



Orazul Energy Perú S.A. and Subsidiary

Consolidated Financial Statements

December 31, 2022 and 2021

(Including Independent Auditors' Report)

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INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the consolidated financial statements of Orazul Energy Perú S.A. and Subsidiary (the Group), which comprise the consolidated statement of financial position as at December 31, 2022, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) approved for application in Peru by the Dean's Council of the Peruvian Professional Associations of Public Accountants. Our responsibilities under those standards are further described in the *Auditors's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants of the (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Peru, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS as issued by the IASB and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Group, cease operations, or has no realistic alternative but to do so.

Those charged with governance is responsible for overseeing the Group's financial reporting process.



Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs approved for application in Peru will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs approved for application in Peru, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtained an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's internal ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including as any significant deficiencies in internal control that we identify during our audit.

Lima, Perú

March 3, 2023

Countersigned by:

Caipo y Asociados

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

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

Orazul Energy Perú S.A. and Subsidiary

Consolidated Financial Statements

December 31, 2022 and 2021

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Orazul Energy Perú S.A. and Subsidiary
Consolidated Statements of Financial Position
As of December 31, 2022 and 2021

<i>In thousands of U.S. dollars</i>	<i>Note</i>	2022	2021
Assets			
Current assets			
Cash	6	16,779	20,849
Trade receivables	7	16,443	16,916
Account receivables from related parties	26	909	261
Other receivables		122	341
Inventories	9	1,781	1,335
Income tax receivable	8	-	2,390
Prepaid expenses		686	221
Total current assets		36,720	42,313
Non-current assets			
Intangible assets	11	495,447	496,019
Property, plant and equipment	10	592,886	206,685
Right of use assets	10	139	266
Deferred income tax assets	16	53,473	169,556
Other assets		-	96
Total non-current assets		1,141,945	872,622
Total assets		1,178,665	914,935

<i>In thousands of U.S. dollars</i>	<i>Note</i>	2022	2021
Liabilities			
Current liabilities			
Trade payables	12	8,331	6,540
Other payables	13	5,749	7,657
Account payables to related parties	26	394	1
Lease liabilities	14	152	148
Income tax payable	8	7,959	-
Total current liabilities		22,585	14,346
Non-current liabilities			
Debentures	15	359,452	358,715
Lease liabilities	14	-	148
Account payables to related parties	26	-	21,713
Asset retirement obligation	17	4,003	9,551
Other liabilities		337	374
Total non-current liabilities		363,792	390,501
Total liabilities		386,377	404,847
Equity			
Share capital	18	464,757	385,036
Additional capital		-	8,857
Other reserves		-	5,675
Legal reserves		33,653	30,799
Revaluation reserve		281,113	-
Retained earnings		12,765	79,721
Total equity		792,288	510,088
Total liabilities and equity		1,178,665	914,935

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

Orazul Energy Perú S.A. and Subsidiary

Consolidated Statements of Profit or Loss and Other Comprehensive Income
For the years ended December 31, 2022 and 2021

<i>In thousands of U.S. dollars</i>	<i>Note</i>	2022	2021 (*)
Continuing operations			
Revenue	21	107,252	91,243
Costs of sales	22	(26,394)	(21,461)
Depreciation	10 (e)	(12,368)	(13,214)
Gross profit		68,490	56,568
Administrative expenses	22	(5,458)	(4,166)
Impairment loss on trade receivables		-	(43)
Other income	23	693	1,786
Other expenses		(146)	(192)
Operating profit		63,579	53,953
Finance income		171	232
Finance costs	24	(26,334)	(39,253)
Net foreign exchange difference	4.C.iii	612	(1,108)
Net finance costs		(25,551)	(40,129)
Profit before income tax		38,028	13,824
Income tax	17	(9,441)	131,439
Profit from continuing operations		28,587	145,263
Discontinued operation			
Loss from discontinued operation, net of tax	5	-	(83,567)
Profit for the period		28,587	61,696
Other comprehensive income or loss			
Items that will not be classified to profit or loss			
Revaluation of property, plant and equipment, net		281,113	-
Other comprehensive income for the period, net of tax		309,700	61,696
Attributable to			
Controlling shareholders		309,700	61,735
Non-controlling interest		-	(39)
Total comprehensive income for the period		309,700	61,696

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

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

Orazul Energy Perú S.A. and Subsidiary
Consolidated Statements of Changes in Equity
For the years ended December 31, 2022 and 2021

		Attributable to owners of the Company						Retained earnings	Total	Non-controlling Interest	Total equity
		Number of shares	Share capital	Additional capital	Legal reserves	Other reserves	Revaluation reserve				
<i>In thousands of U.S. dollars</i>	<i>Note</i>	(note 18)	(note 18)	(note 18(b)iii)	(note 18(b)i)	(note 26(c))	(note 18(b)ii)				
Balance as of January 1, 2021		651,224,289	196,086	8,857	21,941	5,675	-	215,794	448,353	39	448,392
Total comprehensive income for the period											
Profit for the period		-	-	-	-	-	-	61,735	61,735	(39)	61,696
Total comprehensive income for the period		-	-	-	-	-	-	61,735	61,735	(39)	61,696
Transactions with owners of the Company											
Capitalization of retained earnings	18	690,801,200	188,950	-	-	-	-	(188,950)	-	-	-
Legal reserves	18(b)ii	-	-	-	8,858	-	-	(8,858)	-	-	-
Total transactions with owners of the Company		690,801,200	188,950	-	8,858	-	-	(197,808)	-	-	-
Balance as of December 31, 2021		1,342,025,489	385,036	8,857	30,799	5,675	-	79,721	510,088	-	510,088
Balance as of January 1, 2022		1,342,025,489	385,036	8,857	30,799	5,675	-	79,721	510,088	-	510,088
Total comprehensive income for the period											
Profit for the period		-	-	-	-	-	-	28,587	28,587	-	28,587
Other comprehensive income											
Revaluation reserve	18(b)ii	-	-	-	-	-	281,113	-	281,113	-	281,113
Total comprehensive income for the period		-	-	-	-	-	281,113	28,587	309,700	-	309,700
Transactions with owners of the Company											
Capital											
Capitalization of retained earnings	18	302,223,653	79,721	-	-	-	-	(79,721)	-	-	-
Legal reserves	18(b)i	-	-	-	2,854	-	-	(2,854)	-	-	-
Dividends paid		-	-	(8,857)	-	-	-	(18,643)	(27,500)	-	(27,500)
Other reserves	26.C.(b)	-	-	-	-	(5,675)	-	5,675	-	-	-
Total transactions with owners of the Company		302,223,653	79,721	(8,857)	2,854	(5,675)	-	(95,543)	(27,500)	-	(27,500)
Balance as of December 31, 2022		1,644,249,142	464,757	-	33,653	-	281,113	12,765	792,288	-	792,288

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

Orazul Energy Perú S.A. and Subsidiary
Consolidated Statements of Cash Flows
For the years ended December 31, 2022 and 2021

<i>In thousands of U.S. dollars</i>	<i>Note</i>	2022	2021
Cash flows from operating activities			
Collections of energy		130,361	137,790
Collections of hydrocarbons		-	4,956
Payment to suppliers		(54,551)	(54,100)
Payment of royalties		-	(4,676)
Payment to employees		(127)	(70)
Interest collects		107	158
Cash generated from operating activities		75,790	84,058
Income tax recovered		1,148	-
Income tax paid		(1,706)	(5,529)
Net cash provided by operating activities		75,232	78,529
Cash flows from investing activities			
Proceeds from sale of investments	5	23	31,523
Acquisition of property, plant and equipment		(3,777)	(6,552)
Acquisition of intangible assets		(2,675)	(7,672)
Net cash used in investing activities		(6,429)	17,299
Cash flows from financing activities			
Dividends paid, net of tax		(26,122)	-
Payment of notes	15.B	-	(186,802)
Interests paid	15.B	(20,430)	(36,084)
Payment of withholding tax derived from interest		(4,851)	(2,522)
Payment to related entities	15.B	(21,717)	(1,000)
Payment of operating lease liabilities	15.B	(173)	(379)
Net cash used in financing activities		(73,293)	(226,787)
Net decrease in cash		(4,490)	(130,959)
Cash as of January 1		20,849	153,445
Effects of variations in exchange difference on held cash		420	(1,637)
Cash as of December 31	6	16,779	20,849

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

Orazul Energy Perú S.A. and Subsidiary

Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

1. Background and Business Activity

A. Corporate Information

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

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

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

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

On August 24, 2020, the Company and Orazul Energía (UK) Holdings Ltd. sold all of the issued and outstanding shares of OEG, which was the indirect owner of 99.99% of the shares of Etenorte S.R.L. and Eteselva S.R.L., to Interconexión Eléctrica ISA Peru. The total consideration after working capital adjustments amounted to US\$ 158,254 thousand. The closing of the sale agreement was subject to the approval of the Peruvian authorities.

On October 1, 2021, the Company signed a Stock Purchase Agreement with Nautilus Partners III Perú S.A.C., a special purpose vehicle of Nautilus Energy Partners LLC, to sell the gas to power business in Peru, represented by 100% ownership in OEG II, for a total consideration of US\$ 41,796 thousand. The sale included the Company's indirect ownership in the thermal power generation and hydrocarbon companies, Termoselva S.R.L. (hereinafter Termoselva) and Aguaytía Energy del Perú S.R.L. (hereinafter Aguaytía). The total amount was paid on October 4, 2021. The sale was compliant with the requirements of the Company's notes indenture and all requirements for related party transactions (note 5).

