



Orazul Energy Perú S.A. and Subsidiaries

Consolidated Financial Statements

December 31, 2020 and 2019

(Including Independent Auditors' Report)

**KPMG en Perú**

Torre KPMG. Av. Javier Prado Este 444, Piso 27
San Isidro. Lima 27, Perú

Teléfono

Fax

Internet

51 (1) 611 3000

51 (1) 421 6943

www.kpmg.com/pe

INDEPENDENT AUDITORS' REPORT ON REVIEW OF CONSOLIDATED FINANCIAL STATEMENTS

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, 2020 and 2019, 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 31, 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, 2020 and 2019, and its consolidated financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards issued by International Accounting Standards Board.

Lima, Peru

February 26, 2021

Countersigned by:

Caipo y Asociados

A handwritten signature in black ink, appearing to read 'Ronald J. Villalobos S.', written over a horizontal line.

Ronald J. Villalobos S. (Partner)
Certified Public Accountant
Registration Number 60262

Orazul Energy Perú S.A. and Subsidiaries

Consolidated Financial Statements

December 31, 2020 and 2019

Contents	Page
Consolidated Statements of Financial Position	1
Consolidated Statements of Profit or Loss and Other Comprehensive Income	2
Consolidated Statements of Changes in Equity	3
Consolidated Statements of Cash Flows	4
Notes to the Consolidated Financial Statements	5 - 68

Orazul Energy Perú S.A. and Subsidiaries
Consolidated Statements of Financial Position
As of December 31, 2020 and 2019

<i>In thousands of U.S. dollars</i>	<i>Note</i>	2020	2019
Assets			
Current assets			
Cash	6	153,445	41,160
Trade receivables	7	24,642	17,636
Other receivables	8	2,811	2,447
Income tax receivable	9	2,315	3,924
Account receivables from related parties	29	419	91
Inventories	10	5,629	5,750
Prepaid expenses		312	172
Total current assets		189,573	71,180
Non-current assets			
Property, plant and equipment - energy generation and transmission	11		
Property, plant and equipment		268,207	316,556
Right-of-use assets		892	87
Gas investments	12	64,444	68,171
Intangible assets and goodwill	13	512,747	506,156
Deferred income tax assets	18	38,112	1,370
Other receivables	8	388	455
Prepaid expenses		375	605
Total non-current assets		885,165	893,400
Total assets		1,074,738	964,580

<i>In thousands of U.S. dollars</i>	<i>Note</i>	2020	2019
Liabilities			
Current liabilities			
Trade payables	14	9,095	8,719
Other payables	15	16,417	18,028
Income tax payable	9	1,585	749
Lease liabilities	16	312	93
Account payables to related parties	29	766	6,307
Total current liabilities		28,175	33,896
Non-current liabilities			
Debentures	17	542,396	541,384
Lease liabilities	16	634	-
Account payables to related parties	29	22,710	82,942
Deferred income tax liabilities	18	9,794	89,055
Asset retirement obligation	19	22,141	17,224
Other liabilities		496	497
Total non-current liabilities		598,171	731,102
Total liabilities		626,346	764,998
Equity			
Share capital	20	196,086	196,086
Additional capital		8,857	8,857
Other reserves		5,675	6,438
Legal reserves		21,941	-
Retained earnings		215,794	(11,844)
Equity attributable to owners of the Company		448,353	199,537
Non-controlling interest		39	45
Total equity		448,392	199,582
Total liabilities and equity		1,074,738	964,580

The notes on pages 5 to 68 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, 2020 and 2019

<i>In thousands of U.S. dollars</i>	<i>Note</i>	2020	2019 (*)
Continuing operations			
Revenue of energy generation	23	128,296	127,594
Revenue of hydrocarbons	23	6,965	15,709
Cost of sales of energy generation and hydrocarbons	24	(37,443)	(38,633)
Depreciation	11, 12, 13	(26,526)	(30,175)
Gross profit		71,292	74,495
Administrative expenses	24	(7,773)	(9,384)
Other income	26	1,195	2,372
Other expenses		(389)	(1,266)
Operating profit		64,325	66,217
Finance income		589	759
Finance costs	27	(37,440)	(41,771)
Net foreign exchange difference	4.C.iii	(2,136)	321
Finance cost, net		(38,987)	(40,691)
Profit before income tax		25,338	25,526
Income tax income (expense)	18	106,107	(8,614)
Profit from continuing operations		131,445	16,912
Discontinued operation			
Profit from discontinued operation, net of tax	5	118,128	748
Profit for the period		249,573	17,660
Other comprehensive income for the period, net of tax		-	-
Attributable to			
Controlling shareholders		249,579	17,656
Non-controlling interest		(6)	4
Total comprehensive income for the period		249,573	17,660

(*) Comparative information has been re-presented due to a discontinued operation. See note 3.

The notes on pages 5 to 68 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, 2020 and 2019

		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			
<i>In thousands of U.S. dollars</i>	<i>Note</i>									
Balance as of January 1, 2019		651,224,289	196,086	-	-	-	(29,500)	166,586	41	166,627
Comprehensive income for the period										
Profit for the period		-	-	-	-	-	17,656	17,656	4	17,660
Total comprehensive income for the period		-	-	-	-	-	17,656	17,656	4	17,660
Additional capital	29(c)	-	-	8,857	-	-	-	8,857	-	8,857
Other reserves	29(a)	-	-	-	-	6,438	-	6,438	-	6,438
Total transactions with owners of the Company		-	-	8,857	-	6,438	-	15,295	-	15,295
Balance as of December 31, 2019		651,224,289	196,086	8,857	-	6,438	(11,844)	199,537	45	199,582
Balance as of January 1, 2020		651,224,289	196,086	8,857	-	6,438	(11,844)	199,537	45	199,582
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
Legal reserves	20	-	-	-	21,941	-	-	-	-	-
Other reserves	29(a)	-	-	-	-	(763)	(21,941)	(763)	-	(763)
Total transactions with owners of the Company		-	-	-	21,941	(763)	(21,941)	448,353	-	(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

The notes on pages 5 to 68 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, 2020 and 2019

<i>In thousands of U.S. dollars</i>	<i>Note</i>	2020	2019
Cash flows from operating activities			
Collections of energy generation and transmission		151,970	159,632
Collections of hydrocarbons		8,562	18,622
Payment to suppliers		(72,607)	(50,467)
Payment of royalties		(4,232)	(11,697)
Payment to employees		(586)	(8,774)
Payment of contributions and others		(3,144)	(563)
Cash generated from operating activities		79,963	106,753
Income tax paid		(7,385)	(4,415)
Net cash from operating activities		72,578	102,338
Cash flows from investing activities			
Proceeds from sale of investments		148,324	-
Proceeds from sale of property, plant and equipment		401	-
Acquisition of property, plant and equipment		(5,819)	(7,172)
Acquisition of intangibles		(7,742)	(9,723)
Net cash used in investing activities		135,164	(16,895)
Cash flows from financing activities			
Payment to related entities loan	29(a)	(64,000)	(63,000)
Interests paid		(30,938)	(30,938)
Payment of lease liabilities		(392)	(626)
Net cash used in financing activities		(95,330)	(94,564)
Net increase (decrease) in cash		112,412	(9,121)
Cash at January 1		39,532	50,014
Cash at January 1 of investment transmission	5	1,628	-
Effects of movements in exchange difference on cash held		(127)	267
Cash at December 31	6	153,445	41,160
Non-cash transactions			
Debt Capitalization		-	8,857
Debt compensation		-	885

The notes on pages 5 to 68 are an integral part of these consolidated financial statements.

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Consolidated Financial Statements
December 31, 2020 and 2019

1. Background and Business Activity

Orazul Energy Perú S.A. (hereinafter, "the Company") is a subsidiary of Orazul Energía (UK) Holdings Ltd. which owns 99.99% of voting shares which are representative of its issued capital stock. The Company legal domicile is Calle Las Palmeras 435, San Isidro, Lima, Peru

The Company was incorporated in October 10, 2016 in Peru. On December 20, 2016, the Company acquired 87.23% of Orazul Energy Group S.A.C. (former legal name was Duke Energy International Group Sarl, hereinafter, "OEG") from Duke Energy Corporation, which owned a group of companies in Peru, Chile, Guatemala and El Salvador.

