



Orazul Energy Perú S.A. and Subsidiaries

Consolidated Financial Statements

December 31, 2019

(Including Independent Auditors' Report)



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INDEPENDENT AUDITORS' REPORT ON REVIEW OF CONSOLIDATED FINANCIAL STATEMENTS

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

Introduction

We have audited the accompanying consolidated financial statements of Orazul Energy Perú S.A. and Subsidiaries which comprise the consolidated statement of financial position as of December 31, 2019, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year the ended, and notes 1 to 30, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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



Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Orazul Energy Perú S.A. and Subsidiaries as of December 31, 2019, and its consolidated financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards issued by International Accounting Standards Board.

Other Matter

The consolidated financial statements as of and for the year ended December 31, 2018 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on March 29, 2019.

Lima, Peru

March 5, 2020

Countersigned by:

Juan José Córdova (Partner)
Peruvian Certified Public Accountant
Registration Number 01-18869

Caipe y Asociados

Orazul Energy Perú S.A. and Subsidiaries

Consolidated Financial Statements

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Orazul Energy Perú S.A. and Subsidiaries
Consolidated Statements of Financial Position
As of December 31, 2019 and 2018

<i>In thousands of U.S. dollars</i>	<i>Note</i>	2019	2018
Assets			
Current assets			
Cash and cash equivalents	5	41,160	50,014
Trade receivables	6	17,523	16,753
Other receivables	7	2,447	2,223
Income tax receivable	8	3,924	9,676
Account receivables from related parties	28	204	1,299
Inventories	10	5,750	5,870
Prepaid expenses		172	203
Total current assets		71,180	86,038
Non-current assets			
Property, plant and equipment - energy generation and transmission	11		
Property, plant and equipment		316,556	331,857
Right-of-use assets		87	958
Gas investments	12	68,171	64,747
Intangible assets and goodwill	13	506,156	498,732
Deferred income tax assets	17	1,370	950
Other receivables	7	455	456
Prepaid expenses		605	730
Total non-current assets		893,400	898,430
Total assets		964,580	984,468

<i>In thousands of U.S. dollars</i>	<i>Note</i>	2019	2018
Liabilities			
Current liabilities			
Trade payables	14	8,719	9,050
Other payables	15	18,028	21,116
Income tax payable	8	749	435
Lease liabilities	9	93	905
Account payables to related parties	28	6,307	8,893
Deferred income		-	155
Total current liabilities		33,896	40,554
Non-current liabilities			
Debentures	16	541,384	540,468
Intercompany payables	28	82,942	150,602
Deferred income tax liabilities	17	89,055	85,844
Asset retirement obligation	18	17,224	172
Other liabilities		497	201
Total non-current liabilities		731,102	777,287
Total liabilities		764,998	817,841
Equity			
Share capital	19	196,086	196,086
Additional capital		8,857	-
Other reserves		6,438	-
Retained earnings		(11,844)	(29,500)
Equity attributable to owners of the Company		199,537	166,586
Non-controlling interest		45	41
Total equity		199,582	166,627
Total liabilities and equity		964,580	984,468

The notes on pages 5 to 59 are an integral part of these consolidated financial statements.

Orazul Energy Perú S.A. and Subsidiaries

Consolidated Statements of Profit or Loss and Other Comprehensive Income (Loss)

For the years ended December 31, 2019 and 2018

<i>In thousands of U.S. dollars</i>	<i>Note</i>	2019	2018
Revenue of energy generation and transmission	22	136,132	132,443
Revenue of hydrocarbons	22	15,709	23,926
Cost of sales of energy generation and transmission and hydrocarbons	23	(39,253)	(50,714)
Depreciation	11, 12, 13	(36,021)	(46,242)
Gross profit		76,567	59,413
Administrative expenses	23	(9,800)	(19,286)
Impairment loss on trade receivables	6	-	(1,756)
Other income	25	3,107	5,372
Other expenses		(1,778)	(1,526)
Operating profit		68,096	42,217
Finance income		994	1,467
Finance costs	26	(41,774)	(45,375)
Net foreign exchange difference	4.C.iii	322	(681)
Finance cost, net		(40,458)	(44,589)
Profit before income tax		27,638	(2,372)
Income tax expense	17	(9,978)	5,035
Profit from continuing operations		17,660	2,663
Discontinued operations			
Profit from discontinued operations, net of tax		-	(11,287)
Profit for the period		17,660	(8,624)
Other comprehensive income for the period, net of tax		-	-
Attributable to			
Controlling shareholders		17,656	(8,662)
Non-controlling interest		4	38
Total comprehensive income for the period		17,660	(8,624)

The notes on pages 5 to 59 are an integral part of these consolidated financial statements.

Orazul Energy Perú S.A. and Subsidiaries
Consolidated Statement of Changes in Equity
For the years ended December 31, 2019 and 2018

		Attributable to owners of the Company							
		Number of shares	Share capital	Additional capital	Retained	Other reserves	Total equity attributable to owners of	Non-controlling	Total
<i>In thousands of U.S. dollars</i>	<i>Note</i>	(note 19)	(note 19)	(note 28(c))	earnings	(note 28(a))	the Company	Interest	equity
Balance as of December 31, 2017		706,436,289	213,283	-	(20,967)	-	192,316	3	192,319
Adjustments on initial application of IFRS 16, net of tax		-	-	-	129	-	129	-	129
Balance as of January 1, 2018		706,436,289	213,283	-	(20,838)	-	192,445	3	192,448
Comprehensive income for the period									
Profit for the period		-	-	-	2,625	-	2,625	38	2,663
Other comprehensive income		-	-	-	(11,287)	-	(11,287)	-	(11,287)
Total comprehensive income for the period		-	-	-	(8,662)	-	(8,662)	38	(8,624)
Capital reduction		(55,212,000)	(17,197)	-	-	-	(17,197)	-	(17,197)
Total transactions with owners of the Company		(55,212,000)	(17,197)	-	(8,662)	-	(25,859)	38	(25,821)
Balance as of December 31, 2018		651,224,289	196,086	-	(29,500)	-	166,586	41	166,627
Balance as of January 1, 2019		651,224,289	196,086	-	(29,500)	-	166,586	41	166,627
Comprehensive income for the period									
Profit for the period		-	-	-	17,656	-	17,656	4	17,660
Total comprehensive income for the period		-	-	-	17,656	-	17,656	4	17,660
Additional capital	28(c)	-	-	8,857	-	-	8,857	-	8,857
Other reserves	28(a)	-	-	-	-	6,438	6,438	-	6,438
Total transactions with owners of the Company		-	-	8,857	-	6,438	15,295	-	15,295
Balance as of December 31, 2019		651,224,289	196,086	8,857	(11,844)	6,438	199,537	45	199,582

The notes on pages 5 to 59 are an integral part of these consolidated financial statements.

Orazul Energy Perú S.A. and Subsidiaries
Consolidated Statements of Cash Flows
For the years ended December 31, 2019 and 2018

<i>In thousands of U.S. dollars</i>	<i>Note</i>	2019	2018
Cash flows from operating activities			
Collections of energy generation and transmission		159,632	168,969
Collections of hydrocarbons		18,622	28,720
Payment to suppliers		(50,467)	(58,408)
Payment of royalties		(11,697)	(16,160)
Payment to employees		(8,774)	(23,308)
Payment of contributions and others		(563)	(656)
Cash generated from operating activities		106,753	99,157
Income tax paid		(4,415)	(13,116)
Net cash from operating activities		102,338	86,041
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		-	190
Dividends received		-	1,049
Acquisition of property, plant and equipment		(7,172)	(11,765)
Acquisition of intangibles		(9,723)	-
Net cash used in investing activities		(16,895)	(10,526)
Cash flows from financing activities			
Payment to related entities	28(a)	(63,000)	-
Interests paid		(30,938)	(30,938)
Capital reduction		-	(17,197)
Payment of lease liabilities		(626)	(790)
Net cash used in financing activities		(94,564)	(48,925)
Net decrease (increase) in cash and cash equivalents		(9,121)	26,590
Cash and cash equivalents at January 1		50,014	23,429
Effects of movements in exchange difference on cash held		267	(5)
Cash and cash equivalents at December 31	5	41,160	50,014
Non-cash transactions			
Debt Capitalization		8,857	-
Debt compensation		885	118,782
Disposal of assets held for sale		-	34,171

The notes on pages 5 to 59 are an integral part of these consolidated financial statements.