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

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

B. Subsidiary

As of December 31, 2022 and 2021, the subsidiary and the percentage of interest owned by the Company are detailed below:

	Direct equity interest	
	2022	2021
Kondu S.A.C. (before "Orazul Soluciones S.A.C.")	99.99%	99.99%

Kondu S.A.C.

The Company owns 99.99 % of Kondu S.A.C. (before "Orazul Soluciones S.A.C."), incorporated on September 10, 2021, with the purpose of carrying out power generation, transmission and commercialization activities as well as providing energy solutions services to customers in general.

These consolidated financial statements comprise the Company and its Subsidiary in Peru (hereinafter, "the Group").

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

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

2. Operations Regulation and Legal Standards Affecting the Electric Sector

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

Main regulations affecting the Group's activities are:

A. Electricity Concessions Law

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

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

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

B. Law to Guarantee the Efficient Development of Electricity Generation

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

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

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).

D. Technical Standards

Technical Quality Standards of Electricity Services

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

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

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

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

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

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

E. Anti-monopoly and Anti-oligopoly Law

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

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

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

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

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

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

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

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

Afterwards, the Supreme Decree N° 033-2017-EM established that the Regulation of the Wholesale Electricity Market, approved by Supreme Decree N° 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 N° 164-2016 OS/CD, dated June 30, 2016, approved the new standard "Procedure for allocation of Responsibility Payment of STS and CTS".

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

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

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

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

I. Resolution that sets busbar prices applicable to the period from May 1, 2022 to April 30, 2023

Published on Apr 15, 2022, by means of Resolution OSINERGMIN N° 057-2022-OS/CD, thereby establishing Busbar prices and their corresponding Nodal Electricity Factors and associated Power Loss Factors, which are effective from May 1, 2022 to April 30, 2023.

J. Value of the Applicable Discount Factor (FDA)

It established the value of the Applicable Discount Factor (FDA); such a factor is applicable to the natural gas transport rate. The Resolution 063-2022-OS/CD establishes the FDA applicable from May 1, 2022 to April 30, 2023.

K. Wholesale electricity market

Supreme Decree N° 026-2016-EM dated July 2, 2016: New regulation of the wholesale electricity market (MME, for its Spanish acronym). COES administrates the MME and it includes the Short-Term Market (MCP, for its Spanish acronym), ancillary services and other collateral payments necessary for the operation of the Peruvian Interconnected System (SEIN).

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

Participants authorized to buy in the MCP are:

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

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

The Supreme Decree N° 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 N° 209-2017-OS/CD postponed the presentation of guarantees or credit ratings up to March 26, 2018, to be able to participate in the MME, from April 1, 2018.

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

The Supreme Decree N° 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.

M. 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.

Orazul Energy Perú S.A. and Subsidiary

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

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

Also, Through Resolution 030-2021-OS / CD, OSINERGMIN approved the new COES Technical Procedure N° 04, on "Tests for the Determination of the Minimum Power of the Generation Units of the SEIN".

N. 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.

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

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

Additionally, numeral 5.4.10 of the Technical Standard for the Coordination of the Real-time Operation of Interconnected Systems was modified, to establish when the Rationing Mechanism referred to in Supreme Decree N° 017-2018-EM is activated. When and the daily volume of gas available for electricity generation is insufficient for the economic dispatch without restriction of gas supply, the COES will apply in the programming of the operation and/or in real time the efficiency criterion that allows the best use of natural gas to generate electricity. Thus the operation of the SEIN is carried out at the minimum cost preserving the security of the system, reallocating the gas that would have corresponded to each generator having considered a pro-rata distribution of the amount of gas available for the priority level corresponding to Electric Generators, based on the Contractual Daily Quantity or the Maximum Daily Quantity, of their gas supply contracts, whichever is greater.

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

P. 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.

Q. 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.

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

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

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

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

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

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

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

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.

T. 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 N° 28832 (contracts without biddings).
- (b) The tariff options for Regulated Users defined according to Article 1 of Law N° 28832 located in high and regular tension connected to the transmission system.
- (c) The application of the tolls of the Transmission Systems.

U. OSINERGMIN modifies the Regulation of Supervision, Inspection and Sanctioning of energy and mining activities approved by Resolution N° 040-2017-OS/CD

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

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

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

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

V. 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.

W. 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 N° 020- 97-EM and to the Technical Standard of Quality of Rural Electrical Services approved by Directorial Resolution N° 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.

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

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

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

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

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

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

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

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

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

Z. The Rotating Reserve Margin for the Primary Regulation of Frequency of the National Interconnected Electric System is set for the flood period and low water period of the year 2022 and 2023

Through Resolution 237-2021-OS / CD, the Rotating Reserve Margin for the Primary Regulation of Frequency of the National Interconnected Electric System is set at 2.8% for the flood period in the months of January to May and December 2022; and for the dry season in the months of June to November 2022. Through Resolution 209-2022-OS / CD The Rotating Reserve Margin for the Primary Frequency Regulation of the National Interconnected Electric System is approved at 1.9% for the flood period from January to May and December 2023; and 2.3% for the low water period from June to November 2023.

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

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

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

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

Through Resolution 083-2021-OS/CD, it is provided to substitute numerals from 1 to 16 of the COES Technical Procedure N° 20 approved by Resolution N° 035-2020-OS/CD, and to incorporate numeral 17 in accordance with the content in Annex A of the published resolution.

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

It is specified that Annex 1 of the Technical Procedure of COES N° 20 approved by Resolution N° 035-2013-OS/CD, remains valid.

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

CC. OSINERGMIN modifies COES Technical Procedure N° 07 “Determination of Short-Term Marginal Costs” (PR-07)

By Resolution N° 244-2021-OS/CD OSINERGMIN modifies COES Technical Procedure N° 07 “Determination of Short-Term Marginal Costs” (PR-07) approved by Resolution N° 179-2017-OS/CD and modified by Resolution N° 091-2019-OS/CD, in accordance with the provisions of the Annex to this resolution. On July 1, 2022 is established as the effective date of the modifications to the PR-07.

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

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

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

EE. Ministry of the Environment declares the Climate Emergency of National Interest

Through Supreme Decree N° 003-2022-MINEM, the country's climatic emergency is declared as national interest, with the purpose of executing a series of actions and measures to (i) limiting the increase in temperature, (ii) reducing climatic risks, (iii) achieve “carbon neutrality”, (iv) stabilize greenhouse gas emission concentrations, among other global objectives. In this sense, the Supreme Decree established the following relevant provisions for the energy sector:

- The Ministry of Energy and Mines (“MINEM” in Spanish), in coordination with the Ministry of the Environment, will guarantee the use of non-conventional renewable energy resources (“RER”) in the electricity generation matrix. It is expected to progressively increase the new requirements with RER, with a projection of reaching 20% of its participation by 2030.
- MINEM must prioritize the execution of the following measures:
 1. Promote programs and policies on the efficient use of energy in the public, productive, services, residential and transportation sectors.
 2. Implement programs to change polluting fuels (wood, manure, coal, among others) for other clean energy sources for domestic use.
 3. Design promotion programs for the development of technologies, use and production of green hydrogen.

4. Propose, within the scope of the "Multisectoral Commission for the Reform of the Electricity Subsector", with the participation of the Ministry of the Environment, the regulatory framework for increasing the use of RER in the electricity generation matrix, as well as other measures that promote the use of renewable energies.

- The Ministry of Transport and Communications must design promotion mechanisms for electromobility with emphasis on urban transport.

FF. Supervisory Agency for Investment in Energy and Mining - OSINERGMIN modifies COES Technical Procedure N° 22 "Rotating Reserve for Secondary Frequency Regulation" (PR-22)

The modification of PR-22 incorporates the formula that allows calculating the real Opportunity Cost incurred by the machines for providing Secondary Frequency Regulation service. In this way, the hydroelectric machines that offer this service downstream during the flood season will be adequately compensated.

The modification of PR-22 will become effective on June 21, 2022.

GG. OSINERGMIN approves the "Procedure for the Control of Compliance with the Technical Standard for the Exchange of Real Time Information for the Operation of the National Interconnected Electric System"

The Procedure has the following objectives:

- Establish the methodology for supervising compliance with the Technical Standard for the Exchange of Real-Time Information for the Real-Time Information Exchange for the Operation of the National Interconnected National Interconnected Electric System (NTIITR).
- Establish the criteria and procedures to evaluate the compliance of the adequacy of the Control Centers of the ICCP Network Control Centers of the Members of the SEIN's ICCP Network of the SEIN (RIS), in relation to the requirements of the Objective Stage of the of the NTIITR, and evaluate the fulfillment of the minimum quality requirements and conditions for the exchange of information in real time between the COES and the Control Centers of the Members of the SEIN.

The procedure establishes the conducts considered as non-compliances, which will be sanctioned according to the Scale of Fines and Sanctions to be approved by OSINERGMIN.

HH. Peruvian Government establishes seven (7) hours as the Regulation Hours to be applied for the calculation of the firm power of hydroelectric power plants

The Regulation Hours are set at seven (7) hours according to the provisions of literal d) of article 110 of the Regulation of the Law of Electricity Concessions, approved by Supreme Decree N° 009-93-EM, for the period from May 1, 2022 to April 30, 2026.