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 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 24, 2020, the Company and Orazul Energía (UK) Holdings Ltd. sold its 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 transaction price was subject to normal closing pricing adjustments within 60 days from the closing date. Total consideration after working capital adjustments amounted to US\$ 158,254 thousand. (see note 5).

The businesses in Peru are related to hydropower and thermal power generation, natural gas production and processing assets through diverse companies (subsidiaries). These consolidated financial statements comprise the Company and its Subsidiaries in Peru (hereinafter, "the Group").

The Group business main activity is the generation and commercialization of electrical energy. The Group has a total installed capacity of 568 MW as follows:

Plant	Company	Source used to	Installed capacity (MW)	Location
		operate power station		
Central Térmica Aguaytía	Termoselva	Natural gas	192	Aguaytía, Ucayali
Cañón del Pato	Orazul Energy Peru	Hydropower	266	Huallanca, Ancash
Carhuaquero	Orazul Energy Peru	Hydropower	110	LLacma, Cajamarca
			568	

As of December 31, 2020 and 2019, the subsidiaries and the percentages of interest owned by the Company are detailed below:

	Direct equity interest	
	2020	2019
Holding		
OEG II	99.99	99.99
OEG	-	99.99

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Consolidated Financial Statements
December 31, 2020 and 2019

In addition, OEG and OEG II have the following subsidiaries:

<i>Percentage</i>	Direct equity interest	
	2020	2019
OEG II subsidiaries		
Holdings		
Orazul Energy Hidrocarburos S.A.	99.98	99.98
Operational		
Aguaytía Energy del Perú S.R.L.	99.98	99.98
Termoselva S.R.L.	99.98	99.98
OEG subsidiaries		
Holdings		
Orazul Energy Transmisión S.A.	-	99.98
Operational		
Etenorte S.R.L.	-	99.98
Eteselva S.R.L.	-	99.98

Orazul Energy Group S.A.C. (hereinafter, "OEG")

OEG 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. On August 23, 2019, OEG transfers in favor of Orazul Energy Group II S.A.C. an equity block equivalent to its investment in Orazul Energy Hidrocarburos S.A. for US\$ 108,574 (in thousands). The effective date was on September 1, 2019.

On August 24, 2020, the Company and Orazul Energía (UK) Holdings Ltd. sold its 100% ownership of OEG to Interconexión Eléctrica - ISA Peru, for a total consideration of US\$ 158,254 thousand after working capital adjustments (see note 5).

Orazul Energy Group II S.A.C. (hereinafter, "OEG II")

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.

Aguaytía's License Contract extension:

On July 1 2020, Aguaytía and Perupetro S.A. (hereinafter, "Perupetro") signed an addenda of the License Contract for the Exploitation of Hydrocarbons – Block 31C. Among other topics, it was stated that once completed (a) and (b) detailed below, the Contract Extension would be granted for ten (10) additional years, until March 2034:

- Perform an exploration program including the reprocessing of seismic data, with an investment of US\$ 0.7m. To be executed at least before July 2022.
- 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.

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Consolidated Financial Statements
December 31, 2020 and 2019

c. Additionally, the following commitments:

- Supply up to 2 million ft3 /day of natural gas for the gas massification of Ucayali.
- Environmental protection: Aguaytía will be responsible for the preparation and execution of the abandonment plan according 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.

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.

Amounts of the financial statements of the Subsidiaries

Summary of the financial statements of the Subsidiaries as of December 31, 2020 and 2019, prepared under International Financial Reporting Standards (IFRS), before elimination adjustments for consolidation purposes, are presented below:

<i>In thousands of U.S. dollars</i>	2020	2019
Subsidiaries		
Aguaytía del Perú S.R.L.		
Total assets	138,020	144,446
Total liabilities	(17,364)	(19,257)
Equity	120,656	125,189
Profit for the period	8,967	15,210
Termoselva S.R.L.		
Total assets	78,099	72,986
Total liabilities	(12,543)	(9,222)
Equity	65,556	63,764
Profit for the period	10,433	12,681
Orazul Energy Hidrocarburos S.A.		
Total assets	112,720	119,961
Total liabilities	(912)	-
Equity	111,808	119,961
Profit for the period	13,421	22,451
Orazul Energy Group II S.A.		
Total assets	109,503	117,571
Total liabilities	(43)	-
Equity	109,460	117,571
Profit for the period	12,559	(8,997)
Eteselva S.R.L.		
Total assets	-	32,996
Total liabilities	-	(235)
Equity	-	32,761
Profit for the period	-	2,222
Etenorte S.R.L.		
Total assets	-	10,329
Total liabilities	-	(1,100)
Equity	-	9,229
Profit for the period	-	3,068

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Consolidated Financial Statements
December 31, 2020 and 2019

<i>In thousands of U.S. dollars</i>	2020	2019
Orazul Energy Transmision S.A.		
Total assets	-	95,353
Total liabilities	-	-
Equity	-	95,353
Profit for the period	-	4,560
Orazul Energy Group S.A.C.		
Total assets	-	95,250
Total liabilities	-	(14,576)
Equity	-	80,674
Profit for the period	-	16,900

Changes in the Company's ownership interest 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 interest were adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non- controlling interest 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.

A. COVID-19 impact

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, 2020.

The possible future effects of the pandemic are uncertain, however, considering the current situation we expect not to have significant impacts in the financial results.

Management adopted measures 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.

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Consolidated Financial Statements
December 31, 2020 and 2019

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 debt of US\$550 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.

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.

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 there are four producing wells and three gas reinjection wells. Other relevant aspects of the License Agreement are indicated as follows:

- (i) The term of the License Agreement is for 30 years counted from the subscription date of the agreement (March 30, 1994), which can be extended up to 40 years upon agreement of Aguaytia and Perupetro on behalf of the Peruvian government (Note 1).

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Consolidated Financial Statements
December 31, 2020 and 2019

- (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. On July 1 2020, Aguaytia and Perupetro signed an addenda 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\$ 0.7m. 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 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.

- (iii) 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.

The expense for royalties in 2020 was US\$ 3,486 thousand (US\$ 11,708 thousand in 2019) (note 24) and is presented as cost of sales of the consolidated statement of profit or loss and other comprehensive income, and US\$ 71 thousand (US\$ 86 thousand in 2019) is part of the inventory balance.

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.

- (iv) 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.

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

2. Operations Regulation and Legal Standards Affecting the Electric and Hydrocarbons 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:

Operating regulations and legal standards that affect the hydrocarbons sector

Main operating regulations and legal standards of the hydrocarbons sector, where the Company develops its activities are as follows:

- Organic Hydrocarbons Law – Law No. 26221.
- Supervising Entity of Investment in Energy and Mining (OSINERGMIN, for its acronym in Spanish), by virtue of Law No. 26734, amended by Law No. 28964.
- Fund for the stabilization of fuel prices – Emergency Decree No. 010-2004 and its Regulation, Supreme Decree No. 142-2004-EF.
- Law that creates the Energy Security System in Hydrocarbons and the Energy Social Inclusion Fund (FISE, for its acronym in Spanish) - Law No. 29583.
- Law that guarantees energy security and promotes the development of the petrochemical pole southern Peru - Law No. 29970.

The Groups's Management considers that they have complied with applicable standards and regulations and that no contingencies will arise from such compliance.

Operating regulations and legal standards that affect the electrical sector

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.

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Consolidated Financial Statements
December 31, 2020 and 2019

B. Law to Guarantee the Efficient Development of Electricity Generation

On 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.

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, 2020 and 2019, 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.

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Consolidated Financial Statements
December 31, 2020 and 2019

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.

E. Anti-monopoly and Anti-oligopoly Law in the Electricity Sector

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, which will enter into force, 15 calendar days after the adjustments are made to the Regulations of the INDECOPI Organization and Functions Law. 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.

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Consolidated Financial Statements
December 31, 2020 and 2019

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.

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 July 4, 2020 to April 30, 2021

Published on Jun 19, 2020, by means of Resolution OSINERGMIN N° 068-2020-OS/CD, thereby establishing Busbar prices and their corresponding Nodal Electricity Factors and associated Power Loss Factors, which are effective from July 4, 2020 to April 30, 2021

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. Regulation of the Secondary Natural Gas Market

Published on August 5, 2010 by means of Supreme Decree 046-2010-EM, through which it was approved, among others, the Regulation of the Secondary Natural Gas Market establishing mechanisms to make transfers of production and/or firm transport capacity of natural gas among offering and demanding consumers, modified through Supreme Decree 022-2011-EM, 029-2012-EM and 025-2014-EM.