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Consolidated Financial Statements
December 31, 2019 and 2018

1. Background and Business Activity

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

During 2018, the Company's legal domicile was Calle Dionisio Derteano 144, 19th floor, San Isidro, Lima, Peru. At the beginning of 2019, the Company changed its legal address to Calle Las Palmeras 435, San Isidro, Lima, Peru, where its administrative offices are located.

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

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

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

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

The Group business main activity is the generation and commercialization of electrical energy. The Group has a total installed capacity of 544MW as follows:

Plant	Company	Source used to operate power station	Installed capacity	
			(MW)	Location
Central Térmica Aguaytía	Termoselva	Natural gas	192	Aguaytia, Ucayali
Cañón del Pato	Orazul Energy Peru	Hydropower	247	Huallanca, Ancash
Carhuaquero	Orazul Energy Peru	Hydropower	105	LLacma, Cajamarca
			544	

As of December 31, 2019 and 2018, the subsidiaries and the percentages of interest owned by the Company are detailed below:

	Direct equity interest	
	2019	2018
Holding		
OEG	99.99	99.99
OEG II	99.99	-

Orazul Energy Perú S.A. and Subsidiaries

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

<i>Percentage</i>	Direct equity interest	
	2019	2018
OEG subsidiaries		
Holdings		
Orazul Energy Hidrocarburos S.A.	99.98	99.98
Orazul Energy Transmisión S.A.	-	99.98
Operational		
Etenorte S.R.L.	-	99.98
Aguaytía Energy del Perú S.R.L.	99.98	99.98
Termoselva S.R.L.	99.98	99.98
Eteselva S.R.L.	-	99.98
OEG II subsidiaries		
Holdings		
Orazul Energy Transmisión S.A.	99.98	-
Operational		
Etenorte S.R.L.	99.98	-
Eteselva S.R.L.	99.98	-

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

OEG is engaged in (directly or through or in association with third parties) investing in and holding securities, including, but not limited to, shares representing the capital of other companies. On August 23, 2019, OEG transfers in favor of Orazul Energy Group II S.A.C. an equity block equivalent to its investment in Orazul Energy Hidrocarburos S.A. for a total of US\$ 108,574 thousand. This effective date was on September 1, 2019.

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

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

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

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

Orazul Energy Transmisión S.A. (hereinafter, "OET")

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

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

This subsidiary provides power transmission in accordance with Peruvian regulation through the concession of certain transmission lines in northern Peru. The Company is its main client, representing approximately 60% of its operating income (70% in 2018).

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

Aguaytía owns a natural gas field located in the central rainforest of Perú (Block 31-C), from which obtains dry natural gas and liquid natural gas; those liquid gas are then processed at the Fractioning Plant which produces liquefied petroleum gas (LPG) and natural gasoline. Dry natural gas is used by its subsidiary, Termoselva S.R.L., for the generation of electrical energy. Natural gasoline was sold to Maple Gas Corporation del Peru S.R.L. (hereinafter, "Maple") until July 14, 2017. After the contract was terminated, Aguaytía signed a contract with Petroleos del Perú S.A. (hereinafter, "Petroperu") and Perenco Peru Petroleum Limited Sucursal del Peru to sell natural gasoline. LPG is sold to wholesalers and distributors, which perform their activities in the central rainforest and highlands of the country.

Orazul Energy Perú S.A. and Subsidiaries

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

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

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

This subsidiary provides power transmission, in accordance with Peruvian regulation through the concession of certain transmission lines in eastern Peru. Termoselva is one of its main clients, representing approximately 29% of its operating income (17% in 2018).

Amounts of the financial statements of the Subsidiaries

Summary of the financial statements of the Subsidiaries as of December 31, 2019 and 2018, prepared under International Financial Reporting Standards (IFRS), before elimination adjustments for consolidation purposes, are presented below:

<i>In thousands of U.S. dollars</i>	2019	2018
Subsidiaries		
Etenorte S.R.L.		
Total assets	10,329	10,136
Total liabilities	(1,100)	(1,192)
Equity	9,229	8,944
Profit for the period	3,068	2,053
Aguaytía del Perú S.R.L.		
Total assets	144,446	137,841
Total liabilities	(19,257)	(5,464)
Equity	125,189	132,377
Profit for the period	15,210	11,764
Termoselva S.R.L.		
Total assets	72,986	68,338
Total liabilities	(9,222)	(9,255)
Equity	63,764	59,083
Profit for the period	12,681	8,430
Eteselva S.R.L.		
Total assets	32,966	32,771
Total liabilities	(235)	(491)
Equity	32,731	32,280
Profit for the period	2,222	1,280
Orazul Energy Group S.A.C.		
Total assets	95,250	176,478
Total liabilities	(14,576)	(250)
Equity	80,674	176,228
Profit for the period	16,900	15,278
Orazul Energy Group II S.A.		
Total assets	117,571	-
Total liabilities	-	-
Equity	117,571	-
Profit for the period	(8,997)	-

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<i>In thousands of U.S. dollars</i>	2019	2018
Orazul Energy Transmisión S.A.		
Total assets	95,353	95,233
Total liabilities	-	(2)
Equity	95,353	95,231
Profit for the period	4,560	8,468
Orazul Energy Hidrocarburos S.A.		
Total assets	119,961	109,703
Total liabilities	-	(3)
Equity	119,961	109,700
Profit for the period	22,451	21,327

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

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

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

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

- (i) The term of the License Agreement is for 30 years counted from the subscription date of the agreement (March 30, 1994), which can be extended up to 40 years upon agreement of Aguaytia and Perupetro on behalf of the Peruvian government.
- (ii) Aguaytia agreed to comply with a minimum work schedule, which was entirely completed in 1998. This schedule included, among others, drilling and operation of wells, gas extraction and injection, construction of a gas processing plant and facilities for fractioning natural gas liquids and energy generation.
- (iii) Pursuant to the Organic Hydrocarbons Law and the Regulations for the Application of Royalties and Compensations, Aguaytia pays a royalty on a biweekly basis and applies a percentage on the valuation of production of supervised hydrocarbons (natural gas and natural gas liquids), as defined in the License Agreement.

The expense for royalties in 2019 was US\$ 11,708 thousand (US\$ 16,053 thousand in 2018) (note 23) and is presented as cost of sales of the consolidated statement of profit or loss and other comprehensive income, and US\$ 86 thousand (US\$ 116 thousand in 2018) is part of the inventory balance.

Orazul Energy Perú S.A. and Subsidiaries

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

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

(iv) Taxes

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

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

(v) Other rights

On behalf of the Peruvian government, the Central Reserve Bank of Peru guarantees Aguaytia the availability and convertibility of U.S. dollars.

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

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

Main regulations affecting the Group's activities are:

Operating regulations and legal standards that affect the hydrocarbons sector

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

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

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

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Operating regulations and legal standards that affect the electrical sector

A. Electricity Concessions Law

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

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

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

B. Law to Guarantee the Efficient Development of Electricity Generation

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

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

C. Environmental preservation regulations

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

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

As of December 31, 2019 and 2018, the Group Management estimates that, in the event that a contingency arises related to environmental management, it would not be material.

D. Technical Standards

Technical Quality Standards of Electricity Services

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

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

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

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

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

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

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

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

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

Through Emergency Decree 013-2019, the general regime of prior control of business concentration operations was approved, which will enter into force in August 2020. This rule repeals Law 26876.

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

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

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

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

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

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

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

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

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

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

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

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

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I. Resolution that sets busbar prices applicable to the period from May 1, 2019 to April 30, 2020

Published on April 15, 2019, by means of Resolution OSINERGMIN N° 061-2019-OS/CD, thereby establishing Busbar prices and their corresponding Nodal Electricity Factors and associated Power Loss Factors, which are effective from May 1, 2019 to April 30, 2020.

J. Value of the Applicable Discount Factor (FDA)

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

K. Regulation of the Secondary Natural Gas Market

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

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

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

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

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

M. Wholesale electricity market

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

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

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

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

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

On January 8, 2018, the generators declared the new natural gas price to COES, which will be in force for economic dispatch from January 15 to June 30, 2018.