II. Supervisory Agency for Investment in Energy and Mining (OSINERGMIN) approves COES Technical Procedure N° 34 "Determination of the Variable Maintenance Cost of Thermoelectric Generation Units" (PR-34)

The purpose of PR-34 is to establish the criteria, methodology and process to be followed by the Integrating Generators to determine the Variable Maintenance Cost (CVM) of the thermoelectric Generation Units in each of its Operation Modes, for its approval by COES.

The PR-34 establishes the obligation of the Generators to submit an economic technical report that supports the CVM of its thermoelectric Generation Units for each of its Operation Modes. The report must be updated every two (02) years or when the indicated conditions occur.

JJ. Congress of the Republic approves to bring forward the amendment to Law 27510, Law that creates the Electric Social Compensation Fund

The modification of Law 27510 is brought forward to November 2022, with which the Fondo de Compensación Social Eléctrica (FOSE) will cover the subsidy to residential users of the public electricity service whose monthly consumption is less than or equal to 140 kWh/month (previously it was up to 100 kWh/month).

KK. Supervisory Agency for Investment in Energy and Mining (OSINERGMIN) approves COES Technical Procedure N° 02 "Conditions for Participation in the Wholesale Electricity Market" (PR-02)

The purpose of PR-02 is to establish the requirements, procedures and obligations that Members must comply with in order to participate in the Wholesale Electricity Market (WEM).

The modifications of PR 02 (with respect to its previous version), are related to the following:

- Requirements to be a participant of the WME.
- Treatment of remote disconnection in case of unauthorized withdrawals.
- Authorization process to participate in the WME.
- Causes for suspension and exclusion.

As a result of the modifications to PR 02, modifications to PR 10 and PR 20 on "Liquidation of Valuation of Active Energy Transfers and Valuation of Complementary Services and Operative Inflexibilities" and "Entry, Modification and Withdrawal of Facilities in the SEIN", respectively, are provided.

Finally, COES has published for comments the proposed modifications to PR 46 "Guarantees and Constitution of Trusts for the Wholesale Electricity Market" and PR 47 "Daily Valuations in the Wholesale Electricity Market", to align them with the changes approved to PR 02. The Company is evaluating these proposals for comments, if appropriate.

LL. Agency for Environmental Assessment and Enforcement (OEFA) approves the "Sole Ordered Text of the Procedure for Collection and Control of the Regulation Contribution"

The purpose of this rule is to regulate the procedure for the collection and control of the Regulatory Contribution that corresponds to the OEFA. The rule is applicable to the subjects of the energy (electricity and hydrocarbons subsectors) and mining sectors that are obliged to comply with the obligations derived from the Regulation Contribution.

Likewise, through Supreme Decree N° 157-2022-PCM, provisions were approved regarding the OEFA's Regulation Contribution, to be paid by the companies and entities of the energy sector for the period 2023 - 2025, as follows:

Aliquot of the Contribution for regulation of ...	Current	Previous
	(2023-2025)	(2020-2022)
Companies and entities of the electricity sub-sector	2023: 0.46%	2020: 0.51%
	2024: 0.43%	2021: 0.49%
	2025: 0.41%	2022: 0.47%

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 10 and 11: Useful life of the property, plant and equipment and intangible assets;
- Note 20: Utilization of tax losses.

ii. Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties on December 31, 2022, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year is included as following notes:

- Note 21: revenue recognition: estimate of expected returns;
- Note 16: recognition of deferred tax assets: availability of future taxable profit against which deductible temporary differences and tax losses carried forward can be utilized;
- Note 11: impairment test of intangible assets and goodwill: key assumptions underlying recoverable amounts, including the recoverability of development costs;
- Note 27: recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources.

Measurement of fair values

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

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

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, 2022, have been authorized for issuance by the Management of the Company on February 9, 2023. 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, 2021, were approved by the Management of the Company on February 9, 2022.

ii. Historical cost basis

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

C. Accounting pronouncement

i. New accounting pronouncements

The application of the following standards, interpretations and amendments to IFRS is mandatory for the first time for annual periods beginning on or after January 1, 2022:

New IFRSs, amendments and interpretations	Effective date
<i>Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)</i>	Annual periods beginning on or after January 1, 2022.
<i>Annual Improvements to IFRS Standards 2018 - 2020 Cycle – various standards (Amendments to IFRS 1 and IAS 9)</i>	Annual periods beginning on or after January 1, 2022.
<i>Property, Plant and Equipment – Proceeds before Intended Use (Amendments to IAS 16)</i>	Annual periods beginning on or after January 1, 2022.
<i>Reference to the Conceptual Framework (Amendments to IFRS 3)</i>	Annual periods beginning on or after January 1, 2022.

The Group has not early adopted the new or amended standards in preparing these financial statements.

ii. New accounting pronouncements issued but not yet adopted

A number of new standards are effective for annual periods beginning after January 1, 2022 and earlier application is permitted; however, the Group has not adopted the new or amended standards in preparing these consolidated financial statements.

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

New IFRSs, amendments and interpretations	Effective date
IFRS 17 <i>Insurance Contracts</i>	Annual periods beginning on or after January 1, 2023. This date includes the exemption from applying IFRS 9 for insurers, permitting them to apply IFRS 9 and IFRS 17 at the same time. Early adoption is permitted for entities applying IFRS 9 and IFRS 15 on or before that date.
<i>Classification of Liabilities as Current or Non-current (Amendments to IAS 1)</i>	Annual periods beginning on or after January 1, 2023. Early adoption is permitted.
<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)</i>	Effective date deferred indefinitely.
<i>Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)</i>	Annual periods beginning on or after January 1, 2023. Early adoption is permitted.

D. Basis of consolidation

i. Business combinations

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

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

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

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

v. Reorganizations under Common Control Transactions

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

vi. Transactions Eliminated on Consolidation

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

E. Foreign currency translation

i. Functional and presentation currency

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

ii. Transactions and balances

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

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

Foreign currency differences are generally recognized in profit and loss.

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.

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 using 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 has 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 considers, 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.
	Management evaluates the impact of the measures of progress over time. The purpose of measuring progress toward satisfaction of a performance obligation is to recognize revenue is a pattern that reflects the transfer of control of the promised good or services to the customer. Based on the contract terms, the amount that will be billed is based on the units of energy transferred to the client. Invoices are usually collected within 30 days.	

H. Finance income and finance costs

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

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

i. Income tax

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

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

ii. Current tax

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

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

iii. Deferred tax

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

- Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- Temporary differences related to investments in subsidiaries and associates to the extent that the Group can 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.

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 Group when they analyze an Uncertain Tax Treatment (UTT). If the Group 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 Group 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 Group 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 Group 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 Group statement of financial position as other receivable or other payables.

I. *Inventories*

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

J. Trade receivables

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

K. Property, plant and equipment

i. Recognition and measurement

Property, plant and equipment includes electrical energy hydroelectric power plants Cañón del Pato and Carhuaquero (Orazul). These items are measured at historical cost less accumulated depreciation and accumulated impairment losses, except for buildings, machinery and equipment, which are measured at revalued cost based on appraisals performed by an independent appraiser on November 30, 2022.

The Company has adopted the revaluation model for its buildings, machinery and equipment on the basis of appraisals made by independent experts. The appraisals are carried out regularly enough to ensure that the fair value of the revalued assets does not differ materially from their book value.

If the book value of buildings, machinery and equipment increases as a result of a revaluation, this increase will be recognized in other comprehensive income under the heading of revaluation surplus.

The revaluation surplus included in equity may be transferred directly to retained earnings, when the asset is derecognized. This could involve the full transfer of the revaluation surplus when the entity disposes of the asset. Transfers from the revaluation surplus account to retained earnings will not go through profit or loss for the period. The amount of losses due to impairment of the fair value of revalued assets is known directly in other comprehensive income in the period in which such losses occurred. Historical cost includes expenditure that is directly attributable to the acquisition of the items:

- The cost of materials and direct labor;
- any other costs directly attributable to bringing the assets to a working condition for their intended use;
- Capitalized borrowing costs.
- when the Company has an obligation to remove the assets or restore the site, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located; and
- For those cases, which activity occurs in hyperinflationary economies, the historical cost is adjusted by inflation in accordance with IAS 29 Financial Reporting in Hyperinflationary Economies.

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

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

ii. Subsequent costs

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

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

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

iii. Depreciation

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

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

	Years
Buildings and other constructions	4 – 80
Machinery, equipment and transmission lines	4 – 35
Vehicles	5 – 15
Furniture and fixtures	4 – 16
Sundry equipment	4 – 35

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

L. Intangible assets

i. Recognition and measurement

Goodwill	Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment; and any impairment loss is allocated to the carrying amount of the equity investee as a whole.
Research and development	Expenditure on research activities is recognized in profit or loss as incurred. Development expenditure is capitalized only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, it is recognized in profit or loss as incurred. Subsequent to initial recognition, development expenditure is measured at cost less accumulated amortization and any accumulated impairment losses.
Concession	The electricity concessions correspond to intangible assets identified at the acquisition date on December 20, 2016. The useful life of electric concessions is indefinite.
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.