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Consolidated Financial Statements
December 31, 2020 and 2019

Supreme Decree N° 032-2017-EM, published on September 30, 2017, suspended until December 31, 2018 the implementation of the Secondary Market Regulation of Natural Gas approved by Supreme Decree N° 046-2010-EM. In the same way, Supreme Decree N° 039-2018-EM, published on December 30, 2018, suspended until December 31, 2019 this implementation. During this period, operations in the Secondary Market may be carried out in the form of bilateral agreements. Through Supreme Decree N° 023-2019-EM, the Ministry of Energy and Mines extend the suspension of the implementation of the Regulation of the Secondary Market of Natural Gas approved by Supreme Decree N° 046-2010-EM, until December 31, 2020. During this period, operations in the Secondary Market may be carried out through bilateral agreements.

Through Supreme Decree N° 023-2019-EM, the Ministry of Energy and Mines extend the suspension of the implementation of the Regulation of the Secondary Market of Natural Gas approved by Supreme Decree N° 046-2010-EM, until December 31, 2020.

Through Supreme Decree 034-2020-EM, the implementation of the Regulation of the Secondary Natural Gas Market, approved by Supreme Decree No. 046-2010-EM, and extended by Supreme Decree No. 023-2019, is suspended until June 30, 2021 -EM. During this period, operations in the Secondary Market may be carried out through bilateral agreements.

L. Law that creates the energy security system on hydrocarbons and the energy and social inclusion fund

On April 13, 2013, Law 29852, the Law that Creates the Energy Security System on Hydrocarbons and the Energy and Social Inclusion Fund (FISE, for its Spanish acronym), approved through Executive Order 021-2012-EM, was published, as a power compensation system that provides security for the system, as well as a social compensation scheme for the most vulnerable sectors of the population. The additional fee paid for electric generators is transferred to the toll of the main transmission electrical system through Law 29969, a law that lays down provisions to promote the massive use of natural gas.

In 2016, the Legislative Decree No. 1331 introduced provisions to promote the use of natural gas at the national level. The FISE also serves to promote mechanisms for universal access to energy. The funds can be used to finance connections, vehicular conversions and systems or means of distribution or transportation.

M. 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.

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Consolidated Financial Statements
December 31, 2020 and 2019

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.

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.

N. 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.

As a result of the Supreme Court ruling issued in September 2020, through Supreme Decree 031-2020-EM it is established that, for the application of article 99 of the Regulation of the Electricity Concessions Law, the COES will present to OSINERGMIN, within a maximum period of thirty (30) business days, the proposal to modify the technical procedures related to, among others, the determination of the variable costs of thermoelectric generation units that use natural gas. Following this proposal from COES, OSINERGMIN has a maximum period of sixty (60) business days to approve the aforementioned technical procedures. Part of the approval process includes an opportunity for interested parties to present their observations. OSINERGMIN will establish the corresponding deadlines for these stages.

O. 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.

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Consolidated Financial Statements
December 31, 2020 and 2019

In addition, the Decree established that within a period of six months, OSINERGMIN will approve the procedures for applying the provisions of the second paragraph of article 96 of the Regulations of the Electricity Concessions Law.

P. 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.

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

Q. 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.

R. Emergency mechanisms established for natural gas supply

On December 31, 2013, the Government published the Executive Order 050-2012-EM to establish emergency response mechanisms for natural gas supply in the country and its implications on different business activities. On July 23, 2018, this norm was replaced by Executive Order 017-2018-EM.

This norm allocates the priority of the available gas: i) first to regulated residential and commercial consumers, and then ii) GNV (in Spanish) retail establishments. The rest of the gas is allocated pro rata between: i) electric generators, ii) regulated industrial consumers and iii) independent consumers, considering the consumption of each sector during the week prior to maintenance. In the electricity sector, in addition, it has been arranged that the energy generated with reassigned gas will be considered an injection of the company that ceded the gas, which will have to pay the company that injected energy with reassigned gas, the cost of the gas and the variable costs not fuels. On the other hand, idealized marginal costs are not established.

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Consolidated Financial Statements
December 31, 2020 and 2019

S. Modification the Technical Norm 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.

T. 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.
- 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.

U. 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.

V. 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.

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Consolidated Financial Statements
December 31, 2020 and 2019

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.

W. 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:

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

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.

X. 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.

Y. 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.

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Consolidated Financial Statements
December 31, 2020 and 2019

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.

Z. 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.

AA. 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.

BB. 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.

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Consolidated Financial Statements
December 31, 2020 and 2019

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.

CC. 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 at 21.41%.

DD. 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 2021.

Through Resolution 202-2020-OS / CD, the Rotating Reserve Margin for the Primary Regulation of Frequency of the National Interconnected Electric System is set at 3.5% for the flood period in the months of January to May and December 2021; and 2.8% for the dry season in the months of June to November 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 at December 31, 2019 that have a significant risk of resulting in a material adjustments 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;

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Consolidated Financial Statements
December 31, 2020 and 2019

Note 13: impairment test of intangible assets and goodwill: key assumptions underlying recoverable amounts, including the recoverability of development costs;

Note 30: recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources; and

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.

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, 2020 have been authorized for issuance by the Management of the Company on February 24, 2020. 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, 2019 were approved by the Board of Directors on February 26, 2020.

ii. Historical cost basis

The consolidated financial statements have been prepared on the historical cost basis, and provision for asset retirement obligation (note 3.R).

iii. Reclassifications

During 2020, and with the purpose of making the financial information comparable with the balances of the financial statements as of December 31, 2020, the Company's Management made certain reclassifications in the presentation of the comparative figures as of December 31, 2019. 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>	Ref.	Previously informed	Reclassifications (a)	Final Balance
Assets				
Trade receivables	7	17,523	113	17,636
Account receivables from related parties	29	204	(113)	91

(a) Correspond to accrual payables various related to operation activities.

C. New standards and interpretations not yet adopted

A number of new standards are effective for annual periods beginning after January 1, 2019 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 Group consolidated or combined financial statements:

- Onerous contracts – cost of fulfilling a Contract (Amendment to IAS 37)
- Interest Rate Benchmark Reform – Phase 2 (Amendment to IFRS 4, IAS 39, IFRS 7, IFRS 4 and IFRS 16)
- COVID-19-Related Rent Concession (Amendment to IFRS 16)
- 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.

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.

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Consolidated Financial Statements
December 31, 2020 and 2019

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.

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.

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Consolidated Financial Statements
December 31, 2020 and 2019

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.

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 recognize 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.

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Consolidated Financial Statements
December 31, 2020 and 2019

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.

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 Aguyatia 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.	

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Consolidated Financial Statements
December 31, 2020 and 2019

Type of product/ service	Nature, timing of satisfaction of performance obligations, significant payments terms	Revenue recognition
	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. Employee benefits**i. Short-term benefits**

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

The employee benefits are classified as short-term benefits or as other long-term benefits depending on when the Company expects the benefits to be wholly settled.

ii. Defined contribution plans

Obligations for contributions to defined contribution plans including the contributions made by the Company to the Pension Fund Administrators (AFPs, for its Spanish acronym) are expensed as the related service is provided. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

iii. Termination benefits

Severance pay is charged to profit or loss when there is a clear obligation to pay termination of employees before they reach the customary age of retirement according to a formal, detailed plan, without any reasonable chance of cancellation. The benefits given to employees upon voluntary retirement are charged when the Company proposes a plan to the employees encouraging voluntary retirement, it is expected that the proposal will be accepted and the number of employee acceptances can be estimated reliably.

I. 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.

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.

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Consolidated Financial Statements
December 31, 2020 and 2019

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.

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.

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.

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Consolidated Financial Statements
December 31, 2020 and 2019

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.

J. 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.

K. 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.

L. 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) and thermoelectric power plant in Ucayali (Termoselva). 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.