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

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

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

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

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

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

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

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

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

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

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

R. Emergency mechanisms established for natural gas supply

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

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

S. Modification the Technical Norm for the Coordination of Real-Time Operation of Interconnected Systems

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

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T. Regulation of Legislative Decree N° 1221

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

- i. In the case of use of water resources, the definitive concession request must include the study of the project feasibility level with an analysis of its optimal exploitation. The petitioner of a definitive power generation concession must prove that the requested area corresponds to the minimum required for power generation capacity provided in the application and does not affect the normal development of projects with definitive concessions granted through a Feasibility Study.
- ii. It establishes that Users whose maximum annual demand of each supply point is equal to or less than 200 kW, have the status of Regulated User, and if it is greater than 200 kW to 2500 kW, are entitled to choose between the status of Regulated User or Non-Regulated User.

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

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

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

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

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

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

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).

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

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

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

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

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.

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

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 (note 3.B.iii).

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 6: Expected credit losses of trade receivables;
- Notes 11, 12 and 13: Useful life of the property, plant and equipment and intangible assets;
- Note 21: Utilization of tax losses.

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ii. Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties at December 31, 2019 that have a significant risk of resulting in a material adjustments to the carrying amounts of assets and liabilities in the next financial year is included as following notes:

- Note 22 – revenue recognition: estimate of expected returns;
- Note 17 – recognition of deferred tax assets: availability of future taxable profit against which deductible temporary differences and tax losses carried forward can be utilized;
- Note 29 – recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources; and

Measurement of fair values

A number of 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.

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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, 2019 have been authorized for issuance by the Management of the Company on February 26, 2020. These consolidated financial statements are to be submitted for consideration to the Obligatory General Shareholder's Meeting that will be held according to the term legally established. In Management's opinion, the General Shareholders' Meeting will approve the accompanying consolidated financial statements without modifications. The consolidated financial statements as of December 31, 2018 were approved by the Board of Directors on February 28, 2019.

This is the first set of Company's annual consolidated financial statements which in IFRIC 23 *Uncertainty over income tax treatments* has been applied. Change to significant accounting policies are described in note 3.B.iii.

ii. Historical cost basis

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

iii. Changes in significant accounting policies

IFRIC 23: Uncertainty over Income Tax Treatments

IFRIC 23 clarifies how the recognition and measurement requirements of IAS 12 Income taxes are applied when there is uncertainty over income taxes.

Under IFRIC 23, uncertain taxes liabilities or assets are recognized applying the definition of liabilities or assets for current or deferred taxes according to IAS 12. Therefore, those tax balances are presented as current or deferred tax assets or liabilities. Such balances are not presented as provisions nor in other lines as other receivables or other payables. Comparative tax balances as of December 31, 2018 are reclassified.

If there is uncertainty about an income tax treatment, then the Company considers whether it is probable that a tax authority will accept the Company's tax treatment included or planned to be included in its tax filing. The underlying assumption in the assessment is that a tax authority will examine all amounts reported and will have full knowledge of all relevant information.

The accounting of interest and penalties are not specified under IAS 12 or IFRIC 23 and it is not a policy choice whether to account for interest and penalties under IAS 12 or IFRIC 23. The Company determine if interest or a penalty itself meets the definition of income tax to apply IAS 12, if not it is accounted under IAS 37.

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

No significant impact in the adoption of IFRIC 23.

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C. New standards and interpretations not yet adopted

A number of new standards are effective for annual periods beginning after January 1, 2019 and earlier application is permitted; however, the Group has not adopted the new or amended standards in preparing these consolidated financial statements.

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

- Amendments to Reference to *Conceptual Framework* and *IFRS Standards*.
- Definition of a Business (*Amendments to IFRS 3*).
- Definition of Material (*Amendments to IAS 1 and IAS 8*).
- IFRS 17 *Insurance Contracts*.

D. Basis of consolidation

i. Subsidiaries

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

ii. 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.

iii. Loss of Control

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

iv. 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.

v. 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.

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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. 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 through the use of a methodology based on spot prices during on the dates in which the interruption event occurred.

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

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

Recognition of revenue

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

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

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G. Employee benefits

i. Short-term benefits

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

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

ii. Defined contribution plans

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

iii. Termination benefits

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

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.

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iii. Deferred tax

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

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

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

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

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

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

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

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

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.

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.

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

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.

iii. Depreciation

Energy generation and transmission

Depreciation

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

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

Gas investments

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

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

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

	2019	2018
Gas and fractionation plant	5.11% and 8.21%	5.35% and 10.21%

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

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

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

L. Intangible assets

i. Recognition and measurement

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

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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.

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 are driven by the Successor business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

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

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

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

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

iii. Derecognition

Financial assets

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

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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 Company are exposed to credit risk.

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

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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.

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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. Leases

The Group assesses whether a contract is or contains a lease based on the new definition of lease under IFRS 16. When the contract transfer to the Group substantially all of the risks and rewards of ownership of the underlying asset are recorded as a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset.

4. Financial Instruments - Fair Value and Risk Management

A. Carrying amounts and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy:

	Carrying amount			Total	Fair value
	Current		Non-current		Level 2
	Amortized cost	Other financial liabilities	Other financial liabilities		
<i>In thousands of U.S. dollars</i>					
As of December 31, 2019					
Financial assets not measured at fair value					
Cash and cash equivalents	41,160	-	-	41,160	-
Trade receivables	17,523	-	-	17,523	-
Other receivables (*)	2,391	-	-	2,391	-
Intercompany receivables	204	-	-	204	-
Financial liabilities not measured at fair value					
Trade payable	-	(8,719)	-	(8,719)	-
Other payable (*)	-	(14,303)	-	(14,303)	-
Intercompany payables	(6,307)	-	(82,942)	(89,249)	-
Debentures	-	-	(541,384)	(541,384)	(565,813)
Lease liabilities	-	(93)	-	(93)	-
	54,971	(23,115)	(624,326)	(592,470)	(565,813)

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

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	Carrying amount			Total	Fair value Level 2
	Current		Non-current		
	Amortized cost	Other financial liabilities	Other financial liabilities		
<i>In thousands of U.S. dollars</i>					
As of December 31, 2018					
Financial assets not measured at fair value					
Cash and cash equivalents	50,014	-	-	50,014	-
Trade receivables	16,753	-	-	16,753	-
Other receivables (*)	2,223	-	-	2,223	-
Intercompany receivables	1,299	-	-	1,299	-
Financial liabilities not measured at fair value					
Trade payable	-	(9,050)	-	(9,050)	-
Other payable (*)	-	(15,586)	-	(15,586)	-
Intercompany payables	(8,893)	-	(150,602)	(159,495)	-
Debentures	-	-	(540,468)	(540,468)	(509,135)
Lease liabilities	-	(905)	-	(905)	-
	61,396	(25,541)	(691,070)	(655,215)	(509,135)

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

B. Fair value measurements

Valuation techniques and significant unobservable inputs

The following table shows the valuation techniques used in the determination of fair values of financial instruments – Level 2 as at December 31, 2019 and 2018:

Financial instruments not measured at fair value

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

C. Financial risk management

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

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

Risk management structure

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

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

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

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

i. Credit risk

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

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

As of December 31, 2019 and 2018, the maximum exposure to credit risk for the Group financial assets was the following:

<i>In thousands of U.S. dollars</i>	Carrying amount	
	2019	2018
Cash and cash equivalents (a)	41,160	50,014
Trade receivables (b)	17,523	16,753
Account receivables from related parties	204	1,299
Other receivables	2,391	2,227
	61,278	70,293

- (a) The Group holds bank accounts at different local financial entities that have an A and "A+" credit rating (note 5). As of December 31, 2019 and 2018, 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, 2019 and 2018, the composition of trade receivables is 100% related to the Peruvian system operator, the Committee of Economic Operation of the National Interconnected System (COES), that acts as a clearing-house and settles the payments for power generation companies.

Expected credit loss assessment for corporate customers

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

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, 2019 and 2018, the Group has a positive working capital. The principal sources of liquidity have traditionally consisted of cash flows from operating activities, short-term and long-term borrowings including bank loans. The Group does not have funds designated for, or subject to, permanent reinvestment.

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

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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, 2019 and 2018.