M. Financial instruments

i. Recognition and initial measurement

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

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

ii. Classification and subsequent measurement

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

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

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

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

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

iii. Derecognition

Financial assets

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

Financial liabilities

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

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

iv. Offsetting

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

N. Share capital - Ordinary shares

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

O. Impairment

i. Non-derivative Financial Assets

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

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

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

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

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

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

Measurement of ECLs

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

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

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

Credit-impaired financial assets

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

Evidence that financial asset is credit-impaired includes

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

Presentation of allowances for ECL in the statement of financial position

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

Write-off

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

ii. Non-financial assets

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

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

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

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

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

P. Energy purchase

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

Q. Asset retirement obligation (ARO)

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

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

R. Provisions

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

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

S. Leases

At inception contract, the Company 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 Company allocates the consideration in the contract to each lease component based on its relative stand-alone prices. However, for the lease of property, the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Company recognizes 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 Company by the end of the lease term or the cost of the right of use asset reflects that the Company will exercise a purchase option. In that case the right of use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those property and equipment. In addition, the right of use -asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

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

The Company 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 Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is 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 Company estimate of the amount expected to be payable under a residual value guarantee, if the Company 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 Company presents 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 Company has elected not to recognize right of use assets and lease liabilities for lease of low value assets and short-term leases, including IT equipment. The Company recognizes the lease payment associated with these leases as an expense on straight line over the lease term.

4. Financial Instruments - Fair Value and Risk Management

A. Carrying amounts and fair values

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

	Carrying amount			Fair value	
	Current		Non-current		
	Amortized cost	Other financial liabilities	Other financial liabilities	Total	
				Level 2	
<i>In thousands of U.S. dollars</i>					
As of December 31, 2022					
Financial assets not measured at fair value					
Cash	16,779	-	-	16,779	-
Trade receivables	16,443	-	-	16,443	-
Other receivables (*)	122	-	-	122	-
Intercompany receivables	909	-	-	909	-
Financial liabilities not measured at fair value					
Trade payables	-	(8,331)	-	(8,331)	-
Other payables (*)	-	(3,544)	-	(3,544)	-
Intercompany payables	-	(394)	-	(394)	-
Debentures	-	-	(359,452)	(359,452)	(326,806)
Lease liabilities	-	(152)	-	(152)	-
	34,253	(12,421)	(359,452)	(337,620)	(326,806)
As of December 31, 2021					
Financial assets not measured at fair value					
Cash	20,849	-	-	20,849	-
Trade receivables	16,916	-	-	16,916	-
Other receivables (*)	341	-	-	341	-
Intercompany receivables	261	-	-	261	-
Financial liabilities not measured at fair value					
Trade payables	-	(6,540)	-	(6,540)	-
Other payables (*)	-	(5,977)	-	(5,977)	-
Intercompany payables	-	(1)	(21,713)	(21,714)	-
Debentures	-	-	(358,715)	(358,715)	(353,210)
Lease liabilities	-	(148)	(148)	(296)	-
	38,367	(12,666)	(380,576)	(354,875)	(353,210)

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

B. Fair value measurements

Valuation techniques and significant unobservable inputs

The following table shows the valuation techniques used in the determination of fair values of financial instruments – Level 2 as of December 31, 2022 and 2021:

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 Group 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.

As of December 31, 2022 and 2021, the maximum exposure to credit risk for the Group financial assets was the following:

<i>In thousands of U.S. dollars</i>	Carrying amount	
	2022	2021
Cash (a)	16,779	20,849
Trade receivables (b)	16,443	16,916
Account receivables from related parties	909	261
Other receivables	122	341
	34,253	38,367

- (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, 2022 and 2021, 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, 2022 and 2021, the composition of trade receivables is related to regulated and non-regulated customers, and to the Peruvian system operator, the Committee of Economic Operation of the National Interconnected System (COES), that acts as a clearing-house and settles the payments for power generation companies.

Expected credit loss assessment for corporate customers

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

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

Portfolio 1: COES

Portfolio 2: Regulated customers

Portfolio 3: Free customers

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.

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- Customer portfolio quality: The Group contemplates customer credit evaluation procedures prior to signing contracts, in order to mitigate future economic risks. Additionally, after the second month of delay, the Company may restrict the supply of electricity to its customers. Given the type of customers that the Company has: (i) free customers, who are industrial, mining companies and need the energy to operate their plants; and (ii) regulated customers, electricity distribution companies, use the energy for sale and thereby generate income. They cannot afford to be sanctioned or blocked from the energy supply; therefore, the history of past dues is low.
- Finally, COES can impose penalties for those companies that do not comply with their payment obligations.

ii. Liquidity risk

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

As of December 31, 2022 and 2021, the Group has a positive working capital. The principal sources of liquidity have traditionally consisted of cash flows from operating activities. The Group does not have funds designated for, or subject to, permanent reinvestment.

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

Liquidity is controlled by the balancing of the maturities of assets and liabilities, keeping a proper number of financing sources, and obtaining credit lines that enable the normal development of its activities. The Group has an appropriate level of resources and continues financing lines with banking entities. Moreover, the Group believes that its cash generated by operations will be adequate to meet all capital expenditure requirements related to ongoing maintenance and environmental improvements and all working capital needs in the ordinary course of our business in the near term. Consequently, in Management's opinion, there is no significant liquidity risk as of December 31, 2022 and 2021.

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The Group'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
2022									
Non-derivative financial liabilities									
Debentures	15	359,452	451,614	20,430	20,430	20,430	20,430	369,894	-
Trade payables	12	8,331	8,331	8,331	-	-	-	-	-
Other payables (*)	13	3,544	3,544	3,544	-	-	-	-	-
Account payables to related parties	26.C	394	394	394	-	-	-	-	-
Lease liabilities	14	152	156	156	-	-	-	-	-
		371,873	464,039	32,855	20,430	20,430	20,430	369,894	-
2021									
Non-derivative financial liabilities									
Debentures	15	358,715	472,044	20,430	20,430	20,430	20,430	20,430	369,894
Trade payables	12	6,540	6,540	6,540	-	-	-	-	-
Other payables (*)	13	5,977	5,977	5,977	-	-	-	-	-
Account payables to related parties	26.C	21,714	21,714	1	21,713	-	-	-	-
Lease liabilities	14	296	312	156	156	-	-	-	-
		393,242	506,587	33,104	42,299	20,430	20,430	20,430	369,894

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

iii. Market risk

Currency risk

As of December 31, 2022 and 2021, 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, 2022, the weighted average market exchange rates used were US\$ 0.2618 per S/ 1.00 for sell rate and US\$ 0.2626 per S/ 1.00 for offer rate (US\$ 0.2501 per S/ 1.00 for sell rate and US\$ 0.2516 per S/ 1.00 for offer rate as of December 31, 2021).

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

<i>In thousands of soles</i>	2022	2021
Asset		
Cash	20,373	17,960
Trade receivables	12,635	14,188
Other receivables	9	4
	33,017	32,152
Liabilities		
Trade payables	(17,516)	(3,414)
Other payables	-	(9,697)
	(17,516)	(13,111)
Net asset position	15,501	19,041

In 2022, net foreign exchange gain amounts US\$ 612 thousand (net foreign exchange loss of US\$ 1,108 thousand in 2021).

As of December 31, 2022, if the U.S. dollar had been revalued/devalued in relation to the Peruvian sol – with all its variables remaining constant – the profit before tax would have increased/decreased as shown in the following table:

Period	Increase/decrease in Soles/ US\$ exchange rate	Effects in profit before tax
2022		
Revaluation	5%	(195)
Devaluation	(5%)	215
2021		
Revaluation	5%	(229)
Devaluation	(5%)	253

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 (%)
2022		
Financial liabilities:		
Interest-bearing loans	363,198	5.625%
2021		
Financial liabilities:		
Interest-bearing loans	363,198	5.625%

5. Discontinued Operations and Assets Held for Sale

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

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

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

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

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

A. Results of discontinued operation

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

OEG II

<i>In thousands of U.S. dollars</i>	Ten – month period ended October 1, 2021
Revenue	38,023
Cost of sales (excluding depreciation and amortization)	(17,933)
Depreciation	(10,563)
Impairment loss	(117,249)
General, selling and administrative expenses	(2,093)
Other income, net	149
Finance cost, net	(1,148)
(Loss) before income tax and discontinued operations	(110,814)
Income tax income	27,718
(Loss) from discontinued operations, net of tax	(83,096)
Consideration received	41,796
Net assets of disposal group	(41,796)
Transaction costs	(471)
(Loss) from discontinued operations	(83,567)

As of September 30, 2021, part of the revenues from the energy services came from sales made to the Company for US\$ 217 thousands.

B. Cash flow from discontinued operation

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

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

<i>In thousands of U.S. dollars</i>	OEG II October 1, 2021
Cash	9,802
Trade receivables	6,934
Other receivables	2,154
Income tax receivable	2,698
Inventories	5,501
Intercompany receivables	436
Other assets	1,213
Property, plant and equipment, net (a)	10,766
Deferred tax assets	19,465
Assets held for sale	58,969
Operating leasing	531
Trade payables	2,971
Other payables	793
Income tax payable	20
Deferred income	-
Asset retirement obligation	12,858
Deferred tax liabilities	-
Liabilities held for sale	17,173
Net assets of disposal group held for sale	41,796
Consideration received, satisfied in cash	41,796
Transaction costs	(471)
Cash from discontinued operations	(9,802)
Net cash inflows	31,523

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

6. Cash

Comprises the following:

<i>In thousands of U.S. dollars</i>	2022	2021
Checking accounts	16,774	20,844
Petty cash	5	5
	16,779	20,849

- (a) The Group holds checking accounts in different local and foreign financial entities and the funds are available. As of December 31, 2022, checking accounts at Banco de Crédito del Perú bore interest at current market rates of 0.07% in U.S. dollars and 0.15% in soles (0.07% in U.S. dollars and 0.15% in soles in 2021) and Scotiabank Perú bore interest at current market rates of 0.5% in U.S. dollars and 1% in soles (0.35% in U.S. dollars and 0.50% in soles in 2021) and Bank of America bear interest at current market rates of 0.90% in U.S. dollars (0.05% in U.S. dollars in 2021).