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Consolidated Financial Statements
December 31, 2020 and 2019

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 are 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

Energy generation and transmission

Depreciation

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

	Years
Buildings and other constructions	12 – 80
Machinery, equipment and transmission lines	3 – 35
Vehicles	2 – 24
Furniture and fixtures	5 – 16
Sundry equipment	1 – 28

Gas investments

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

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

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

	2020	2019
Gas and fractionation plant	1.67% and 5.53%	5.11% and 8.21%

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

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

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

M. 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.

N. 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 are 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.

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Consolidated Financial Statements
December 31, 2020 and 2019

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.

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.

O. 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.

P. 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.

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Consolidated Financial Statements
December 31, 2020 and 2019

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.

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.

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Consolidated Financial Statements
December 31, 2020 and 2019

Q. 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.

R. 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.

S. 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.

T. 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.

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Consolidated Financial Statements
December 31, 2020 and 2019

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.

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:

	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 (*)	1,656	-	-	1,656	-
Intercompany receivables	419	-	-	419	-
Financial liabilities not measured at fair value					
Trade payable	-	(9,095)	-	(9,095)	-
Other payable (*)	-	(13,953)	-	(13,953)	-
Intercompany payables	-	(766)	(22,710)	(23,476)	-
Debentures	-	-	(542,396)	(542,396)	(579,568)
Lease liabilities	-	(312)	(634)	(946)	-
	180,162	(24,126)	(565,740)	(409,704)	(579,568)

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

	Carrying amount			Fair value	
	Current		Non-current		
	Amortized cost	Other financial liabilities	Other financial liabilities		
<i>In thousands of U.S. dollars</i>				Total	Level 2
As of December 31, 2019					
Financial assets not measured at fair value					
Cash	41,160	-	-	41,160	-
Trade receivables	17,636	-	-	17,636	-
Other receivables (*)	1,617	-	-	1,617	-
Intercompany receivables	91	-	-	91	-
Financial liabilities not measured at fair value					
Trade payable	-	(8,719)	-	(8,719)	-
Other payable (*)	-	(14,306)	-	(14,306)	-
Intercompany payables	-	(6,307)	(82,942)	(89,249)	-
Debentures	-	-	(541,384)	(541,384)	(565,813)
Lease liabilities	-	(93)	-	(93)	-
	60,504	(29,425)	(624,326)	(593,247)	(565,813)

(*) 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 at December 31, 2020 and 2019:

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.

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.

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Consolidated Financial Statements
December 31, 2020 and 2019

As of December 31, 2020 and 2019, the maximum exposure to credit risk for the Group financial assets was the following:

<i>In thousands of U.S. dollars</i>	Carrying amount	
	2020	2019
Cash (a)	153,445	41,160
Trade receivables (b)	24,642	17,636
Account receivables from related parties	419	91
Other receivables	1,656	1,617
	180,162	60,504

- (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, 2020 and 2019, 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, 2020 and 2019, the composition of trade receivables is 100% related 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

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.

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2020 and 2019

- 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, which 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, 2020 and 2019, the Group has a positive working capital. The principal sources of liquidity have traditionally consisted of cash flows from operating activities, short-term and long-term borrowings including bank loans. The Group does not have funds designated for, or subject to, permanent reinvestment.

The Group needs for liquidity generally consist of fuel financing and 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, 2020 and 2019.

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2020 and 2019

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
2020									
Non-derivative financial liabilities:									
Loans from banks and others	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	13,953	13,953	13,953	-	-	-	-	-
Account payables to related parties		23,476	23,483	766	22,717	-	-	-	-
Lease liabilities	16	946	1,005	336	336	333	-	-	-
		589,866	793,305	55,088	53,991	31,271	30,938	30,938	591,079
2019									
Non-derivative financial liabilities:									
Loans from banks and others	17	541,384	770,965	30,938	30,938	30,938	30,938	30,938	616,275
Trade payables	14	8,719	8,719	8,719	-	-	-	-	-
Other payables	15	14,306	14,306	14,306	-	-	-	-	-
Account payable to related parties		89,249	64,065	61,500	2,115	450	-	-	-
Lease liabilities	16	93	102	102	-	-	-	-	-
		653,751	858,157	115,565	33,053	31,388	30,938	30,938	616,275

iii. Market risk

Currency risk

As of December 31, 2020 and 2019, 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, 2020, the weighted average market exchange rates used were US\$ 0.2759 per S/ 1.00 for sell rate and US\$ 0.2764 per S/ 1.00 for offer rate (US\$ 0.3015 per S/ 1.00 for sell rate and US\$ 0.3020 per S/ 1.00 for offer rate as of December 31, 2019).

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

<i>In thousands of soles</i>	2020	2019
Asset:		
Cash	82,760	33,264
Trade receivables	85,150	58,019
Other receivables	154	4,788
	168,064	96,071
Liabilities:		
Trade payables	(27,521)	(19,000)
Other payables	(34,109)	(16,753)
	(61,630)	(35,753)
Net asset position	106,434	60,318

In 2020, net foreign exchange loss amounts US\$ 2,136 thousand (net foreign exchange gain of US\$ 322 thousand in 2019).

As of December 31, 2019, 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 or loss before tax
2020		
Revaluation	5%	(1,402)
Devaluation	(5%)	1,550
2019		
Revaluation	5%	(854)
Devaluation	(5%)	1,082

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 (%)
2020		
Financial liabilities:		
Interest-bearing loans	542,396	5.625%
2019		
Financial liabilities:		
Interest-bearing loans	541,384	5.625%

5. Discontinued Operations and Assets Held for Sale

On March 10, 2020, Orazul Energy Peru S.A. ("OEP") 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, OEP 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.

OEG was not previously classified as held-for-sale or as discontinued operation. The comparative audited consolidated statement of profit or loss and other comprehensive income has been re-presented to show the discontinued operation separately from continuing operations.

A. Results of discontinued operation

<i>In thousands of U.S. dollars</i>	Eight-month period ended August 24, 2020	For the year ended December 31, 2019
Revenues from transmission	5,919	8,538
Costs of sales of transmission	(616)	(620)
Depreciation	(978)	(5,846)
Administrative expenses	(238)	(416)
Other income	408	735
Other expenses	(352)	(512)
Finance cost, net	(136)	233
Results from operating activities	4,007	2,112
Income tax	(2,071)	(1,364)
Profit from discontinued operations, net of tax	1,936	748
Consideration received	158,254	-
Net assets of disposal group	(38,646)	-
Transaction costs	(3,416)	-
Profit from discontinued operations, net of tax	118,128	748

Orazul Energy Perú S.A. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2020 and 2019

As of August 24, 2020 and December 31, 2019, part of the revenues from the transmission services came from sales made to Orazul and Termoselva for US\$ 2,016 thousand and US \$ 2,999 thousand, respectively.

B. Cash flow from discontinued operation

	Eight-month period ended August 24, 2020	For the year ended December 31, 2019
<i>In thousands of U.S. dollars</i>		
For the period		
Net cash provided by operating activities	5,832	9,304
Net cash used from investing activities	147,907	(19,224)
Net cash flow from discontinued operations	153,739	(9,920)

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

<i>In thousands of U.S. dollars</i>	August 24, 2020
Cash	7,043
Trade receivables	817
Other receivables	31
Inventories	407
Other assets	235
Income tax asset	207
Property, plant, and equipment	34,313
Deferred income tax assets	133
Assets held for sale	43,186
Trade payables	86
Other payables	116
Income tax payable	713
Deferred income	177
Deferred income tax liabilities	3,448
Liabilities held for sale	4,540
Net assets of disposal group	38,646
Consideration received, satisfied in cash	155,367
Cash disposed of	(7,043)
Net cash inflows	148,324

6. Cash

Comprises the following:

<i>In thousands of U.S. dollars</i>	2020	2019
Checking accounts	153,437	41,151
Petty cash	8	9
	153,445	41,160

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

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:

	2020	2019
Banco del Crédito del Perú (BCP)	A+	A+
Scotiabank Perú	A+	A+
Bank of America	A+	A+

7. Trade Receivables

Comprises the following:

<i>In thousands of U.S. dollars</i>	December 31, 2020	December 31, 2019
Non-regulated customers	6,804	2,081
Regulated Customers	11,186	11,599
COES	6,702	3,601
Other	19,243	19,674
Subtotal (a)	43,935	36,955
Impairment loss allowance (b)	(19,293)	(19,319)
Total	24,642	17,636

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, 2020, corresponds to 6 non-regulated, 5 regulated customers and 2 hydrocarbon customers (4 non-regulated, 10 regulated clients and 2 hydrocarbon customers as of December 31, 2019). 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, 2020, the annual average interest rates for the Group are 7.23% and 3.58% for local and foreign currency, respectively (8.39% and 4.33% as of December 31, 2019 for local and foreign currency, respectively).