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

		Contractual cash flows							
<i>In thousands of U.S. dollars</i>	<i>Note</i>	Carrying Amount	Total	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years
2019									
Non-derivative financial liabilities:									
Loans from banks and others	16	541,384	550,000	-	-	-	-	-	550,000
Trade payables	14	8,719	8,719	8,719	-	-	-	-	-
Other payables	15	18,028	235,271	39,678	30,938	30,938	30,938	30,938	71,841
Account payables to related parties		89,249	64,065	61,500	2,115	450	-	-	-
Lease liabilities	9	93	204	102	-	-	-	-	102
		657,473	858,259	109,999	33,053	31,388	30,938	30,938	621,943
2018									
Non-derivative financial liabilities:									
Loans from banks and others	16	540,468	550,000	-	-	-	-	-	550,000
Trade payables	14	9,050	9,050	9,050	-	-	-	-	-
Other payables	15	21,116	274,006	41,974	30,938	30,938	30,938	30,938	108,280
Account payable to related parties		159,495	220,722	8,893	-	-	-	-	211,829
Lease liabilities	9	905	1,131	191	-	-	-	-	940
		731,034	1,054,909	60,108	30,938	30,938	30,938	30,938	871,049

iii. Market risk

Currency risk

As of December 31, 2019 and 2018, 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, 2019, the weighted average market exchange rates used were US\$ 0.3015 per S/ 1.00 for sell rate and US\$ 0.3020 per S/ 1.00 for offer rate (US\$ 0.2959 per S/ 1.00 for sell rate and US\$ 0.2968 per S/ 1.00 for offer rate as of December 31, 2018).

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

<i>In thousands of soles</i>	2019	2018
Asset:		
Cash	33,264	45,927
Trade receivables	58,019	56,543
Other receivables	4,788	1,464
	96,071	103,934
Liabilities:		
Trade payables	(19,000)	(15,897)
Other payables	(16,753)	(367)
	(35,753)	(16,264)
Net asset position	60,318	87,670

In 2019, net foreign exchange loss amounts US\$ 322 thousand (net foreign exchange loss of US\$ 681 thousand in 2018).

As of December 31, 2019, if the U.S. dollar had been revalued/devalued in relation to the Peruvian sol - with all its variables remaining constant - the profit before tax would have increased/decreased as shown in the following table:

Period	Increase/decrease in Soles/US\$ exchange rate	Effects in profit or loss before tax
2019		
Revaluation	5%	898
Devaluation	(5%)	(898)
2018		
Revaluation	5%	738
Devaluation	(5%)	(738)

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 minimizes 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 (%)
2019		
Financial liabilities:		
Interest-bearing loans	541,384	5.625%
2018		
Financial liabilities:		
Interest-bearing loans	540,468	5.625%

5. Cash and Cash Equivalents

Comprises the following:

<i>In thousands of U.S. dollars</i>	2019	2018
Petty cash	9	17
Checking accounts	41,151	49,997
	41,160	50,014

The Group holds checking accounts in different local financial entities and the funds are available. As of December 31, 2019, checking accounts at Banco de Crédito del Perú bear interest at current market rates of 1.35% in U.S. dollars and 3.05% in soles and Scotiabank Perú bear interest at current market rates of 1.72% in U.S. dollars and 3.08% in soles.

Credit ranking

According to Apoyo & Asociados S.A.C., the credit quality that safeguard the Group bank deposits was evaluate as follows:

	2019	2018
Banco del Crédito del Perú (BCP)	A+	A+
Scotiabank Perú	A+	A+

6. Trade Receivables

Comprises the following:

<i>In thousands of U.S. dollars</i>	December 31, 2019	December 31, 2018
Non-regulated customers	2,081	2,081
Regulated Customers	11,599	10,902
COES	3,488	3,305
Other	19,674	19,806
Subtotal (a)	36,842	36,094
Impairment loss allowance (b)	(19,319)	(19,341)
Total	17,523	16,753

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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, 2019, corresponds to 4 non-regulated, 10 regulated customers and 2 hydrocarbon customers (5 non-regulated, 7 regulated clients and 2 hydrocarbon customers as of December 31, 2018). The receivables are considered to be held whiting a held to collect business model consisted with the Group continuing recognition of the receivable.

The average credit period granted to customers of the Group ranges between 7 and 30 days. Once the terms indicated above expire, overdue balances accrue interests. The interest rate is determined by the annual average of the lending and borrowing rates of the foreign and local currency. As of December 31, 2019, the annual average interest rates for the Group are 8.39% and 4.33% for local and foreign currency, respectively (8.45% and 4.35% as of December 31, 2018 for local and foreign currency, respectively).

- (a) The Committee of Economic Operation of the National Interconnected System (COES) as the system operator acts as a clearing house and settles the payments for power generation companies. As of December 31, 2019 and 2018 there was no outstanding balance for related parties).
- (b) As of December 31, 2019 and 2018, past due trade receivables (over 360 days), represent less than 0.5% of the total balance of trade receivables. Those mainly correspond to trade receivables with non-regulated customers.
- (c) The aging of trade receivables is the following:

<i>In thousands of U.S. dollars</i>	2019	2018
Unexpired	16,507	14,819
Less than 30 days	927	1,839
31 to 90 days	2	3
181 to 360 days	87	66
More than 360 days	19,319	19,367
	36,842	36,094

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

<i>In thousands of U.S. dollars</i>	2019	2018
Opening balance	19,341	18,245
Additions	-	1,756
collections	-	(613)
Write off of customer receivables	(37)	-
Exchange difference	15	(47)
	19,319	19,341

The main amount for receivables of more than 360 days corresponds to the non-collectability of the invoices issued to Maple for natural gasoline sales.

- (e) The aging of account receivables and the status of customers are constantly monitored to ensure the appropriateness of the estimate in the consolidated financial statements. As a result, Management considers that the impairment estimate of accounts receivables covers sufficiently the risk of loss of doubtful accounts as of December 31, 2019 and 2018.

7. Other Receivables

Comprises the following:

<i>In thousands of U.S. dollars</i>	2019	2018
Current portion		
Fund for the stabilization of fuel prices (a)	69	1,719
Guarantee deposits (b)	1,291	-
Work for taxes mechanisms	774	-
Other receivables	313	504
	2,447	2,223
Non-current portion		
Credit on temporary taxes on net assets - ITAN	442	435
Other receivables	13	21
	455	456
Total	2,902	2,679

- (a) This item corresponds to an account receivable to the Peruvian government in relation to the fund for the stabilization of fuel prices. The collection term of such fund unilaterally depends on the Peruvian government. However, Management considers that there is no impairment risk of accounts receivables since there is a fund held by the government that is intended exclusively for such payment. During 2019, the Company carried out the recovery of the balance through compensation with compensation with similar and other taxes.
- (b) In 2019, the Company granted a guarantee deposit in favor of legal adviser in U.S. due to the recovery procedure to Maple Gas Corporation del Peru S.R.L.

8. Income Tax Receivable and Payable

Comprises the following:

<i>In thousands of U.S. dollars</i>	2019	2018
Income tax receivable	3,924	9,676
Income tax payable	749	435

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

9. Lease Liabilities

Comprises the following:

<i>In thousands of U.S. dollars</i>	2019	2018
Opening balance	905	1,624
Additions	18	71
Payments	(626)	(790)
Early termination of contract	(204)	-
	93	905

10. Inventories

Comprises the following:

<i>In thousands of U.S. dollars</i>	2019	2018
Supplies and spare parts (a)	6,089	6,315
Fuel to sale	87	121
Fuel and lubricants	204	64
	6,380	6,500
Impairment (b)	(630)	(630)
	5,750	5,870

- (a) Mechanical spare parts correspond mainly to items use in programmed maintenance for hydropower plant, Carhuaquero, Cañon del Pato and thermoelectric power plant Termoselva for enabling appropriate operations until major maintenance. There were no inventory write-downs recorded during the years ended December 31, 2019 and 2018.
- (b) In accordance with Management's opinion, it is not necessary any impairment on inventories as of December 31, 2019 and 2018.