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:

	2022	2021
Banco del Crédito del Perú S.A.	A+	A+
Scotiabank Perú S.A.A.	A+	A+
Bank of America	A+	A+

7. Trade Receivable

Comprises the following:

<i>In thousands of U.S. dollars</i>	December 31, 2022	December 31, 2021
Regulated Customers	8,746	8,838
Non-regulated customers	6,989	5,626
COES (a)	723	2,627
Other	168	-
Subtotal	16,626	17,091
Impairment loss allowance (e)	(183)	(175)
Total	16,443	16,916

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, 2022, corresponds to 13 non-regulated, 9 regulated customers (8 non-regulated, 9 regulated customers as of December 31, 2021). The receivables are held within a held to collect business model consisted with the Group continuing recognition of the receivable.

- (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, 2022 and 2021, past due commercial loans (more than 360 days) represent, less than 1.27% and 2%, of the total balance of trade receivables, respectively. These correspond mainly to commercial accounts receivable with non-regulated customers.
- (c) As of December 31, 2022, and 2021, trade receivables comprise accounts receivables with related parties of US\$ 174 thousand and US\$ 694 thousand, respectively (note 26.C).
- (d) The aging of trade receivables is the following:

<i>In thousands of U.S. dollars</i>	2022	2021
Unexpired	16,369	16,619
Less than 30 days	23	191
31 to 90 days	22	2
181 to 360 days	1	28
More than 360 days	211	251
	16,626	17,091

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

<i>In thousands of U.S. dollars</i>	2022	2021
Opening balance	175	19,293
Addition	-	43
Write off	-	(131)
Assets held for sale	-	(19,048)
Exchange difference	8	18
	183	175

In 2021, the main amount for receivables of more than 360 days corresponds to the non-collectability of the invoices issued to Maple for natural gasoline sales which were part of the disposal group of OEG.

- (f) The aging of account receivables and the status of customers are constantly monitored to ensure the appropriateness of the estimate in the consolidated financial statements. As a result, Management considers that the impairment estimate of accounts receivables covers sufficiently the risk of loss of doubtful accounts as of December 31, 2022 and 2021.

8. Income Tax Receivable and Payable

Comprises the following:

<i>In thousands of U.S. dollars</i>	2022	2021
Income tax receivable	-	2,390
Income tax payable (a)	(7,959)	-

- (a) It corresponds to the current income tax, which will be consumed or paid during the period 2023.

9. Inventories

Comprises the following:

<i>In thousands of U.S. dollars</i>	2022	2021
Supplies and spare parts (a)	1,740	1,314
Fuel and lubricants	64	39
Fuel to sale	-	5
	1,804	1,358
Write off (b)	(23)	(23)
	1,781	1,335

- (a) Mechanical spare parts correspond mainly to items use in programmed maintenance for hydropower plant, Carhuaquero and Cañón del Pato for enabling appropriate operations until major maintenance. There were no inventory write-downs recorded during the years ended December 31, 2022 and 2021.
- (b) The movement of write off is as follows:

<i>In thousands of U.S. dollars</i>	2022	2021
Balance as of January 1	23	337
Held for sale	-	(314)
Balance as of December 31	23	23

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10. 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, 2021	8,783	345,232	297,663	9,969	3,593	439	15,419	1,533	682,631
Additions (a)	-	25	314	-	217	56	415	1,446	2,473
Other	-	-	-	220	-	-	-	-	220
Retirements	-	-	-	-	(473)	-	(225)	-	(698)
Transfers	-	467	951	-	-	(138)	429	(1,709)	-
Discontinued operations	(178)	(2,564)	(117,700)	(917)	(902)	(12)	(346)	(702)	(123,321)
As of December 31, 2021	8,605	343,160	181,228	9,272	2,435	345	15,692	568	561,305
Balance as of January 1, 2022	8,605	343,160	181,228	9,272	2,435	345	15,692	568	561,305
Additions (a)	-	-	719	-	17	21	253	4,741	5,751
Other	-	-	-	(5,669)	-	-	-	-	(5,669)
Revaluation	597	214,619	183,526	-	-	-	-	-	398,742
Retirements	-	-	(83)	-	(526)	-	(36)	-	(645)
Transfers	-	1,995	673	-	-	-	324	(2,987)	5
As of December 31, 2022	9,202	559,774	366,063	3,603	1,926	366	16,233	2,322	959,489
Accumulated depreciation									
As of January 1, 2021	-	(195,107)	(201,881)	(309)	(2,582)	(277)	(13,376)	-	(413,532)
Depreciation (e)	-	(5,507)	(10,538)	(282)	(365)	(19)	(674)	-	(17,385)
Retirements	-	49	-	-	422	-	212	-	683
Discontinued operation	-	1,483	73,599	162	441	5	190	-	75,880
As of December 31, 2021	-	(199,082)	(138,820)	(429)	(2,084)	(291)	(13,648)	-	(354,354)
Balance as of January 1, 2022	-	(199,082)	(138,820)	(429)	(2,084)	(291)	(13,648)	-	(354,354)
Depreciation (e)	-	(5,687)	(6,239)	(174)	(137)	(7)	(450)	-	(12,694)
Retirements	-	-	67	-	482	-	35	-	584
As of December 31, 2022	-	(204,769)	(144,992)	(603)	(1,739)	(298)	(14,063)	-	(366,464)
Carrying amount									
As of January 1, 2021	8,783	150,125	95,782	9,660	1,011	162	2,043	1,533	269,099
As of December 31, 2021	8,605	144,078	42,408	8,843	351	54	2,044	568	206,951
As of December 31, 2022	9,202	355,005	221,071	3,000	187	68	2,170	2,322	593,025

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- (a) As of December 31, 2022 the additions correspond mainly to civil works in Cañón del Pato plant for US\$ 921 thousand, major maintenance in Cañón del Pato plant for US\$ 839 thousand, system fire for US\$ 453 thousand, solar project for US\$ 329 thousand and other minor projects for US\$ 2,199 (in 2021 corresponded to major maintenance works and automation of the plant for US\$ 1,446 thousand).
- (b) As of December 31, 2022, and December 31, 2021, the Company has insured all plants' assets for property damage under its Property Damage Business Interruption (PDBI) policy. In Management's opinion, this insurance policy is consistent with the international industry practice and the risk of possible losses for claims considered in the insurance policies is reasonable, taking into consideration the Company's types of assets.
- (c) Property, plant and equipment includes right-of-use assets US\$ 139 thousand as of December 31, 2022 (US\$ 266 thousand as of December 31, 2021):

<i>In thousands of U.S. dollars</i>	Buildings and other constructions	Vehicles	Sandy equipment	Total
Cost				
Balance as of January 1, 2021	-	1,202	-	1,202
Addition (d)	-	216	-	216
Discontinued operations	-	(864)	-	(864)
Balance as of December 31, 2021	-	554	-	554
Balance as of January 1, 2022	-	554	-	554
Addition (d)	-	-	17	17
Balance as of December 31, 2022	-	554	17	571
Accumulated depreciation				
Balance as of January 1, 2021	-	(310)	-	(310)
Depreciation	-	(337)	-	(337)
Discontinued operations	-	359	-	359
Balance as of December 31, 2021	-	(288)	-	(288)
Balance as of January 1, 2022	-	(288)	-	(288)
Depreciation	-	(127)	(17)	(144)
Balance as of December 31, 2022	-	(415)	(17)	(432)
Carrying amount				
As of January 1, 2021	-	892	-	892
As of December 31, 2021	-	266	-	266
As of December 31, 2022	-	139	-	139

- (d) Correspond a 1-year contract with a renting company for an operational leasing for printers signed in January 2022. In 2021, the addition corresponded to a contract with a renting company for an operational leasing for vehicles.
- (e) Distribution of depreciation was as follows:

<i>In thousands of U.S. dollars</i>	Note	2022	2021
Costs of sales		12,368	13,214
Administrative expenses	22	326	400
Discontinued operation	5	-	3,771
		12,694	17,385

- (f) As of December 31, 2022 and 2021, the Company does not have guarantees related to the acquisition of property, plant and equipment.