- (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, 2020 and 2019, past due trade receivables (over 360 days), represent less than 44% of the total balance of trade receivables. Those mainly correspond to trade receivables with non-regulated customers.
- (c) The aging of trade receivables is the following:

<i>In thousands of U.S. dollars</i>	2020	2019
Unexpired	19,288	16,620
Less than 30 days	1,723	927
31 to 90 days	2,153	2
181 to 360 days	1,478	87
More than 360 days	19,293	19,319
	43,935	36,955

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

<i>In thousands of U.S. dollars</i>	2020	2019
Opening balance	19,319	19,341
Collections	(1)	-
Write off of customer receivables	-	(37)
Exchange difference	(25)	15
	19,293	19,319

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.

- (e) 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, 2020 and 2019.

8. Other Receivables

Comprises the following:

<i>In thousands of U.S. dollars</i>	2020	2019
Current portion		
Guarantee deposits (a)	1,291	1,291
Work for taxes mechanisms	1,291	774
Other receivables	229	313
Fund for the stabilization of fuel prices	-	69
	2,811	2,447
Non-current portion		
Credit on temporary taxes on net assets – ITAN	388	442
Other receivables	-	13
	388	455
Total	3,199	2,902

- (a) In 2019, the Company granted a guarantee deposit in favor of legal adviser in U.S. due to the recovery procedure to Maple Gas Corporation del Peru S.R.L.

9. Income Tax Receivable and Payable

Comprises the following:

<i>In thousands of U.S. dollars</i>	2020	2019
Income tax receivable	2,315	3,924
Income tax payable	1,585	749

It corresponds to the current income tax, which will be consumed or paid during the year 2020.

10. Inventories

Comprises the following:

<i>In thousands of U.S. dollars</i>	2020	2019
Supplies and spare parts (a)	5,802	6,089
Fuel to sale	71	87
Fuel and lubricants	93	204
	5,966	6,380
Write off (b)	(337)	(630)
	5,629	5,750

- (a) Mechanical spare parts correspond mainly to items use in programmed maintenance for hydropower plant, Carhuaquero, Cañon del Pato and thermoelectric power plant Termoselva for enabling appropriate operations until major maintenance. There was no inventory write-downs recorded during the years ended December 31, 2020 and 2019.

- (b) The movement of write off is as follows:

<i>In thousands of U.S. dollars</i>	2020	2019
Balance as of January 1	630	630
Additions	-	-
Destructions	(293)	-
	337	630

Orazul Energy Perú S.A. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2020 and 2019

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, 2019	8,823	359,384	433,122	61	4,186	1,150	20,242	6,802	833,770
Additions	-	-	-	6,386	-	-	-	3,339	9,725
Disposals	-	-	(79)	-	(1,252)	(12)	(15)	-	(1,358)
Transfers and others	-	382	6,176	-	-	10	199	(6,767)	-
Balance as of December 31, 2019	8,823	359,766	439,219	6,447	2,934	1,148	20,426	3,374	842,137
Additions	-	4	20	3,521	1,197	-	30	1,160	5,932
Disposals (b)	-	(10,600)	(4,526)	-	(426)	(230)	(2,721)	-	(18,503)
Transfers and others	-	287	1,708	-	(60)	-1	573	(2,507)	-
Discontinued operation (c)	-	(2,244)	(142,952)	-	-	-	(3,322)	(583)	(149,101)
As of December 31, 2020	8,823	347,213	293,469	9,968	3,645	917	14,986	1,444	680,465
Accumulated depreciation:									
As of January 1, 2019	-	(195,043)	(285,120)	(56)	(3,583)	(1,108)	(15,502)	-	(500,412)
Additions	-	(6,547)	(17,557)	(98)	(111)	(33)	(1,420)	-	(25,766)
Disposals	-	-	79	-	1,121	12	15	-	1,227
Balance as of December 31, 2019	-	(201,590)	(302,598)	(154)	(2,573)	(1,129)	(16,907)	-	(524,951)
Additions	-	(5,611)	(11,446)	(149)	(186)	(13)	(1,005)	-	(18,410)
Disposals	-	9,979	4,152	-	344	424	2,308	-	17,207
Discontinued operation (c)	-	580	111,426	-	-	-	2,782	-	114,788
As of December 31, 2020	-	(196,642)	(198,466)	(303)	(2,415)	(718)	(12,822)	-	(411,366)
Impairment loss									
As of January 1, 2019	-	(389)	(116)	-	(1)	(2)	(35)	-	(543)
Balance as of December 31, 2019	-	(389)	(116)	-	(1)	(2)	(35)	-	(543)
Retirements	-	389	116	-	1	2	35	-	543
As of December 31, 2020	-	-	-	-	-	-	-	-	-
As of January 1, 2019	8,823	163,952	147,886	5	602	40	4,705	6,802	332,815
As of December 31, 2019	8,823	157,787	136,505	6,293	360	17	3,484	3,374	316,643
As of December 31, 2020	8,823	150,571	95,003	9,665	1,230	199	2,164	1,444	269,099

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2020 and 2019

- (a) As of December 31, 2020 work in progress mainly includes 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 (in 2019 work in progress includes mainly acquisitions of valves for US\$ 297 thousand, Generator download lines monitoring for US\$ 248 thousand, Overhaul of injectors US\$ 173 thousand, Improvement of hermeticity US\$ 104 thousands, Fire systems US\$ 139 thousand and Scada system US\$ 84 thousand).
- (b) During 2020, the Company retired assets related to the transmission business sale for a net value of US\$ 520 thousand (cost US\$ 6,753 thousand and a depreciation of US\$ 6,224 thousand). In addition, the Company retired US\$ 697 thousand (cost US\$ 8,655 thousand and a depreciation of US\$ 7,958 thousand) due to those assets were not in active use.
- (c) Correspond mainly to machinery and equipment held for sale related with operation activities of Eteselva and Etenorte (note 5).
- (d) During 2020 the Company and Subsidiary Termoselva recorded assets retirement obligation for US\$ 3,481 thousand (US\$ 6,386 thousand in 2019) (note 19).
- (e) Property, plant and equipment includes right-of-use assets US\$ 897 thousand as of December 2020 (US\$ 87 thousand as of December 31, 2019):

<i>In thousands of U.S. dollars</i>	Buildings and other constructions	Vehicules	Sandy equipment	Total
Cost				
Balance as of January 1, 2019	3,750	297	132	4,179
Addition	11	-	-	11
Retirements	(725)	-	(5)	(730)
Balance as of December 31, 2019	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
Depreciation				
Balance as of January 1, 2019	(3,036)	(105)	(80)	(3,221)
Addition	(725)	(105)	(47)	(877)
Retirements	725	-	-	725
Balance as of December 31, 2019	(3,036)	(210)	(127)	(3,373)
Addition	-	(387)	-	(387)
Retirements	3,036	297	127	3,460
Balance as of December 31, 2020	-	(300)	-	(300)
As of January 1, 2019	714	192	52	958
As of December 31, 2019	-	87	-	87
As of December 31, 2020	-	892	-	892

Orazul Energy Perú S.A. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2020 and 2019

- (f) Distribution of depreciation was as follows:

<i>In thousands of U.S. dollars</i>	Note	2020	2019
Cost of sale*		17,003	18,592
Administrative expenses		429	1,328
Discontinued operation	5	978	5,846
		18,410	25,766

**The depreciation expense for the period is presented separately in the Statements of Profit or Loss and Other Comprehensive Income.*

- (g) Correspond to a 4-year contract with a renting company for an operational leasing for the Group's vehicles signed in January 2020.
- (h) As of December 31, 2020 and 2019, the Group does not have guarantees related to the acquisition of property, plant and equipment.