11. Property, Plant and Equipment

Comprises the following:

<i>In thousands of U.S. dollars</i>	Land	Buildings and other constructions	Machinery and equipment	Asset retirement obligation	Vehicles	Furniture and fixtures	Sundry equipment	Works in progress	Total
Cost:									
Balance as of January 1, 2018	8,823	357,380	473,894	61	4,154	1,507	21,564	2,852	870,235
Recognition of right-of-use asset on initial application of IFRS 16	-	1,326	-	-	297	-	132	-	1,755
Adjusted balance at January 1, 2019	8,823	358,706	473,894	61	4,451	1,507	21,696	2,852	871,990
Sales	-	(1,949)	(41,780)	-	(292)	(357)	(1,687)	5,588	(40,477)
Transfers and others	-	203	1,008	-	27	-	233	(1,638)	(167)
Balance as of December 31, 2018	8,823	356,960	433,122	61	4,186	1,150	20,242	6,802	831,346
Additions	-	-	-	6,386	-	-	-	3,339	9,725
Disposals	-	-	(79)	-	(1,252)	(12)	(15)	-	(1,358)
Transfers and others	-	382	6,176	-	-	10	199	(6,767)	-
As of December 31, 2019	8,823	357,342	439,219	6,447	2,934	1,148	20,426	3,374	839,713
Accumulated depreciation:									
As of January 1, 2018	-	185,799	295,211	56	3,226	1,219	15,577	-	501,088
Transfer	-	448	-	-	-	-	-	-	448
Additions	-	8,321	25,303	-	627	212	1,630	-	36,093
Sales	-	(1,949)	(35,394)	-	(270)	(323)	(1,705)	-	(39,641)
Balance as of December 31, 2018	-	192,619	285,120	56	3,583	1,108	15,502	-	497,988
Additions	-	6,547	17,557	98	111	33	1,420	-	25,766
Disposals	-	-	(79)	-	(1,121)	(12)	(15)	-	(1,227)
As of December 31, 2019	-	199,166	302,598	154	2,573	1,129	16,907	-	522,527
Impairment loss									
As of January 1, 2018	-	837	5,423	-	1	2	35	-	6,298
Transfers	-	(448)	-	-	-	-	-	-	(448)
Additions	-	-	(36)	-	-	-	-	-	(36)
Sales	-	-	(5,271)	-	-	-	-	-	(5,271)
Balance as of December 31, 2018	-	389	116	-	1	2	35	-	543
As of December 31, 2019	-	389	116	-	1	2	35	-	543
As of January 1, 2018	8,823	170,744	173,260	5	927	286	5,952	2,852	362,849
As of December 31, 2018	8,823	163,952	147,886	5	602	40	4,705	6,802	332,815
As of December 31, 2019	8,823	157,787	136,505	6,293	360	17	3,484	3,374	316,643

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- (a) Accumulated impairment loss as of December 31, 2019 and 2018, mainly corresponds to the impairment of thermoelectric power plants for US\$ 543 thousand, since their carrying amounts exceeded their recoverable values. Management considers that, as of December 31, 2019, impairment is not required, other than the estimate previously recognized in the records for the impairment of property, plant and equipment.
- (b) As of December 31, 2019 work in progress includes mainly acquisitions of valves for US\$ 297 thousands, Generator download lines monitoring for US\$ 248 thousands, Overhaul of injectors US\$ 173 thousands, Improvement of hermeticity US\$ 104 thousands, Fire systems US\$ 139 thousands and Scada system US\$ 84 thousands (control remote system project for US\$ 3,724 thousands in 2018).
- (c) During 2019 the Subsidiary recorded assets retirement obligation for US\$ 6,387 thousand (note 18).
- (d) As of December 31, 2019 and 2018 the detail of assets by right of use is as follows:

<i>In thousands of U.S. dollars</i>	Buildings and other constructions	Vehicules	Sandy equipment	Total
Cost				
Balance as of January 1, 2018	1,326	297	132	1,755
Addition	-	-	-	-
Balance as of December 31, 2018	1,326	297	132	1,755
Addition	11	-	-	11
Retirements	(725)	-	(5)	(730)
Balance as of December 31, 2019	612	297	127	1,036
Depreciation				
Balance as of January 1, 2018	-	-	-	-
Addition	612	105	80	797
Balance as of December 31, 2018	612	105	80	797
Addition	725	105	47	877
Retirements	(725)	-	-	(725)
Balance as of December 31, 2019	612	210	127	949
As of January 1, 2018	1,326	297	132	1,755
As of December 31, 2018	714	192	52	958
As of December 31, 2019	-	87	-	87

- (e) Distribution of depreciation was as follows:

<i>In thousands of U.S. dollars</i>	2019	2018
Cost of sale of electrical energy	24,438	34,731
Administrative and selling expenses	1,328	1,362
	25,766	36,093

The main variation of depreciation is due to assets that finished depreciation in 2018.

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- (f) As of December 31, 2019 and 2018, the Group 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 Group types of assets.
- (g) As of December 31, 2019 and 2018, the Group does not have guarantees related to the acquisition of property, plant and equipment.

12. Gas Investments

<i>In thousands of U.S. dollars</i>	Gas and fractionation plant	Asset retirement obligation	Vehicles	Furniture and fixture	Sundry equipment	Works in progress	Total
Cost:							
Balance as of January 1, 2018	144,225	-	355	422	5,465	1,700	152,167
Additions	-	-	-	-	-	5,762	5,762
Transfers and others	5,993	-	-	-	(4,280)	(1,713)	-
Balance as of December 31, 2018	150,218	-	355	422	1,185	5,749	157,929
Additions	-	10,261	-	-	-	3,833	14,094
Disposals	(82)	-	(9)	(167)	(61)	-	(319)
Transfers and others	6,641	-	-	-	1,974	(8,615)	-
Balance as of December 31, 2019	156,777	10,261	346	255	3,098	967	171,704
Accumulated depreciation:							
As of January 1, 2018	82,133	-	139	308	928	-	83,508
Additions	9,764	-	20	31	(141)	-	9,674
Balance as of December 31, 2018	91,897	-	159	339	787	-	93,182
Additions	10,003	474	20	18	148	-	10,663
Disposals	(81)	-	(7)	(167)	(57)	-	(312)
Balance as of December 31, 2019	101,819	474	172	190	878	-	103,533
As of January 1, 2018	62,092	-	216	114	4,537	1,700	68,659
As of December 31, 2018	58,321	-	196	83	398	5,749	64,747
As of December 31, 2019	54,958	9,787	174	65	2,220	967	68,171

- (a) As of December 31, 2019, work in progress mainly includes Erosion control for US\$ 288 thousand, major maintenance of moto compressor for US\$ 234 thousand and Internal corrosion control system for US\$ 175 thousand (Gasoline tank installation for US\$ 2,546 thousand and remote control system for US\$ 1,677 thousand in 2018).
- (b) During 2019, the Company recorded assets retirement obligation for US\$ 10,261thousand (note 18).

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- (h) Distribution of depreciation was as follows:

	2019	2018
Cost of sale of electrical energy	10,663	9,674

- (i) As of December 31, 2019 and 2018, the Group do not have guarantees related to the acquisition of property, plant and equipment.

13. Intangible Assets and Goodwill

Comprises the following:

<i>In thousands of U.S. dollars</i>	Goodwill	Electric and Hydrocarbon concessions	Softwares	Other Righths	Total
Cost					
Balance as of January 1, 2018	395,456	93,614	6,629	-	495,699
Transfers	-	-	165	-	165
Additions	-	-	-	9,965	9,965
Balance as of December 31, 2018	395,456	93,614	6,794	9,965	505,829
Transfers	-	-	101	-	101
Additions	-	-	-	8,400	8,400
Balance as of December 31, 2019	395,456	93,614	6,895	18,365	514,330
Accumulated amortization:					
Balance as of January 1, 2018	-	-	5,081	-	5,081
Amortization	-	1,837	179	-	2,016
Balance as of December 31, 2018	-	1,837	5,260	-	7,097
Amortization	-	920	157	-	1,077
Balance as of December 31, 2019	-	2,757	5,417	-	8,174
As of January 1, 2018	395,456	93,614	1,548	-	490,618
As of December 31, 2018	395,456	91,777	1,534	9,965	498,732
As of December 31, 2019	395,456	90,857	1,478	18,365	506,156

- (a) The goodwill corresponds to (i) the excess of the net fair value of assets and liabilities identified during the acquisition of the Peruvian operating business on December 20, 2016 for US\$ 344,924 thousand, net of the deferred income tax liabilities arising from intangible assets acquired; and, (ii) the adjustment of fair value of fixed assets for US\$ 50,532 thousand.
- (b) The electric and hydrocarbon concessions correspond to intangible assets identified at the acquisition date on December 20, 2016. The useful life of electric concessions is indefinite, and a useful life of 15 years has been determined for hydrocarbon concession. As of December 31, 2019, Management is not required to establish reserves for the possible impairment of its intangible assets with an indefinite life.