11. Intangible Assets

Comprises the following:

<i>In thousands of U.S. dollars</i>	Electricity		Other		
	Goodwill (a)	Concession (b)	Software	rights (d)	Total
Cost					
Balance as of January 1, 2021	395,456	93,614	3,024	25,994	518,088
Retirements (b)	-	-	(1,239)	-	(1,239)
Additions	-	-	-	2,197	2,197
Discontinued operation	3,971	(13,660)	-	(12,343)	(22,032)
Balance as of December 31, 2021	399,427	79,954	1,785	15,848	497,014
Balance as of January 1, 2022	399,427	79,954	1,785	15,848	497,014
Retirements (b)	-	-	-	223	223
Others	-	-	-	(5)	(5)
Balance as of December 31, 2022	399,427	79,954	1,785	16,066	497,232
Accumulated amortization					
Balance as of January 1, 2021	-	(3,678)	(1,663)	-	(5,341)
Retirements (b)	-	-	1,229	-	1,229
Amortization (e)	-	(684)	(567)	-	(1,251)
Discontinued operation	-	4,362	6	-	4,368
Balance as of December 31, 2021	-	-	(995)	-	(995)
Balance as of January 1, 2022	-	-	(995)	-	(995)
Amortization (e)	-	-	(790)	-	(790)
Balance as of December 31, 2022	-	-	(1,785)	-	(1,785)
Carrying amount					
As of January 1, 2021	395,456	89,936	1,361	25,994	512,747
As of December 31, 2021	399,427	79,954	790	15,848	496,019
As of December 31, 2022	399,427	79,954	-	16,066	495,447

- (a) The goodwill corresponds to (i) the excess of the net fair value of assets and liabilities identified during the acquisition of the Peruvian operating business on December 20, 2016 for US\$ 364,908 thousand, net of the deferred income tax liabilities arising from intangible assets acquired; and (ii) the adjustment of fair value of fixed assets for US\$ 34,519 thousand.
- (b) The re correspond to retirements of software, licenses and ERP that were discontinued for obsolescence, and which were totally depressed.
- (c) The electricity concessions correspond to intangible assets identified at the acquisition date on December 20, 2016. The useful life of electricity concessions is indefinite. As of December 31, 2022 and 2021, Management is not required to establish reserves for the possible impairment of its intangible assets with an indefinite life.
- (d) Other rights correspond to the agreements signed between the Company with regulated costumers, by which regulated costumers grant an option to sign addendums to the original public tender of certain PPAs, extending the contract term, modifying the contracted capacity and associated energy and maintaining the current fixed prices with framework of the Supreme Decree 022-2018 EM (note 13).

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- (e) Amortization of intangibles was as follows:

<i>In thousands of U.S. dollars</i>	Note	2022	2021
Administrative expenses	22	790	567
Discontinued operation	5	-	684
		790	1,251

- (f) Other rights correspond to the agreements signed between the Company 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 13).

Management analysis indicated there were no impairment indicators on the value of the intangibles as of December 31, 2022 and 2021.

12. Trade Payables

Comprises the following:

<i>In thousands of U.S. dollars</i>	2022	2021
Energy purchases and transmission tolls	4,723	4,420
Capex and Major Maintenance (a)	936	84
Other purchases (a)	2,672	2,036
	8,331	6,540

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

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

13. Other Payables

Comprises the following:

<i>In thousands of U.S. dollars</i>	2022	2021
Interest payables-debentures	3,518	3,518
Value-Added Tax	833	1,162
Dividends tax	602	-
Rural electricity contribution, FISE, FOSE	492	225
Other taxes	254	290
Various accruals and other accounts payables	26	293
Option agreements (a)	-	2,166
Labor liabilities	24	3
	5,749	7,657

- (a) As of December 31, 2022, the decrease corresponds to the execution of certain option agreements signed by the Company with distribution companies by which distribution companies grant an option to sign addendums to the original public tender of certain PPAs, extending the contract term, modifying the contracted capacity and associated energy and maintaining the current fixed prices within framework of the Supreme Decree 022-2018 EM (note 11 (f)).

14. Lease Liabilities

Comprises the following:

<i>In thousands of U.S. dollars</i>	<i>Note</i>	2022	2021
Balance as of January 1		296	434
Additions (a)	10(c)	17	-
Payments		(173)	(156)
Unwind of discount		12	18
Balance as of December 31		152	296

- (a) Correspond to a 1-year contract with a renting Company for an operating leasing for printers, signed in January 2021.
- (b) The lease liability is distributed as follows:

<i>In thousands of U.S. dollars</i>	2022	2021
Current portion		
Lease liabilities	152	429
Liabilities held for sale	-	(281)
Subtotal	152	148
Non-current portion		
Lease liabilities	-	399
Liabilities held for sale	-	(251)
Subtotal	-	148
Total	152	296

15. Debentures

Comprises the following:

<i>In thousands of U.S. dollars</i>	2022	2021
Orazul Energy Perú 2027 notes (a)	363,198	363,198
Transaction costs	(3,746)	(4,483)
	359,452	358,715

- (a) In April 2017, the Company (originally Orazul Energy Egenor S. en C. por A., later merged into the Company, on August 16, 2017) issued, in the international capital market, US\$ 550,000 thousand under Rule 144A/Reg S. The Notes are rated BB by Fitch Ratings and BB-by Standard & Poor's. Notes interests are payable biannually with final maturity in April 2027 with a coupon rate of 5.625%.

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

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

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On August 12, 2021, the Company announced the final tender results for its Transmission Tender Offer. The Total Consideration for the Notes validly tendered and accepted pursuant to the Transmission Tender Offer was US\$ 1,035 per US\$ 1,000 principal amount of Notes. In addition to the Total Consideration, holders received accrued and unpaid interest on all Notes tendered and accepted for payment in the Transmission Tender Offer from the last interest payment date up to, but not including August 13, 2021.

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

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

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

On November 30, 2021, the Company announced the final tender results for its Gas-to-Power Tender Offer. The total consideration for the Notes validly tendered and accepted pursuant to the Gas-to-Power Tender Offer was US\$ 1,007.5 per US\$ 1,000 principal amount of Notes. In addition to the Total Consideration, holders received accrued and unpaid interest on all Notes tendered and accepted for payment from the last interest payment date up to, but not including, December 1, 2021, together with additional amounts thereon.

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

Conditions of the Notes

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

- The Company agrees to some restrictions for the payments outside its usual operations, new investments and in the sale of assets.
- The Company and its guarantors agree to keep their accounting records under IFRS and report their separate financial statements within the periods established in the agreement.
- 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, 2022, and 2021.

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A. Terms and debt repayment schedule

The terms and conditions of debentures are as follows:

<i>In thousands of U.S. dollars</i>	Nominal annual interest rate	Currency	Maturity	Fair value		Carrying amount	
				2022	2021	2022	2021
OEP 2027 Notes	5.625%	US\$	April 2027	363,198	363,198	359,452	358,715

The table below presents the payment schedule of the non-current portion of the long-term debt as of December 31, 2022:

<i>In thousands of U.S. dollars</i>	
2027	359,452
	359,452

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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 (note 13)	Debentures (note 15)	Lease liabilities (note 14)	Intercompany payables (note 26.C)	Total liabilities	Share capital	Additional capital	Legal reserves	Other reserves	Revaluation reserve	Retained earnings	Total
<i>In thousands of U.S. dollars</i>												
Balance as of January 1, 2022	7,657	358,715	296	21,714	388,382	385,036	8,857	-	5,675	-	79,721	867,671
Payment to related parties' loan – interest	-	-	-	(21,717)	(21,717)	-	-	-	-	-	-	(21,717)
Interest paid	(20,430)	-	-	-	(20,430)	-	-	-	-	-	-	(20,430)
Payment of withholding tax	(4,851)	-	-	-	(4,851)	-	-	-	-	-	-	(4,851)
Payment of lease liabilities	-	-	(173)	-	(173)	-	-	-	-	-	-	(173)
Dividends paid, net tax	-	-	-	-	-	-	(8,414)	-	-	-	(17,708)	(26,122)
Net cash used financing activities	(25,281)	-	(173)	(21,717)	(47,171)	-	(8,414)	-	-	-	(17,708)	(73,293)
Interest expenses	20,430	-	12	-	20,442	-	-	-	-	-	-	20,442
Transaction cost	-	737	-	-	737	-	-	-	-	-	-	737
Revaluation	-	-	-	-	-	-	-	-	-	281,113	-	281,113
Legal reserves	-	-	-	-	-	-	-	2,854	-	-	(2,854)	-
Capitalization	-	-	-	-	-	79,721	-	-	(5,675)	-	(74,046)	-
Profit for the period	-	-	-	-	-	-	-	-	-	-	28,587	28,587
Others	2,958	-	17	398	3,373	-	(443)	-	-	-	(3,789)	(859)
Balance as of December 31, 2022	5,764	359,452	152	395	365,763	464,757	-	2,854	-	281,113	9,911	1,124,398

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	Liabilities					Equity						
	Other payables (note 13)	Debentures (note 15)	Lease liabilities (note 14)	Intercompany payables (note 26.C)	Total liabilities	Share capital	Additional capital	Legal reserves	Other reserves	Revaluation reserve	Retained earnings	Total
<i>In thousands of U.S. dollars</i>												
Balance as of January 1, 2021	16,417	542,396	946	23,476	583,235	196,086	8,857	-	5,675	-	215,794	1,009,647
Payment of notes	-	(186,802)	-	-	(186,802)	-	-	-	-	-	-	(186,802)
Payment to related parties' loan - interest	-	-	-	(1,000)	(1,000)	-	-	-	-	-	-	(1,000)
Interest paid	(36,084)	-	-	-	(36,084)	-	-	-	-	-	-	(36,084)
Payment of withholding tax	(2,522)	-	-	-	(2,522)	-	-	-	-	-	-	(2,522)
Payment of lease liabilities	-	-	(379)	-	(379)	-	-	-	-	-	-	(379)
Net cash used financing activities	(38,606)	(186,802)	(379)	(1,000)	(226,787)	-	-	-	-	-	-	(226,787)
Interest expenses	27,639	-	18	-	27,657	-	-	-	-	-	-	27,657
Transaction cost	-	3,121	-	-	3,121	-	-	-	-	-	-	3,121
Held for sale	-	-	(532)	(755)	(1,287)	-	-	-	-	-	-	(1,287)
Legal reserves	-	-	-	-	-	-	-	8,857	-	-	(8,857)	-
Capitalization	-	-	-	-	-	188,950	-	-	-	-	(188,950)	-
Profit for the period	-	-	-	-	-	-	-	-	-	-	61,735	61,735
Others	2,207	-	243	(7)	2,443	-	-	-	-	-	(8,858)	(6,415)
Balance as of December 31, 2021	7,657	358,715	296	21,714	388,382	385,036	8,857	8,857	5,675	-	70,864	867,671

