



Orazul Energy Perú S.A. and Subsidiaries

Unaudited Condensed Consolidated Interim Financial Statements

June 30, 2019

**(Including Independent Auditors' Report on Review of
Condensed Consolidated Interim Financial Statements)**



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INDEPENDENT AUDITORS' REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of Orazul Energy Perú S.A and Subsidiaries as at June 30, 2019, the condensed consolidated statements of profit or loss and other comprehensive income for the six and three-month periods ended as at June 30, 2019, the condensed statements of changes in equity and cash flows for the six-month period then ended, and notes to the condensed consolidated interim financial statements (the condensed consolidated interim financial statements). Management is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of condensed consolidated interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements as at and for the six and three-month periods ended June 30, 2019 are not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.



Other Matters

- The consolidated financial statements of the Company as at 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.
- We have not reviewed the accompanying condensed consolidated financial of profit or loss and other comprehensive income for the six and three-month periods ended as at June 30, 2018, the condensed statements of changes in equity and cash flows for the six-month period then ended, or any of the related notes and accordingly, we do not express a conclusion on them.

Lima, Peru

July 26, 2019

Countersigned by:

A handwritten signature in black ink, appearing to read 'Juan José Córdova', written over a horizontal line.

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

Orazul Energy Perú S.A and Subsidiaries

Unaudited Condensed Consolidated Interim Financial Statements

June 30, 2019

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Orazul Energy Perú S.A. and Subsidiaries

Unaudited Condensed Consolidated Statement of Financial Position

As at June 30, 2019 (Unaudited) and December 31, 2018

<i>In thousands of U.S. dollars</i>	<i>Note</i>	June 30, 2019	December 31, 2018
Assets			
Current assets			
Cash and cash equivalents	3	66,485	50,014
Trade receivables	4	26,589	16,753
Other receivables	5	12,124	11,912
Intercompany receivables	17	926	1,299
Inventories	6	5,802	5,870
Prepaid expenses		1,448	203
Total current assets		113,374	86,051
Non-current assets			
Property, plant and equipment - energy generation and transmission	7	321,371	332,815
Gas investment	8	68,154	64,747
Intangible assets and goodwill	9	498,178	498,732
Deferred income tax assets		1,623	950
Prepaid expenses		621	730
Other receivables	5	446	443
Total non-current assets		890,393	898,417
Total assets		1,003,767	984,468

<i>In thousands of U.S. dollars</i>	<i>Note</i>	June 30, 2019	December 31, 2018
Liabilities			
Current liabilities			
Trade payables	10	7,191	9,050
Other payables	11	14,676	21,551
Lease liabilities under operating contracts		170	905
Intercompany payables	17	10,489	8,893
Deferred income		342	155
Total current liabilities		32,868	40,554
Non-current liabilities			
Debentures	12	540,919	540,468
Intercompany payables	17	105,303	150,602
Deferred income tax liabilities		107,031	85,844
Other liabilities		6,709	373
Total non-current liabilities		759,962	777,287
Total liabilities		792,830	817,841
Equity			
Share capital	14	196,086	196,086
Other reserves		33,609	-
Retained earnings		(18,801)	(29,500)
Equity attributable to owners of the Company		210,894	166,586
Non-controlling interests		43	41
Total equity		210,937	166,627
Total liabilities and equity		1,003,767	984,468

The notes on pages 5 to 21 are an integral part of these unaudited condensed consolidated interim financial statements.

Orazul Energy Perú S.A. and Subsidiaries

Unaudited Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the six-month and three-month periods ended June 30, 2019 and 2018

		Six-month period ended June 30		Three-month period ended June 30	
<i>In thousands of U.S. dollars</i>	<i>Note</i>	2019	2018	2019	2018
Revenues of energy generation and transmission	15	69,698	69,337	34,921	33,459
Revenues of hydrocarbons	15	8,746	14,004	4,467	8,085
Costs of sales of energy generation and transmission		(14,314)	(17,257)	(7,590)	(9,154)
Costs of sales of hydrocarbons		(3,824)	(7,462)	(1,899)	(4,141)
Depreciation		(16,503)	(21,876)	(7,982)	(9,921)
Gross profit		43,803	36,746	21,917	18,328
Administrative expenses		(5,635)	(9,256)	(2,790)	(4,848)
Impairment loss on trade receivables		-	(155)	-	1
Other income		1,985	1,222	767	530
Other expenses		(702)	(1,214)	(379)	(642)
Operating profit		39,451	27,343	19,515	13,369
Finance income		329	973	312	57
Finance costs		(20,443)	(23,026)	(10,843)	(11,180)
Net foreign exchange difference		429	(227)	157	(138)
Finance cost, net		(19,685)	(22,280)	(10,374)	(11,261)
Profit before income tax		19,766	5,063	9,141	2,108
Income tax expense	16	(9,065)	1,674	(2,771)	2,499
Profit from continuing operations		10,701	6,737	6,370	4,607
Discontinued operations					
Profit for the period from discontinued operations, net of tax		-	1,049	-	525
Profit for the period		10,701	7,786	6,370	5,132
Other comprehensive income for the period		-	-	-	-
Attributable to					
Controlling shareholders		10,699	7,785	6,367	5,132
Non-controlling interest		2	1	3	-
Total comprehensive income for the period		10,701	7,786	6,370	5,132

The notes on pages 5 to 21 are an integral part of these unaudited condensed consolidated interim financial statements.