Amortization of hydrocarbon concessions was as follows:

	2019	2018
Cost of sale of electrical energy	920	1,837
Administrative and selling expenses	157	179
	1,077	2,016

- (c) Other rights correspond to the agreements signed between the Company and its subsidiary Termoselva, with regulated costumers, by which regulated costumers grant an option to sign addendums to the original public tender 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 15).

Management analysis indicated there were no impairment indicators on the value of the intangibles as of December 31, 2019 and 2018.

14. Trade Payables

Comprises the following:

<i>In thousands of U.S. dollars</i>	2019	2018
Energy purchases and transmission tolls	4,409	4,408
Royalties	194	214
Others purchases	4,116	4,428
	8,719	9,050

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

15. Other Payables

Comprises the following:

<i>In thousands of U.S. dollars</i>	Note	2019	2018
Option agreements	13(c)	8,741	9,965
Interest payables-debentures		5,500	5,500
Other taxes		2,517	1,933
Value-Added Tax		581	1,047
Profit Sharing		537	-
Vacations and compensations payables		-	495
Employee severance indemnities		-	1,776
Self-employment and regular employment income tax payables		3	211
Various accruals and other accounts payables		62	121
Rural electricity contribution		87	68
		18,028	21,116

16. Debentures

Comprises the following:

<i>In thousands of U.S. dollars</i>	2019	2018
International bonds		
Notes Orazul Energy Perú 2027 (a)	550,000	550,000
Transaction costs	(8,616)	(9,532)
	541,384	540,468

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- (a) On April 25, 2017, the Company (originally Orazul Energy Egenor S. en C. por A., later merged into the Company on August 16, 2017) priced its notes in the international capital market for the amount of US\$ 550,000 thousand under Rule 144A Regulation S of the Securities Market Law of the United States of America with a final maturity in April 2027. The notes obtained the risk classification "BB", assigned by the international risk-rating agencies Fitch Ratings and Standard & Poor's. Those bonds will be redeemed upon maturity in April 2027, accrue interests at a nominal annual rate of 5.625% and coupon interest is paid semi-annually.

As of December 31, 2019, the amount for the bonds issued for US\$ 541,384 thousand (US\$ 540,468 thousand as of December 31, 2018), consists of the principal of US\$ 550,000 thousand, offset by the amortized cost of US\$ 8,616 thousand (US\$ 9,532 thousand in December 31, 2018).

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

- The Company agrees to some restrictions for the payments outside its usual operations, new investments and in the sale of assets.
- The Company and its guarantors agree to keep their accounting records under IFRS and report their financial statements within the periods established in the agreement.
- The Company agrees to comply with certain restrictions for new indebtedness.
- The Company agrees to maintain effective insurance policies that cover its generation and transmission assets and that have coverage, deductibles and insured amounts that are reasonable and usual for private companies engaged in the generation and distribution of electrical energy.

Management considers that these restrictions and responsibilities required for the Company were compiled appropriately as of December 31, 2019 and 2018.

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	Face value		Carrying amount	
				2019	2018	2019	2018
Debentures							
Notes OEP 2027	5.625%	US\$	April -2027	550,000	550,000	541,384	540,468

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

<i>In thousands of U.S. dollars</i>	
2024 and thereafter	541,384
	541,384

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

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

<i>In thousands of U.S. dollars</i>	Liabilities			Total liabilities
	Other Payables	Lease liabilities	Intercompany payables	
Balance at January 1, 2019	21,116	905	150,602	172,623
Payment to related parties	-	-	(63,000)	(63,000)
Payment of interest	(30,938)	-	-	(30,938)
Payment of lease liabilities	-	(626)	-	(626)
Net cash used in financing activities	(30,938)	(626)	(63,000)	(94,564)
Other	27,850	(186)	(4,660)	23,004
Balance at December 31, 2019	18,028	93	82,942	101,063

<i>In thousands of U.S. dollars</i>	Liabilities			Equity	
	Other Payables	Lease liabilities	Total liabilities	Share capital	Total
Balance at January 1, 2018	7,481	1,624	9,105	213,283	222,388
Share Capital reduction	-	-	-	(17,197)	(17,197)
Payments of interest	(30,938)	-	(30,938)	-	(30,938)
Payments of lease liabilities	-	(790)	(790)	-	(790)
Net cash used in financing activities	(30,938)	(790)	(31,728)	(17,197)	(48,925)
Other	44,573	71	44,644	-	44,644
Balance at December 31, 2018	21,116	905	22,021	196,086	218,107

17. 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			
	Opening balance	Profit or loss (P&L)	Equity	Final balance
2019				
Deferred assets:				
Property, plant and equipment	714	407	-	1,121
Various provisions	236	13	-	249
	950	420	-	1,370
Deferred liabilities:				
Fair value assets	(40,418)	2,126	-	(38,292)
Tax losses carryforward	13,849	(4,827)	-	9,022
Fair value loan	-	1,580	(2,694)	(1,114)
Financial cost	(2,812)	240	-	(2,572)
Property, plant and equipment	(57,245)	3,205	-	(54,040)
Other provisions	782	(2,841)	-	(2,059)
	(85,844)	(517)	(2,694)	(89,055)
Net effect	(84,894)	(97)	(2,694)	(87,685)

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<i>In thousands of U.S. dollars</i>	Additions/recoveries			
	Opening balance	Profit or loss (P&L)	Equity	Final balance
2018				
Deferred assets:				
Property, plant and equipment	2,349	(1,635)	-	714
Various provisions	417	(181)	-	236
	2,766	(1,816)	-	950
Deferred liabilities:				
Fair value assets	(45,313)	4,895	-	(40,418)
Tax losses carryforward	3,810	10,039	-	13,849
Financial cost	(3,065)	253	-	(2,812)
Property, plant and equipment	(59,285)	2,040	-	(57,245)
Other provisions	4,235	(3,453)	-	782
	(99,618)	13,774	-	(85,844)
Net effect	(96,852)	11,958	-	(84,894)

Income tax expense shown in the statement of profit or loss for years 2019 and 2018 is composed as follows:

<i>In thousands of U.S. dollars</i>	2019	2018
Current	9,881	6,923
Deferred	97	(11,958)
	9,978	(5,035)

The table below presents the reconciliation of the effective income tax rate as for the years ended December 31, 2019 and 2018 to the tax rate:

<i>In thousands of U.S. dollars</i>	2019		2018	
Profit before income (loss) tax	27,638	100.00%	(2,372)	100.00%
Theoretical expense	8,153	29.50%	(700)	29.50%
Effect of non-taxable income and non-deductible expenses	(1,866)	(6.75%)	6,760	(284.99%)
Exchange difference taxable base	3,633	13.14%	(11,209)	472.56%
Income tax of previous years	58	0.21%	114	(4.81%)
Income tax expenses	9,978	36.10%	(5,035)	212.27%

18. Asset Retirement Obligation

Comprises the following:

<i>In thousands of U.S. dollars</i>	Note	2019	2018
Balance as of January 1, 2018		172	732
Additions	11, 12	16,647	-
Unwind of discount	26	452	10
Payments		(47)	(570)
Balance as of December 31, 2019		17,224	172

The provision for decommissioning liabilities corresponds to Aguaytia plant, electrical energy hydroelectric power plants Cañon del Pato and Carhuaquero (Orazul) and thermoelectric power plant in Ucayali (Termoselva), has been determined taking into consideration all costs necessary to dismantle and rehabilitate the land where the station is currently located. The future value, considering the effect of inflation amounts to US\$ 29,467 thousand and has been discounted using an annual risk-free rate ranging from 1.48% to 1.87%.

19. Equity

Share capital and share premiums

Comprises the following:

<i>In thousands of U.S. dollars</i>	2019	2018
Orazul Energia (UK) Holdings Ltd.	196,066	196,066
Others	20	20
	196,086	196,086

As of December 31, 2019 and 2018, issued capital stock is represented by 651,224,289 common shares with a face value of S/ 1.00 per share, duly authorized, issued and paid.