16. Current and Deferred Income

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

<i>In thousands of U.S. dollars</i>	Additions/recoveries			Final balance
	Opening balance	Profit or loss (P&L)	Equity	
2022				
Deferred assets				
Tax losses carryforward	248,146	617	-	248,763
Fair value loan	(1)	1	-	-
	248,145	618	-	248,763
Deferred liabilities				
Property, plant and equipment	(75,677)	2,683	-	(72,994)
Property, plant and equipment (revaluation)	-	439	(117,629)	(117,190)
Financial cost	(1,322)	217	-	(1,105)
Various provisions	(1,590)	(2,411)	-	(4,001)
	(78,589)	928	(117,629)	(195,290)
Net effect	169,556	1,546	(117,629)	53,473

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

Income tax expense shown in the statement of profit or loss for years 2022 and 2021 is composed as follows:

<i>In thousands of U.S. dollars</i>	2022	2021
Current tax	(10,987)	(5)
Deferred tax	1,546	131,444
	(9,441)	131,439

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The table below presents the reconciliation of the effective income tax rate as for the years ended December 31, 2022 and 2021 to the tax rate:

<i>In thousands of U.S. dollars</i>	2022		2021	
Profit before income tax	38,028	100.00%	13,824	100.00%
Theoretical expense	11,218	29.50%	4,078	29.50%
Effect of non-taxable income and non-deductible expenses	5,345	14.06%	7,181	51.95%
Exchange difference taxable base	(6,915)	(18.17%)	(10,043)	(72.65%)
Income from sale of subsidiary	-	-	(132,177)	(956.14%)
Others	(207)	(0.54%)	(478)	(3.46%)
Income tax expenses	9,441	24.83%	(131,439)	(950.80%)

17. Asset Retirement Obligation

Comprises the following:

<i>In thousands of U.S. dollars</i>	<i>Note</i>	2022	2021
Balance as of January 1		9,551	9,197
(Decrease)/Additions	10	(5,669)	234
Unwind of discount		121	120
Balance as of December 31		4,003	9,551

The provision for decommissioning liabilities corresponds to electrical energy hydroelectric power plants Cañón del Pato and Carhuaquero (Orazul), 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\$ 18,300 thousand and has been discounted using an annual risk-free rate 3.77% (1.26% as of December 31, 2021).

18. Equity

A. Share capital

Comprises the following:

<i>In thousands of U.S. dollars</i>	December 31, 2022	December 31, 2021
Orazul Energia (UK) Holdings Ltd.	464,703	384,982
Others	54	54
	464,757	385,036

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

On March 2, 2022, the Company capitalized the retained earnings of the 2021-year end for US\$ 79,721 thousand and issued additional shares for 302,223,653 with a nominal value of S/ 1.00 per share.

As of December 31, 2022, issued capital stock is represented by 1,644,249,142 common shares with a face value of S/ 1.00 per share, duly authorized, issued and paid.

Shareholders	Number of shares	%
Orazul Energia (UK) Holdings Ltd.	1,644,016,886	99.99
Others	232,256	0.01
	1,644,249,142	100.00

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

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

B. Nature and purpose of reserves

i. Legal reserves

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.

ii. Revaluation reserves

Correspond to the revaluation of plant and equipment, buildings and other constructions net of deferred tax executed on November 30, 2022, for US\$ 281,113 thousand (note 10).

iii. Dividends

In August 2022, the Company declared and paid dividends for US\$ 15,500 thousand.

In December 2022, the Company made a cash dividend distribution for US\$ 12,000 thousand, from which US\$ 8,857 thousand was on account of additional capital and US\$ 3,143 thousand on retained earnings.

19. Capital Management

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

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

The Group monitors capital using a ratio of 'adjusted net debt' to 'adjusted equity'. For this purpose, adjusted net debt is defined as main part of total loans and financial obligations. Net debt is calculated as total liabilities (as shown in the statement of financial position) less cash. Adjusted equity comprises all components of equity other than amounts accumulated in the cash flow hedging reserve. The Group adjusted net debt to equity ratio as of December 31, 2022 and 2021 was as follows:

<i>In thousands of U.S. dollars</i>	<i>Note</i>	2022	2021
Total liabilities		386,377	404,847
Less: Cash	6	(16,779)	(20,849)
Total adjusted net debts (A)		369,598	383,998
Total equity (B)		792,288	510,088
Gearing ratio (A/B)		0.47	0.75

20. Tax Issues

A. Tax Situation

Income tax from the years 2018 to 2021 and the return that will be submitted for 2022 are subject to review by the tax authorities. As of December 31, 2022, the Company is being audited by the Peruvian Tax Administration through: (i) An integral Income Tax Audit related to the year 2020 and (ii) A partial Income Tax Audit related to the year 2021.

Due to possible interpretations that tax authorities may have on current applicable regulations every year, it is not possible to determine to date whether liabilities for the Company will arise or not from the reviews to be conducted. Therefore, any income tax or charge that may result from those tax reviews would be applied to profit or loss for the year when determined. Management of the Company believes that any additional tax payment would not be significant for the Company and Subsidiary' financial statements as of December 31, 2022 and 2021.

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

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

C. According to the Income Tax Peruvian legislation, tax losses may be offset according to either of the following systems: (A) against net income generated within the following four fiscal years after the year in which the loss was incurred (any losses that are not offset within such period may not be carried forward to any future year); or (B) against 50% of the net income generated in the following fiscal years after the year in which the loss was generated (under this system, there is no time limit for carrying the losses forward). The Company has determined that the losses will be offset under 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 payments in advance related with the general income tax regime or against the regularization payment of income tax of the corresponding taxable period. As of December 31, 2022, the Company has US\$ 961 thousand as ITAN balance to recover.

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- E. Tax amendments of greater relevance in force since January 1, 2019 and applicable through 2022:
- i. New legal concept of accrual Legislative Decree N° 1425 introduced the definition of a legal accrual for purposes of Income Tax, establishing that income in the case of:
 - a) transfer of goods occurs when: i) occurs the change of control (according to IFRS 15); or ii) occurs the transfer of the risk to the acquirer (Risk Theory established in the Civil Code), whichever occurs first; and b) in the case of service provision, the degree of completion of the service has been established.

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

It should be noted that the concept subject matter of comment will not be applicable for those entities that earn income or expenses for Income Tax according to provisions of a tax nature that establish a special regime (sector) of accrual.
 - ii. Sub-capitalization (Thin Cap Rule)
Beginning in 2019 and until December 31, 2020, the financial expense generated by indebtedness, both between independent and related parties, is subject to the sub-capitalization limit of (3: 1 Debt-Equity Ratio) calculated at the close of the previous year. As of January 1, 2021, the financial expenses will be deductible up to the limit of 30% of the tax EBITDA (Net Income - Compensation of Losses + Net Interest + Depreciation + Amortization) of the previous year. There are some exceptions to the application of this limitation in the case of banks, taxpayers with incomes not exceeding 2,500 UITs, infrastructure, public services, etc.
 - iii. Deduction of expenses or costs incurred in transactions with non-domiciled parties
Legislative Decree 1369 ° requires that costs and / or expenses (including outbound interest) incurred with non-domiciled counterparts must have been paid effectively 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 (General Anti-Avoidance Rule)
According to the Legislative Decree N° 1422 - Rule XVI (General Anti-Avoidance Rule) establishes the obligation of the Board of Directors to approve, ratify or modify the acts, situations and economic relations to be carried out within the framework of fiscal planning. The deadline for the ratification of modifies expired on March 29, 2019.
 - v. Final beneficiaries
The Legislative Decree 1372 requires legal entities in Peru to file an information return with the Peruvian tax authorities that identifies their "final beneficiaries".

21. Revenue

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

<i>In thousands of U.S. dollars</i>	December 2022	December 2021
Energy sales regulated	50,089	40,941
Energy sales non-regulated	26,908	19,419
Energy sales -spot	6,311	7,695
Capacity sales regulated	13,104	12,190
Capacity sales non-regulated	7,479	6,744
Capacity sales spot	2,469	4,018
Other revenues	892	236
	107,252	91,243

During 2022, the Company sold 2,007 GWH (2,189 GWH during 2021).

As of December 31, 2022, there was estimated pending revenues to be invoiced for US\$ 10,333 thousand (US\$ 12,468 thousand in 2021). According to Management's evaluation, there would not be significant variation between the amounts invoiced and those estimated. The Company's income is recognized as the electric energy generation service is provided.