12. Gas Investments

<i>In thousands of U.S. dollars</i>	Gas and fractionation plant	Asset retirement obligation	Vehicles	Furniture and fixture	Sundry equipment	Works in progress	Total
Cost:							
Balance as of January 1, 2019	150,218	-	355	422	1,185	5,749	157,929
Additions	-	10,261	-	-	-	3,833	14,094
Disposals	(82)	-	(9)	(167)	(61)	-	(319)
Transfers and others	6,641	-	-	-	1,974	(8,615)	-
Balance as of December 31, 2019	156,777	10,261	346	255	3,098	967	171,704
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	159,052	11,318	420	228	3,384	2,088	176,490
Accumulated depreciation:							
As of January 1, 2019	(91,897)	-	(159)	(339)	(787)	-	(93,182)
Additions	(10,003)	(474)	(20)	(18)	(148)	-	(10,663)
Disposals	81	-	7	167	57	-	312
Balance as of December 31, 2019	(101,819)	(474)	(172)	(190)	(878)	-	(103,533)
Additions	(7,602)	(809)	(13)	(25)	(153)	-	(8,602)
Disposals	-	-	-	34	55	-	89
Balance as of December 31, 2020	(109,421)	(1,283)	(185)	(181)	(976)	-	(112,046)
As of January 1, 2019	58,321	-	196	83	398	5,749	64,747
As of December 31, 2019	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

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2020 and 2019

- (a) As of December 31, 2020, work in progress mainly includes major maintenance of generator for US\$ 216 thousand, major maintenance of moto compressor for US\$ 1,752 thousand, work over in well AG6 for US\$ 160 thousand, corrosion control system for US\$ 175 thousand, building modules for US\$ 126 thousand and other projects for US\$ 73 thousand (in 2019 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 (gasoline tank installation for US\$ 2,546 thousand and remote control system for US\$ 1,677 thousand).
- (b) During 2020, the Company recorded an asset retirement obligation provision for US\$ 1,057 thousand (US\$ 10,261 thousand in 2019) (note 19).

- (c) Distribution of depreciation was as follows:

	2020	2019
Cost of sale*	8,602	10,663

* The depreciation expense for the period is presented separately in the Statements of Profit or Loss and Other Comprehensive Income.

- (d) As of December 31, 2020 and 2019, the Group do not have guarantees related to the acquisition of property, plant and equipment.

13. Intangible Assets and Goodwill

Comprises the following:

<i>In thousands of U.S. dollars</i>	Goodwill (a)	Electric and Hydrocarbon concessions	Softwares	Other Righths	Total
Cost					
Balance as of January 1, 2019	395,456	93,614	6,794	9,965	505,829
Transfers	-	-	1,051	-	1,051
Additions	-	-	-	8,400	8,400
Balance as of December 31, 2019	395,456	93,614	7,845	18,365	515,280
Disposals (b)	-	-	(4,822)	-	(4,822)
Additions	-	-	31	7,599	7,630
Balance as of December 31, 2020	395,456	93,614	3,054	25,964	518,088
Accumulated amortization:					
Balance as of January 1, 2019	-	(1,837)	(5,260)	-	(7,097)
Transfers	-	-	(950)	-	(950)
Amortization	-	(920)	(157)	-	(1,077)
Balance as of December 31, 2019	-	(2,757)	(6,367)	-	(9,124)
Disposals (b)	-	-	4,822	-	4,822
Amortization	-	(921)	(118)	-	(1,039)
Balance as of December 31, 2020	-	(3,678)	(1,663)	-	(5,341)
As of January 1, 2019	395,456	91,777	1,534	9,965	498,732
As of December 31, 2019	395,456	90,857	1,478	18,365	506,156
As of December 31, 2020	395,456	89,936	1,391	25,964	512,747

- (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\$ 344,924 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\$ 50,532 thousand.

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2020 and 2019

- (b) The disposals correspond to retirements of software, licenses and ERP that were discontinued for obsolescence and which were totally depressed.
- (c) 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 14 years has been determined for hydrocarbon concession. As of December 31, 2019, Management is not required to establish reserves for the possible impairment of its intangible assets with an indefinite life.

Amortization of intangibles was as follows:

<i>In thousands of U.S. dollars</i>	2020	2019
Cost of sale*	921	920
Administrative expenses	118	157
	1,039	1,077

* The amortization expense for the period is presented separately in the Statements of Profit or Loss and Other Comprehensive Income.

- (d) 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, 2020 and 2019.

14. Trade Payables

Comprises the following:

<i>In thousands of U.S. dollars</i>	2020	2019
Energy purchases and transmission tolls	4,301	4,409
Royalties	-	194
Other purchases (a)	4,794	4,116
	9,095	8,719

- (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>	<i>Note</i>	2020	2019
Option agreements	13 (d)	8,529	8,741
Interest payables-debentures		5,328	5,500
Other taxes		1,133	2,517
Value-Added Tax		1,048	581
Profit Sharing		-	537
Rural electricity contribution		283	87
Various accruals and other accounts payables		96	65
		16,417	18,028

16. Lease Liabilities

Comprises the following:

<i>In thousands of U.S. dollars</i>	<i>Note</i>	2020	2019
Opening balance		93	905
Additions (a)	11 (e)	1,197	11
Payments		(392)	(626)
Unwind of discount	27	53	7
Early termination of contract		(5)	(204)
		946	93

(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>	2020	2019
Current portion		
Lease liabilities	312	93
Subtotal	312	93
Non-current portion		
Lease liabilities	634	-
Subtotal	634	-
Total	946	93

17. Debentures

Comprises the following:

<i>In thousands of U.S. dollars</i>	2020	2019
Orazul Energy Perú 2027 notes (a)	550,000	550,000
Transaction costs	(7,604)	(8,616)
	542,396	541,384

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2020 and 2019

- (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 obtained the risk classification "BB", assigned by the international risk-rating agencies Fitch Ratings and 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.

As of December 31, 2020, the amount for the notes issued for US\$ 542,396 thousand (US\$ 541,384 thousand as of December 31, 2019), consists of the principal of US\$ 550,000 thousand, offset by the amortized cost of US\$ 7,604 thousand (US\$ 8,616 thousand in December 31, 2019).

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 financial statements within the periods established in the agreement.
- 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, 2020 and 2019.

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		Maturity	Face value		Carrying amount	
	interest rate	Currency		2020	2019	2020	2019
Notes OEP 2027	5.625%	US\$	April -2027	550,000	550,000	542,396	541,384

The table below presents the payment schedule of the non-current portion of the long-term debt as of December 31, 2020 and 2019:

<i>In thousands of U.S. dollars</i>	
2027	550,000
	550,000

Orazul Energy Perú S.A. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2020 and 2019

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:

	Liabilities				Equity	
	Other payables	Lease liabilities	Intercompany payables	Total liabilities	Other reserves	Total equity
<i>In thousands of U.S. dollars</i>						
Balance at January 1, 2020	18,028	93	82,942	101,063	6,438	6,438
Payment to related parties	-	-	(64,000)	(64,000)	-	-
Payment of interest	(30,938)	-	-	(30,938)	-	-
Payment of lease liabilities	-	(392)	-	(392)	-	-
Net cash used in financing activities	(30,938)	(392)	(64,000)	(95,330)	-	-
Interest paid	30,938	-	-	30,938	-	-
Leases	-	1,192	-	1,192	-	-
Other	(1,611)	53	4,534	2,976	(763)	(763)
Balance at December 31, 2020	16,417	946	23,476	40,839	5,675	5,675

	Liabilities				Equity	
	Other payables	Lease liabilities	Intercompany payables	Total liabilities	Other reserves	Total equity
<i>In thousands of U.S. dollars</i>						
Balance at January 1, 2019	21,116	905	150,602	172,623	-	-
Payment to related parties	-	-	(63,000)	(63,000)	-	-
Payment of interest	(30,938)	-	-	(30,938)	-	-
Payment of lease liabilities	-	(626)	-	(626)	-	-
Net cash used in financing activities	(30,938)	(626)	(63,000)	(94,564)	-	-
Interest paid	30,938	-	-	30,938	6,438	6,438
Other	(3,088)	(186)	(4,660)	(7,934)	6,438	6,438
Balance at December 31, 2019	18,028	93	82,942	101,063	6,438	6,438