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

20. Capital Management

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

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

The Group monitors capital using a ratio of 'adjusted net debt' to 'adjusted equity'. For this purpose, adjusted net debt is defined as main part of total loans and financial obligations. Adjusted equity comprises all components of equity other than amounts accumulated in the cash flow hedging reserve. The Group adjusted net debt to equity ratio as of December 31, 2019 and 2018 was as follows:

<i>In thousands of U.S. dollars</i>	2019	2018
Total liabilities	764,998	817,841
Less: Cash and cash equivalents	(41,160)	(50,014)
Total adjusted net debts (A)	723,838	767,827
Total equity	199,582	166,627
Total adjusted equity (B)	199,582	166,627
Gearing ratio (A/B) (times)	3.6268	4.6081

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

21. Tax Issues

A. Tax Situation

Orazul Energy Peru S.A.

Income tax return for the period from October 10, 2016 to December 31, 2016 and for the years 2017 and 2019 have not been reviewed by the Tax Administration yet, which is empowered to conduct those reviews within four years immediately after the submission date of pertinent tax returns.

In October 2018, the Tax Administration began the partial audit of expenses for the 2017 fiscal year; currently the process is in progress.

Orazul Energy Egenor S. en C. por A.

The review of income tax return from 2011 gave rise to the issuance of determination and fine resolutions for US\$ 575 thousand. In February 2015, the Company filed a claim against the Tax Administration and in August 2015, the Tax Administration declared the claim filed by the Company as groundless, so in September 2015, the Company filed an appeal against such resolutions before the Tax Court. In July 2018, the Tax Court resolve partially in favor of the Company, reducing the contingency to \$ 1.4 thousand. This amount was paid in the same month.

Income tax returns from 2014 to 2016 and for the period from January 1, 2017 to August 16, 2017 have not been reviewed by the Tax Administration yet, which is empowered to conduct those reviews within four years immediately after the submission date of pertinent tax returns.

Temporary tax on net assets return from 2013 was reviewed by the Tax Administration in 2014, which issued determination and fine resolutions for US\$ 264 thousand plus interests in May 2015. On 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 against the SUNAT decision before the Tax Court, which has not been resolved to date. The updated contingency is US\$ 426 thousand.

Etenorte S.R.L.

Income tax returns from 2014 to 2019 have not been reviewed by the Tax Administration yet, which is empowered to conduct those reviews within four years immediately after the submission date of pertinent tax returns.

Aguaytia Energy del Peru S.R.L.

Income tax returns from 2015 to 2019 have not been reviewed by the Tax Administration yet, which is empowered to conduct those reviews within four years immediately after the submission date of pertinent tax returns.

Termoselva S.R.L.

Income tax returns from 2015 to 2019 have not been reviewed by the Tax Administration yet, which is empowered to conduct those reviews within four years immediately after the submission date of pertinent tax returns.

Eteselva S.R.L.

Income tax returns from 2015 to 2019 have not been reviewed by the Tax Administration yet, which is empowered to conduct those reviews within four years immediately after the submission date of pertinent tax returns.

Due to possible interpretations that tax authorities may have on current applicable regulations every year, it is not possible to determine to date whether liabilities for the Group will arise or not from the reviews to be conducted. Therefore, any income tax or charge that may result from those tax reviews would be applied to profit or loss for the year when determined. Management of the Group believes that any additional tax payment would not be significant for the consolidated financial statements as of December 31, 2019 and 2018.

Temporary Tax on Net Assets

This tax 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 actually paid amount can be used as credit against payments on account of the general income tax regime or against the regularization payment of income tax of the corresponding taxable period. As of December 31, 2019 and 2018, the Group does not have an ITAN balance to recover and Aguaytia is exempted from paying this tax.

- B. Tax amendments of greater relevance in force since January 1, 2019.

i. New legal concept of accrual

Legislative Decree No. 1425 introduced the definition of a legal accrual for purposes of Income Tax, establishing that income in the case of: a) transfer of goods occurs when: i) occurs the change of control (according to IFRS 15); or ii) occurs the transfer of the risk to the acquirer (Risk Theory established in the Civil Code), whichever occurs first; and, b) in the case of service provision, the degree of completion of the service has been established.

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

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

ii. Sub-capitalization

Beginning in 2019 and until December 31, 2020, the financial expense generated by indebtedness, both between independent and related parties, is subject to the sub-capitalization limit of (3: 1 Debt-Equity Ratio) calculated at the close of the previous year. As of January 1, 2021, the financial expenses will be deductible up to the limit of 30% of the tax EBITDA (Net Income - Compensation of Losses + Net Interest + Depreciation + Amortization) of the previous year. There are some exceptions to the application of this limitation in the case of banks, taxpayers with incomes not exceeding 2,500 UITs, infrastructure, public services, etc.

iii. Deduction of expenses or costs incurred in transactions with non-domiciled parties

Legislative Decree N° 1369 requires that costs and / or expenses (including outbound interest) incurred with non-domiciled counterparts must have been paid effectively in order to be deducted in the year in which they were incurred. If not, its impact on the determination of net income will be deferred to the year in which the opportunity in which the corresponding withholding will be applied is actually paid. This rule eliminated the obligation to pay the amount equivalent to the withholding on the amount recorded as cost and / or expense.

iv. Rule XVI

According to the Legislative Decree No. 1422 - Rule XVI (General Anti-Avoidance Rule) establishes the obligation of the Board of Directors to approve, ratify or modify the acts, situations and economic relations to be carried out within the framework of fiscal planning. The deadline for the aforementioned ratification of modifies expires on March 29, 2019.

v. Final beneficiaries

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

22. Revenues

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

<i>In thousands of U.S. dollars</i>	2019	2018
Sale of electrical energy		
Sale of energy and capacity		
Energy	82,385	80,669
Capacity	26,642	23,987
COES (regulated clients)		
Energy	7,313	10,617
Capacity	9,546	8,470
Other	1,744	1,131
Energy transmission	8,502	7,569
	136,132	132,443
Sale of hydrocarbons		
Natural gasoline	10,568	16,247
LPG	5,141	7,679
	15,709	23,926
	151,841	156,369

During 2019, the Company sold 1,681 GWH (1,822 GWH during 2018).

As of December 31, 2019, there was estimated pending revenue to be invoiced for US\$ 15,696 thousand (US\$ 14,859 thousand in 2018). According to Management's evaluation, there would not be significant variation between the amounts invoiced and those estimated.

23. Expenses by Nature

Comprises the following:

<i>In thousands of U.S. dollars</i>	<i>Note</i>	Cost of sales		Administrative expenses		Total	
		2019	2018	2019	2018	2019	2018
Royalties from natural gas	1	6,541	7,451	-	-	6,541	7,451
Services provided by third parties		5,805	6,872	1,761	4,058	7,566	10,930
Royalties from sales of hydrocarbon liquids	1	5,167	8,602	-	-	5,167	8,602
Intercompany services	28.C	4,257	-	2,923	-	7,180	-
Taxes		3,624	3,240	830	771	4,454	4,011
Personnel expenses	24	3,571	10,828	1,418	12,054	4,989	22,882
Purchase of transmission charges		2,617	2,265	-	-	2,617	2,265
Sundry management charges		2,062	2,134	-	-	2,062	2,134
Purchase of energy							
Energy		2,647	3,133	-	-	2,647	3,133
Other cost		1,180	1,811	-	-	1,180	1,811
Supplies, spare parts and fuel		932	1,166	1,383	862	2,315	2,028
Transport, storage and other costs of natural gas		850	3,356	-	-	850	3,356
Depreciation and amortization		-	-	1,485	1,541	1,485	1,541
(Recovery) loss for obsolescence of inventories		-	(144)	-	-	-	(144)
		39,253	50,714	9,800	19,286	49,053	70,000

24. Employee Expenses

Comprises the following:

<i>In thousands of U.S. dollars</i>	2019	2018
Salary	2,814	10,740
Bonusses (a)	299	3,998
Severance package (a)	245	5,541
Vacations	180	817
Profit sharing (b)	537	126
Other	914	1,660
	4,989	22,882

- (a) Decrease is related to the management services contract signed with Kallpa in 2019 (note 28.C).
- (b) Workers' profit sharing:
In line with current legislation, the Company's workers are entitled to a profit-sharing plan to be computed at 5% on taxable income. This profit sharing is considered as a deductible expense for income tax calculation purposes. In 2019, the Company determined workers' profit sharing of US\$ 537 thousand (US\$ 126 thousand in 2018).