22. Expenses by Nature

Comprises the following:

<i>In thousands of U.S. dollars</i>	<i>Note</i>	Cost of sales		Administrative expenses		Total	
		2022	2021	2022	2021	2022	2021
Energy purchase		6,324	3,101	-	-	6,324	3,101
Intercompany services	26.C	5,129	4,646	2,256	1,528	7,385	6,174
Taxes		3,308	2,961	10	17	3,318	2,978
Capacity and transmission services to third parties		3,117	2,685	-	-	3,117	2,685
Energy, capacity and transmission services to related parties	26.C	2,717	2,188	-	-	2,717	2,188
Insure		2,291	2,487	-	-	2,291	2,487
Third party services		1,426	1,150	884	960	2,310	2,110
Supplies and spare parts		1,250	1,624	-	-	1,250	1,624
Sundry management charges		765	558	1,072	676	1,837	1,234
Personnel expenses		67	61	120	18	187	79
Depreciation and amortization	10 and 11	-	-	1,116	967	1,116	967
		26,394	21,461	5,458	4,166	31,852	25,627

23. Other Income

Comprises the following:

<i>In thousands of U.S. dollars</i>	<i>Note</i>	2022	2021
Other non-operating income		495	1,529
Intercompany services	26.C	197	197
Net profit for the sale of fixed assets		1	60
		693	1,786

24. Finance Costs

Comprises the following:

<i>In thousands of U.S. dollars</i>	<i>Note</i>	2022	2021
Interest expenses – debentures		20,430	27,639
Other financial expenses (a)		4,023	6,958
Transaction cost amortization		737	3,121
Withholding tax on interest		1,009	1,393
Unwind of discount on provision for decommissioning		121	120
Unwind of discount on lease liabilities		12	19
Interest expenses - related parties	26.C	2	3
		26,334	39,253

- (a) In 2022 and 2021, other borrowing costs mainly correspond to the financial cost related to the premium paid to the bondholders in connection with the Transmission Tender Offer and the Gas-to-Power Tender Offer (note 15).

25. Commitments

Electricity Supply Contracts

As of December 31, 2022 and 2021, the Company has 13 contracts with non-regulated customers (8 contracts with non-regulated customers in 2020), whose maturities vary between years 2023 and 2027. The off-peak capacity agreed in these contracts amounts to 217 MW as of December 31, 2022 (201 MW as of December 31, 2021). In relation to regulated customers, the Company has 15 contracts with 9 distribution companies for 174 MW, effective as of December 31, 2022 and 2021, whose maturities vary between years 2023 and 2032.

26. 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, 2022 and 2021 there are no loans to directors.

ii. Key management personnel compensation

As of December 31, 2022 and 2021, there are no compensation to key management personnel.

iii. Transactions with key management personnel

During the year ended December 31, 2022 and 2021, there were no transactions between the Group and Key Management, other than those in (ii).

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C. Other related parties transactions

In 2022 and 2021, 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	Note	2022	2021
Sales				
Kallpa Generación S.A.	Energy, capacity and transmission		3,100	3,107
Termoselva S.R.L.	Energy, capacity and transmission		696	264
Samay I S.A.	Energy, capacity and transmission		8	8
Costs				
Kallpa Generación S.A.	Energy, capacity and transmission	22	(2,173)	(524)
Samay I S.A.	Energy, capacity and transmission	22	(496)	(1,639)
Termoselva S.R.L.	Energy, capacity and transmission	22	(49)	(25)
Other				
Kallpa Generación S.A. (a)	Management service and O&M	22	(7,385)	(6,174)
Kallpa Generación S.A.	Others		200	-
Eléctrica Cobee-Sucursal	Others	23	197	197
Orazul Energía Partners LLC (b)	Fair value	24	(2)	(3)
			(5,904)	(4,789)
			Outstanding balances	
<i>In thousands of U.S. dollars</i>	Transaction type	Note	2022	2021
Account receivables				
Kallpa Generación S.A.	Energy, capacity and transmission		116	575
Termoselva S.R.L.	Energy, capacity and transmission		8	118
Samay I S.A.	Energy, capacity and transmission		-	1
Kallpa Generación S.A.	Others		50	-
Trade accounts receivable		7(c)	174	694
Kallpa Generación S.A.	Management service and O&M		721	258
Eléctrica Cobee-Sucursal	Services		188	-
Samay I S.A.	PPE sales		-	3
Accounts receivable from related parties			909	261
Account payables				
Samay I S.A.	Energy, capacity and transmission		(340)	(166)
Kallpa Generación S.A.	Energy, capacity and transmission		(12)	(43)
Termoselva S.R.L.	Energy, capacity and transmission		(1)	(1)
Trade accounts payable			(353)	(210)
Kallpa Generación S.A.	Management service and O&M		(394)	-
Orazul Energía Partners LLC (a)	Loan		-	(21,713)
Orazul Energía Hidrocarburos	Dividends		-	(1)
Account payables to related parties			(394)	(21,714)
			336	(20,969)

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 Generación S.A. entered into a Management Service and Operational Service Agreement, which can be renewed under the express consent of the parties each period (note 23).
- (b) On December 20, 2016, Orazul Energía Partners LLC, granted a subordinated loan in favor of the Company for an aggregate amount of US\$ 255,950 thousand to fund the acquisition of Orazul Energy Group Shares. The loan accrued annual interest rate of 6% until final maturity on December 20, 2026 (note 27).

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.

In 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. During 2022 these amounts were reclassified to retained earnings.

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. 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 August 2022, the Company paid the final balance for US\$ 63 thousand.

In March, June and August 2022, the Company paid US\$ 5,015 thousand, US\$ 7,025 thousand and US\$ 9,612 thousands respectively (US\$ 1,000 thousands in February 2021), corresponding to the final balance of interest accrued until December 2018.

27. Contingencies

As of December 31, 2022 and 2021, the Company has the following contingencies:

- (a) The Company is involved in several labor claims, mostly related to vacations, compensation for damages (including moral damages) and profit sharing, for which, after being evaluated individually, as of December, 2022 the Company recorded a provision equivalent to US\$ 337 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\$ 538 thousand for labor claims that are not more likely than not that the Company will pay.

- (b) Income tax from the years 2015 to 2021, and the Return that will be submitted for 2022 are subject to review by the tax authorities.

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(c) Temporary Tax on Net Assets

Temporary tax on net assets return from 2013 was reviewed by the Tax Administration in 2014, issuing determination and fine resolutions for US\$ 225 thousand plus interests in May 2015. In July 2015, the Company filed a claim against the Tax Administration; and in April 2016, the Tax Administration declared the claim filed by the Company as groundless. In May 2016, the Company filed an appeal before the Tax Court, which has been resolved against Orazul through the Tax Court Resolution N° 08513-3-2019 in September 2019. In November 2019, the Company decided to pay the amount of US\$ 428 thousand (US\$ 285 thousand as ITAN and US\$ 143 thousand as fine, included interests). In December 2019, the Company filed the corresponding judicial action. The Judicial Court held a hearing on July 15, 2021 and in the same date the Company submitted an additional document in order to reinforce the arguments exposed in the claim.

In January 2022, the First Instance of the Judicial Court issued its Resolution whereby the claim filed by Orazul was declared founded and, consequently, the Tax Court Resolution N° 08513-3-2019 null and void. In this way, the Court has recognized that the higher value of the assets as a result of their reorganization and revaluation, should not be part of the 2013 ITAN tax base, as Orazul pointed out throughout of the judicial process. On February 8, 2022, SUNAT and the Tax Court appealed before the Superior Judicial Court. On April 27, 2022, through Resolution N° 13, the Superior Judicial Court confirmed the judgment that declared founded the lawsuit filed by Orazul. In May 2022, the Tax Administration, and the Tax Court, filed their appeals before the Supreme Judicial Court.

(c) Income Tax Pre-Payments 2012

In July 2015, OEP was notified with SUNAT's Determination Resolutions issued for the Income Tax Pre-payments for the periods March through December 2012, determined using the coefficient resulting from the Income Tax 2011 Determination Resolution, even though it had been challenged by the Company. The Company paid the omitted tax, penalties, and moratorium interests for an amount of S/ 575 thousand (US\$ 151 thousand) and claimed and appealed the case without obtaining results in its favor.

In July 2018, the Company requested the refund of the amount paid improperly and demand the case before the first and second instances of the Judiciary without good results. In December 2019, Orazul filed its demand before the Supreme Court. In October 2022, the Supreme Court declared the appeal filed by the Company unfounded. The Company has not registered an account receivable for this tax and period. To date, the case has been concluded unfavorably for the Company.

In the opinion of Management and the legal advisors of the Company, there are no significant contingencies that could affect the consolidated financial statements as of December 31, 2022 and 2021 that have not been provisioned or disclosed in the consolidated financial statements.

28. Subsequent Events

On January 24 and February 01, 2023, the anti-trust authority in Peru, INDECOPI, and Samay I's lenders approved the sale of the shares of Inkia Americas II (which owned directly 74.86% of Samay I) respectively. The sale of 100% of the shares of Inkia Americas II S.A.C. closed on February 3, 2023.

Transfer of ownership of the shares of Samay Holdings SCS (which owns directly 25.14% of Samay I) will take place upon the latest to occur between (i) May 26, 2023; and (ii) obtention of the tax basis certificate issued by SUNAT in relation to Samay Holdings SCS's investment in Samay I S.A.

Since February 3, 2023, Samay I S.A. is no longer considered a related party.