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	Equity (note 29 (c))	Held For Sale	Final balance
<i>In thousands of U.S. dollars</i>						
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)	29,087	97	-	2,687	(6,421)
Tax losses carryforward	9,022	(6,064)	61	-	-	3,019
Fair value loan	(1,114)	1,114	-	-	-	-
Financial cost	(2,572)	2,572	-	-	-	-
Property, plant and equipment	(54,040)	47,051	11	-	(65)	(7,043)
Other provisions	(2,059)	2,717	(1)	-	(6)	651
	(89,055)	76,477	168	-	2,616	(9,794)
Net effect	(87,685)	112,674	(304)	319	3,314	28,318

Orazul Energy Perú S.A. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2020 and 2019

<i>In thousands of U.S. dollars</i>	Additions/recoveries			Final balance
	Opening balance	Profit or loss (P&L)	Equity (note 29 (c))	
2019				
Deferred assets:				
Property, plant and equipment	714	407	-	1,121
Various provisions	236	13	-	249
	950	420	-	1,370
Deferred liabilities:				
Fair value assets	(40,418)	2,126	-	(38,292)
Tax losses carryforward	13,849	(4,827)	-	9,022
Fair value loan	-	1,580	(2,694)	(1,114)
Financial cost	(2,812)	240	-	(2,572)
Property, plant and equipment	(57,245)	3,205	-	(54,040)
Other provisions	782	(2,841)	-	(2,059)
	(85,844)	(517)	(2,694)	(89,055)
Net effect	(84,894)	(97)	(2,694)	(87,685)

Income tax expense shown in the statement of profit or loss for years 2020 and 2019 is composed as follows:

<i>In thousands of U.S. dollars</i>	2020	2019
Current	(6,567)	(7,939)
Deferred	112,674	(675)
	106,107	(8,614)

The table below presents the reconciliation of the effective income tax rate as for the years ended December 31, 2020 and 2019 to the tax rate:

<i>In thousands of U.S. dollars</i>	2020		2019	
Profit before income tax	25,338	100.00%	25,526	100.00%
Theoretical expense	7,475	29.50%	7,530	29.50%
Effect of non-taxable income and non-deductible expenses	(165)	(0.65%)	(1,866)	(7.31%)
Exchange difference taxable base	(11,819)	(46.65%)	2,892	11.33%
Income tax of previous years	1,300	5.13%	58	0.23%
Income from sale of subsidiary	(102,898)	(406.10%)	-	-
Income tax expenses	(106,107)	(418.77%)	8,614	33.75%

19. Asset Retirement Obligation

Comprises the following:

<i>In thousands of U.S. dollars</i>	<i>Note</i>	2020	2019
Balance as of January 1, 2019		17,224	172
Additions	11, 12	4,578	16,647
Unwind of discount	27	342	452
Payments		(3)	(47)
Balance as of December 31, 2020		22,141	17,224

The provision for decommissioning liabilities corresponds to Aguaytia plant, electrical energy hydroelectric power plants Cañon del Pato and Carhuaquero (Orazul) and thermoelectric power plant in Ucayali (Termoselva), has been determined considering all costs necessary to dismantle and rehabilitate the land where the station is currently located. The future value, considering inflation amounts to US\$ 29,467 thousand and has been discounted using an annual risk-free rate ranging from 1.31% to 1.19%.

20. Equity

Share capital and share premiums

Comprises the following:

<i>In thousands of U.S. dollars</i>	2020	2019
Orazul Energía (UK) Holdings Ltd.	196,066	196,066
Others	20	20
	196,086	196,086

As of December 31, 2020 and 2019, issued capital stock is represented by 651,224,289 common shares with a face value of S/ 1.00 per share, duly authorized, issued and paid.

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

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. 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, 2020 and 2019 was as follows:

<i>In thousands of U.S. dollars</i>	2020	2019
Total liabilities	626,346	764,998
Less: Cash	(153,445)	(41,160)
Total adjusted net debts (A)	472,841	723,838
Total equity	448,353	199,582
Total adjusted equity (B)	448,353	199,582
Gearing ratio (A/B)	1.055	3.627

Used credit lines are basically long-term lines and include financial agreements that shall be complied to distribute the cash surplus to shareholders.

22. Tax Issues

A. Tax Situation

Orazul Energy Peru S.A.

Income tax return for the period from October 10, 2016 to December 31, 2016 and for the years 2018 and 2019 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.

Aguaytia Energy del Peru S.R.L.

Income tax returns from 2015 to 2019 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.

Termoselva S.R.L.

Income tax returns from 2015 to 2019 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.

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 Group 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 Group believes that any additional tax payment would not be significant for the consolidated financial statements as of December 31, 2020 and 2019.

- 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. The subsidiary Aguaytia due to its Legal Stability Agreement, has an income tax rate of 30%.

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, OEP amended its Income Tax Return 2018, changing its tax loss carryforward system from System A to System B.

- 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 general income tax regime or against the regularization payment of income tax of the corresponding taxable period. As of December 31, 2020 and 2019, the Group does not have an ITAN balance to recover and Aguaytia is exempted from paying this tax.
- E. Tax amendments of greater relevance in force since January 1, 2019 and applicable through 2020:

i. New legal concept of accrual

Legislative Decree No. 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 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 N° 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

Legislative Decree No. 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

Legislative Decree No. 1372 requires legal entities in Peru to file an information return with the Peruvian tax authorities that identifies their "final beneficiaries".

23. Revenues

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

<i>In thousands of U.S. dollars</i>	2020	2019
Sale of electrical energy		
Sale of energy and capacity		
Energy	90,040	82,385
Capacity	29,958	26,642
COES		
Energy	3,385	7,313
Capacity	3,729	9,546
Other	1,184	1,708
	128,296	127,594
Sale of hydrocarbons		
Natural gasoline	4,631	10,568
LPG	2,334	5,141
	6,965	15,709
Total	135,261	143,303

During 2020, the Company sold 2,197 GWH (1,681 GWH during 2019).

As of December 31, 2020, there was estimated pending revenues to be invoiced for US\$ 17,032 thousand (US\$ 15,696 thousand in 2019). According to Management's evaluation, there would not be significant variation between the amounts invoiced and those estimated. The Company and Termoselva '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	
		2020	2019	2020	2019	2020	2019
Intercompany services	29.C	8,709	4,187	3,772	2,670	12,481	6,857
Purchase of energy and capacity							
Energy		7,826	2,647	-	-	7,826	2,647
Capacity		2,523	-	-	-	2,523	-
Other cost		1,577	1,180	-	-	1,577	1,180
Purchase of transmission charges		3,708	2,543	-	-	3,708	2,543
Services provided by third parties		3,484	5,735	1,497	1,620	4,981	7,355
Taxes other than income		2,846	3,467	686	819	3,532	4,286
Sundry management charges		2,076	1,825	-	-	2,076	1,825
Royalties from sales of hydrocarbon liquids	1	1,931	5,167	-	-	1,931	5,167
Royalties from natural gas	1	1,555	6,541	-	-	1,555	6,541
Supplies, spare parts and fuel		1,174	920	1,269	1,372	2,443	2,292
Personnel expenses	25	34	3,571	2	1,418	36	4,989
Transport, storage and other costs of natural gas		-	850	-	-	-	850
Depreciation and amortization		-	-	547	1,485	547	1,485
		37,443	38,633	7,773	9,384	45,216	48,017

25. Employee Expenses

Comprises the following:

<i>In thousands of U.S. dollars</i>	2020	2019
Salary	11	2,814
Bonusses (a)	7	299
Severance package (a)	-	245
Vacations	1	180
Profit sharing (b)	-	537
Other	17	914
	36	4,989

- (a) Decrease in employee expenses is related to the management services and operation service agreements signed with Kallpa in January and July 2019, respectively related to the management integration between Kallpa and the Group (see note 29.C).
- (b) Workers' profit sharing:
In line with current legislation, the Company's workers are entitled to a profit-sharing plan to be computed at 5% on taxable income. This profit sharing is considered as a deductible expense for income tax calculation purposes. In 2019, the Company determined workers' profit sharing of US\$ 537 thousand.

