorded a provision equivalent to US\$ 374 thousand for labor claims considered probable of losing.

In Management's opinion, based on its external legal advisors, it has been estimated that the Company could have to pay up to an equivalent amount of US\$ 711 thousand for labor claims that are not more likely than not that the Company will pay.

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(b) Temporary Tax on Net Assets

Temporary tax on net assets return from 2013 was reviewed by the Tax Administration in 2014, issuing determination and fine resolutions for US\$ 216 thousand plus interests in May 2015. In July 2015, the Company filed a claim against the Tax Administration; and in April 2016, the Tax Administration declared the claim filed by the Company as groundless. In May 2016, the Company filed an appeal before the Tax Court, which has been resolved against Orazul through the Tax Court Resolution N° 08513-3-2019 in September 2019. In November 2019, the Company decided to pay the amount of US\$ 428 thousand (US\$ 285 thousand as ITAN and US\$ 143 thousand as fine, included interests). In December 2019, the Company filed the corresponding judicial action. The Judicial Court held a hearing on July 15, 2021 and in the same date the Company submitted an additional document in order to reinforce the arguments exposed in the claim.

On January 28, 2022, the First Instance of the Judicial Court issued Resolution N° 8 whereby the claim filed by Orazul is declared well founded and, consequently, the Tax Court Resolution N° 08513-3-2019 null and void. In this way, the Court has recognized that the higher value of the assets as a result of their reorganization and revaluation, should not be part of the 2013 ITAN tax base, as Orazul pointed out throughout of the judicial process. It is now up to SUNAT and the Tax Court to file an appeal before the Superior Court. To date, the case is still pending to a final judgment. In the opinion of Management and legal advisors, there are legal and factual arguments that lead to consider that is not more likely than not to be successful.

In the opinion of Management and the legal advisors of the Company, there are no significant contingencies that could affect the consolidated financial statements as of December 31, 2021 and 2020 that have not been provisioned or disclosed in the consolidated financial statements.

30. Subsequent Events

Subsequent to December 31, 2021 there have been no events that may have an effect on the consolidated financial statements of the Company.