25. Other Income

Comprises the following:

<i>In thousands of U.S. dollars</i>	Note	2019	2018
Intercompany services	28	477	2,233
Renting		548	554
Net profit for the sale of fixed assets		357	322
Various		1,725	2,263
		3,107	5,372

26. Finance Costs

Comprises the following:

<i>In thousands of U.S. dollars</i>	Note	2019	2018
Interests expenses - bonds		30,938	31,109
Interests expenses - related parties	28	5,439	8,921
Withholding tax on interest		3,649	4,305
Transaction cost amortization		916	864
Unwind of discount on provision for decommissioning	18	452	10
Other financial expenses		380	166
		41,774	45,375

27. Commitments

As of December 31, 2019 and 2018, the Group has the following commitments:

Orazul Energy Perú

Electricity Supply Contracts

As of December 31, 2019 and 2018, the Company has 11 contracts with non-regulated clients (7 contracts in 2018 with non-regulated clients), respectively, whose maturities vary between year 2019 and 2027. The off-peak capacity agreed in these contracts amounts to 101 MW as of December 31, 2019 (103 MW as of December 31, 2018). In relation to distribution companies, the Company has signed 15 contracts with 9 distribution companies for 174 MW, effective as of December 31, 2019 (15 contracts with 9 distribution companies for 174 MW effective as of December 31, 2018).

Termoselva

Electricity Supply Contracts

As of December 31, 2019 and 2018, the Company has 1 contract with non-regulated clients (1 contract in 2018 with non-regulated clients), respectively, whose maturities vary between year 2019 and 2021. The off-peak capacity agreed in these contracts amounts to 4 MW as of December 31, 2019 (4 MW as of December 31, 2018). In relation to distribution companies, the Company has signed 15 contracts with 9 distribution companies for 165 MW, effective as of December 31, 2019 (15 contracts with 9 distribution companies for 165 MW effective as of December 31, 2018).

28. Related Party Transactions

A. Parent Company and Ultimate Parent Company

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

B. Transactions with key management

i. Loans to directors

As of December 31, 2019 and 2018 there are no loans to directors.

ii. Key management compensation

<i>In thousands of U.S. dollars</i>	Transaction value	
	December 31, 2019	December 31, 2018
Short-term employee benefits	-	1,777

iii. Transactions with key management personnel

During the year ended December 31, 2019 and 2018, there were no transactions between the Company and Key Management, other than those in (ii).

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C. Other Related Entities Transactions

In 2019 and 2018, the Group performed the following significant transactions with related parties, during the normal course of operations:

<i>In thousands of U.S. dollars</i>		Transaction value	
		2019	2018
	Transaction type		
Kallpa Generación S.A. (c)	Management service and O&M	(7,180)	-
Samay I S.A.	COES	(1,857)	(2,044)
Kallpa Generación S.A.	COES	8,440	3,833
Orazul Energía (España) Holding S.L. (b)	Loan	(68)	(1,244)
Orazul Energía Partners LLC (a)	Loan	(5,357)	(7,677)
Orazul Energía Management LLC - Delaware	Others	-	163
Orazul Energy Group BV - Netherlands	Loan	(1)	-
Orazul Energía (UK) Holding Ltd.	Loan	(13)	-
Orazul Energía (UK) Holding Ltd.	Capital reduction	-	(17,197)
Goldwat BD, S.L. -Spain	Loan	-	862
Eléctrica Cobee-Sucursal	Others	477	-
OE Nehuen Generacion, SPA	Others	-	1,800
El Salvador, S en C de CV (2)	Others	-	65
Orazul Energy Cerros Colorados, S.A.	Others	-	63
Orazul Energy Guatemala y CIA, S.C.A	Others	-	61
OE Chile Holding II B.V. SCPA	Others	-	81
		(5,559)	(21,234)

<i>In thousands of U.S. dollars</i>		Outstanding balances	
		2019	2018
	Transaction type		
Account receivables			
Kallpa Generación S.A.	COES	113	-
Eléctrica Cobee-Sucursal	Services	91	-
Orazul Energía Management LLC - Delaware	Others	-	1,141
Orazul Energía Partners LLC	Others	-	41
Other related entities	Others	-	117
		204	1,299
Account payables			
Kallpa Generación S.A.	Management service and O&M	(6,307)	-
Orazul Energía (España) Holding S.L. (b)	Loan	-	(8,803)
Orazul Energy Group BV - Netherlands	Loan	-	(87)
Other related entities	Others	-	(3)
		(6,307)	(8,893)
Intercompany payables			
Orazul Energía Partners LLC (a)	Loan	(82,942)	(150,602)
		(82,942)	(150,602)
		(89,045)	(158,196)

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

- (a) 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.

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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 Energía (UK) Holdings Ltd. On the same date, Orazul Energía (UK) Holdings Ltd. approved the capitalization of said debt and increased the capital stock issued of the Company. As of December 31, 2018 the updated interest was US\$ 22,652 thousand.

On January 2019, Orazul Energy Partners LLC modified the subordinated loan rate from 6% to 0%, without modifying the terms of maturity and payment. As a result of this change, the liability was reduced, and equity increased by US\$ 9,132 thousand net of a deferred tax of US\$ 2,694 thousand, generating a net effect of US\$ 6,438 thousand.

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

- (b) On August 16, 2019 Orazul Energía (Spain) Holding S.L. assigned the rights of its account receivable in favor of Orazul Energía (UK) Holdings Ltd for a total of US\$ 8,844 thousand. Subsequently, on September 16, 2019, Orazul Energía (UK) Holdings Ltd made a contribution (pending capitalization) of US\$ 8,857 thousand in favor of the Company, included in Additional Capital.
- (c) The Group and Kallpa Generacion S.A. entered into an agreement for management and other services, which can be renewed under the express consent of the parties each year.

29. Contingencies

As of December 31, 2019 the main contingencies of the Group are described as follow:

Orazul Energy Perú

(a) Labor claims

The Company is involved in several labor claims, mostly related to vacations, job reinstatement and profit sharing, for which, after being evaluated individually, in the opinion of management and its external legal advisors, it has been estimated that the Company could have to pay up to an equivalent amount of (in thousands) S/ 4,140 thousand (equivalent to US\$ 1,248 thousand) for labor claims that are not more likely than not that the Company will pay.

(b) Temporary Tax on Net Assets

Temporary tax on net assets return from 2013 was reviewed by the Tax Administration in 2014, which issued determination and fine resolutions for US\$ 226 thousand plus interests in May 2015. In July 2015, the Company filed a claim against the Tax Administration; and in April 2016, the Tax Administration declared the claim filed by the Company as groundless. In May 2016, the Company filed an appeal before the Tax Court, which has been resolved against Orazul on September 2019. In November 2019, the Company decided to pay the amount of US\$ 432 thousand (US\$ 288 as ITAN and US\$ 144 thousand as fine). In December 2019, the Company filed the corresponding judicial action which is currently ongoing.

(c) Penalty withholding tax

Fine imposed by the Tax Administration during the Tax Audit of the fiscal year 2000, due the Company did not pay withholding taxes, despite the fact it did not pay for the service either. The Company filed a judicial action in March 2018. In January 2019, the Judicial Court ruled in favor of the Company. It is pending that the Supreme Court schedule the meeting in order that both parties file its positions. In parallel, in May 2018, the Company filed a judicial constitutional action that basically will verse on the non-application of moratorium and capitalized interest and the ones generated outside the time-limit established by Law to solve the administrative stage considering the reasonable time violation and the damage to the property right, which was declared denied. In February 2019, the Company filed a constitutional grievance before the Constitutional Court, which has not been resolved to date. The updated contingency is US\$ 326 thousand.

Termoselva

(a) Income Tax 2011

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

Up to this date, the Tax Administration has not pronounced on the petition of the Tax Court. The updated contingency is US\$ 918 thousand.

(b) Advanced Payments 2012

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

The mentioned resolutions were issued because of referential omissions in the prepayments of the period from March to December 2012, considering the observations contained in Resolutions of the corporate income tax 2011, although it is being questioned by an appeal followed in the Judicial Court. The updated contingency is US\$ 172 thousand.

Aguaytía

(a) Judicial challenge filed against the OSINERGMIN

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

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

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

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

30. Subsequent Events

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