26. Other Income

Comprises the following:

<i>In thousands of U.S. dollars</i>	Note	2020	2019
Intercompany services	29	228	477
Renting		344	48
Net profit for the sale of fixed assets		168	357
Other		455	1,490
		1,195	2,372

27. Finance Costs

Comprises the following:

<i>In thousands of U.S. dollars</i>	Note	2020	2019
Interests expenses - bonds		30,741	30,938
Interests expenses - related parties	29	2,687	5,439
Withholding tax on interest		2,458	3,649
Transaction cost amortization		1,038	916
Unwind of discount on provision for decommissioning	19	342	452
Unwind of discount on lease liabilities	16	53	7
Other financial expenses		121	370
		37,440	41,771

28. Commitments

As of December 31, 2020 and 2019, the Group has the following commitments:

Orazul Energy Perú

Electricity Supply Contracts

As of December 31, 2020 and 2019, the Company has 11 contracts with non-regulated clients (11 contracts in 2019 with non-regulated clients), respectively, whose maturities vary between year 2019 and 2027. The off-peak capacity agreed in these contracts amounts to 208 MW as of December 31, 2020 (101 MW as of December 31, 2019). In relation to distribution companies, the Company has signed 15 contracts with 9 distribution companies for 174 MW, effective as of December 31, 2020 (15 contracts with 9 distribution companies for 174 MW effective as of December 31, 2019).

Termoselva

Electricity Supply Contracts

As of December 31, 2020 and 2019, the Company has 1 contract with non-regulated clients (1 contract in 2019 with non-regulated clients), respectively, with maturity in the 2021. The off-peak capacity agreed in these contracts amounts to 6.5 MW as of December 31, 2020 (4 MW as of December 31, 2019). In relation to distribution companies, the Company has signed 15 contracts with 9 distribution companies for 165 MW, effective as of December 31, 2020 (15 contracts with 9 distribution companies for 165 MW effective as of December 31, 2019).

29. 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, 2020 and 2019 there are no loans to directors.

ii. Transactions with key management personnel

During the year ended December 31, 2020 and 2019, there were no transactions between the Company and Key Management, other than those in (ii).

C. Other Related Entities Transactions

In 2020 and 2019, 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>	Transaction type	2020	2019
Kallpa Generación S.A. (a)	Management service and O&M	(12,481)	(6,857)
Samay I S.A.	COES	(2,767)	(1,861)
Kallpa Generación S.A.	COES	3,809	7,153
Orazul Energía (España) Holding S.L.	Interest	-	(68)
Orazul Energía Partners LLC (b)	Fair value	(2,687)	(5,357)
Orazul Energy Group BV – Netherlands	Interest	-	(1)
Orazul Energía (UK) Holding Ltd.	Interest	-	(13)
Eléctrica Cobee-Sucursal	Others	228	477
		(13,898)	(6,527)

		Outstanding balances	
<i>In thousands of U.S. dollars</i>	Transaction type	2020	2019
Account receivables			
Kallpa Generación S.A.	COES	532	113
Kallpa Generación S.A.	Management service and O&M	360	-
Eléctrica Cobee-Sucursal	Services	59	91
		951	204
Account payables			
Samay I S.A.	COES	(275)	-
Kallpa Generación S.A.	COES	(55)	-
Kallpa Generación S.A.	Management service and O&M	(766)	(6,307)
		(1,096)	(6,307)
Intercompany payables			
Orazul Energía Partners LLC (a)	Loan	(22,710)	(82,942)
		(22,710)	(82,942)
		(22,855)	(89,045)

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

- (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 year.
- (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.

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Consolidated Financial Statements

December 31, 2020 and 2019

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 (In July, September, October and December 2019, the Company paid US\$ 20,000 thousand, US\$ 885 thousand, US\$ 10,000 thousand and US\$ 33,000 thousand respectively). As a result of these payments, the fair value of the loan was adjusted.

30. Contingencies

As of December 31, 2020, the main contingencies of the Group are described as follow:

Orazul Energy Perú***(a) Labor claims***

The Company is involved in several 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 30, 2020, The Company recorded a provision equivalent to US\$ 496 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\$ 1,142 thousand for labor claims that are not more likely than not that the Company will pay.

(b) Temporary Tax on Net Assets

Temporary tax on net assets return from 2013 was reviewed by the Tax Administration in 2014, which issued determination and fine resolutions for US\$ 237 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 on September 2019. In November 2019, the Company decided to pay the amount of US\$ 428 thousand (US\$ 285 as ITAN and US\$ 143 thousand as fine, included interests). In December 2019, the Company filed the corresponding judicial action which is currently ongoing.

In the opinion of Management and our legal advisors, there are legal and factual arguments that lead us to consider that the case is more likely than not to be successful.

(c) Penalty withholding tax

Fine imposed by the Tax Administration during the Tax Audit of the fiscal year 2000, because the Company did not pay withholding taxes, despite it did not pay for such service either. The Company filed an appeal before the Supreme Judicial Court in March 2018.

In December 2020, the Superior Court declared the claim of the Tax Authority unfounded and on January 25, 2021 issued its Resolution N° 59, through which the process is sent to the First Judicial Instance for filing. With this act, the case is concluded with a favorable ruling towards the Company.

Termoselva

(a) Income Tax 2011

In April 2014, as a result of the tax audit 2011, the Tax Administration issued its determination and fine resolutions, because it did not consider as a deductible expense for corporate income tax purposes, the payments made by the Company based on an extrajudicial agreement in favor of 88 Aguaytia Group workers, considering these payments as a Company's decision (and therefore considered as a non-deductible expense). During 2014 and 2015, the Company presented its corresponding claim and appeal. In July 2019, the Tax Court resolved to accept the deductibility of the payments made to 28 Termoselva workers. In November 2019, the Company decided to file an appeal for the payment of the remaining workers within the Judiciary, which is currently ongoing.

As of this date, the Tax Administration has not pronounced on the petition of the Tax Court. The updated contingency is US\$ 900 thousand.

In the opinion of Management and our legal advisors, there are legal and factual arguments to consider that is not more likely than not that Termoselva will pay.

(b) Advanced Payments 2012

In August 2015, Termoselva was notified of different resolutions related to the corporate income tax prepayments in 2012.

The mentioned resolutions were issued because of referential omissions in the prepayments from March to December 2012, considering the observations contained in resolutions of the corporate income tax 2011, although its being questioned by an appeal followed in the Judicial Court.

In September 2015, Termoselva filed its complaint before the Tax Administration which was rejected. In March 2016, the Company appealed before the Tax Court, who resolved revoke the rejected resolution, ordering the Tax Administration to be subject to the ruling of the Tax Court regarding the 2011 Income Tax, and based on this, to issue a new resolution.

The updated contingency is US\$ 167 thousand.

In the opinion of Management and our legal advisors, there are legal and factual arguments that lead us to consider that is not more likely than not that Termoselva will pay.

Aguaytía

(a) Judicial challenge filed against the OSINERGMIN

On April 9, 2012, Aguaytía initiated a court proceeding seeking judicial review of the Resolution No. 175-2011-OS/TASTEM-S2 issued by the OSINERGMIN, which determined the administrative responsibility of Aguaytía for having infringed the regulatory framework related to the implementation of the Supervisory Control and Data Acquisition System ("SCADA") and to pay a fine of US\$ 7,156 thousand plus interests.

On July 14, 2016, the claim was dismissed because, in opinion of the judge, Aguaytía did not prove that the SCADA system had been installed. This decision was appealed on July 21, 2016 arguing that the decision: i) affected our due process right of defense; (ii) diverted from the criteria previously established by other judicial entity; (iii) was based on facts not invoked or proven by the parties; and (iv) was not duly motivated in violation of Aguaytía's right of due process.

On July 21, 2017 the first instance decision was revoked and on July 31, 2017 OSINERGMIN filed an extraordinary appeal which is currently under revision by the Supreme Court.

In the opinion of Aguaytía's management and its external legal advisors, it is not more likely than not that Aguaytía will pay the fine.

31. Subsequent Events

During January and February 2021, the Peruvian Government reinforced the measures of the national emergency to control the new outbreak of COVID 19. These measures, in force until February 28, 2021, include a partial lockdown in some provinces of the country, with restricted citizens mobility and the interruption of certain work activities.

The Company's operations require to remain open at the highest level in order to provide the vital electrical service for the country.

The Company's Management has maintained measures adopted during 2020 to ensure the safety and wellbeing of its employees, whilst guaranteeing the continuity of its operations, power service and financial liquidity.