Orazul Energy Perú S.A. and Subsidiaries

Unaudited Condensed Consolidated Statement of Changes in Equity

For the six-month periods ended June 30, 2019 and 2018

	Attributable to Owners of the Company						
	Number of shares (note 14)	Share capital (note 14)	Retained earnings	Other reserves (note 17.C)	Total equity attributable to owners of the Company	Non- controlling Interests	Total equity
<i>In thousands of U.S. dollars</i>							
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	-	-	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	-	-	6,736	-	6,736	1	6,737
Other comprehensive income	-	-	1,049	-	1,049	-	1,049
Total comprehensive income for the period	-	-	7,785	-	7,785	1	7,786
Share capital reduction	(55,212,000)	(17,197)	-	-	(17,197)	-	(17,197)
Total transactions with owners of the Company	651,224,289	(17,197)	7,785	-	(9,412)	1	(9,411)
Balance as of June 30, 2018	651,224,289	196,086	(13,053)	-	183,033	4	183,037
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	-	-	10,699	-	10,699	2	10,701
Total comprehensive income for the period	-	-	10,699	-	10,699	2	10,701
Other reserves	-	-	-	33,609	33,609	-	33,609
Total transactions with owners of the Company	-	-	-	33,609	33,609	-	33,609
Balance as of June 30, 2019	651,224,289	196,086	(18,801)	33,609	210,894	43	210,937

The notes on pages 5 to 21 are an integral part of these unaudited condensed consolidated interim financial statements.

Orazul Energy Perú S.A. and Subsidiaries

Unaudited Condensed Consolidated Statement of Cash Flows
For the six-month periods ended June 30, 2019 and 2018

<i>In thousands of U.S. dollars</i>	Six-month period ended June 30	
	2019	2018
Cash flows from operating activities		
Collections of energy generation and transmission	58,456	64,437
Collections of hydrocarbons	8,191	16,656
Payment to suppliers	(13,077)	(18,968)
Payment of royalties	(4,865)	(6,970)
Payment to employees	(5,122)	(11,161)
Cash generated from operating activities	43,583	43,994
Income tax paid	(2,347)	(6,706)
Net cash provided by operating activities	41,236	37,288
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	30	190
Dividends received	-	1,049
Acquisition of property, plant, and equipment	(2,770)	(4,263)
Acquisition of intangibles	(5,830)	-
Net cash used in investing activities	(8,570)	(3,024)
Cash flows from financing activities		
Interests	(15,469)	(15,618)
Capital reduction	-	(17,197)
Payment of lease liabilities	(303)	(340)
Net cash used in financing activities	(15,772)	(33,155)
Net increase in cash and cash equivalents	16,894	1,109
Cash and cash equivalents as of January 1	50,014	23,429
Effects of variations on exchange difference on held cash	(423)	(123)
Cash and cash equivalents as of June 30	66,485	24,415

The notes on pages 5 to 21 are an integral part of these unaudited condensed consolidated interim financial statements.

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

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. In 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:

- In 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%.
- In 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 condensed 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. It has a total installed capacity of 544MW as follows:

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

As of June 30, 2019 and December 31, 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

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

In addition, OEG has 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	99.98
Operational		
Etenorte S.R.L.	99.98	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	99.98

Orazul Energy Group S.A.C.

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.

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, which represents approximately 67% of its operating income (62% 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 natural gas liquids; those gas liquids 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 other customers to sell natural gasoline. LPG is sold to wholesalers and distributors, which perform their activities in the central rainforest and highlands of the country.

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

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

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 client, which represents approximately 16% of its operating income (17% in 2018).

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

Financial statements of consolidated Subsidiaries

Summary of the financial statements of the Subsidiaries as of June 30, 2019 and December 31, 2018, prepared under International Financial Reporting Standards (IFRS), before elimination for consolidation purposes, are presented below:

<i>In thousands of U.S. dollars</i>	June 30, 2019	December 31, 2018
Subsidiaries		
Etenorte S.R.L.		
Total assets	11,619	10,136
Total liabilities	(1,063)	(1,192)
Equity	10,556	8,944
Profit for the period	1,612	2,053
Aguaytía del Perú S.R.L.		
Total assets	154,342	137,841
Total liabilities	(13,013)	(5,464)
Equity	141,329	132,377
Profit for the period	8,952	11,764
Termoselva S.R.L.		
Total assets	70,952	68,338
Total liabilities	(6,462)	(9,255)
Equity	64,490	59,083
Profit for the period	5,407	8,430
Eteselva S.R.L.		
Total assets	33,793	32,771
Total liabilities	(366)	(491)
Equity	33,427	32,280
Profit for the period	1,147	1,280
Orazul Energy Group S.A.C.		
Total assets	183,279	176,478
Total liabilities	(2)	(250)
Equity	183,277	176,228
Profit for the period	6,049	15,278
Orazul Energy Hidrocarburos S.A.		
Total assets	109,716	109,703
Total liabilities	-	(3)
Equity	109,716	109,700
Profit for the period	16	21,327
Orazul Energy Transmisión S.A.		
Total assets	95,236	95,233
Total liabilities	-	(2)
Equity	95,236	95,231
Profit for the period	5	8,468

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

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

2. Basis for the Preparation of Financial Statements

A. Basis of accounting

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* and should be read in conjunction with the Group's last annual financial statements as at and for the year ended December 31, 2018 (last annual financial statements). The condensed consolidated statement of financial position as of December 31, 2018 has been derived from the Group's last annual audited financial statements. These condensed consolidated interim financial statements do not include all of the information required for a complete set of financial statements prepared in accordance with International Financial Reporting Standards (IFRS). However, selected explanatory notes have been included to explain events and transactions that are significant to an understanding of the changes in the financial position and the performance of the Group since the last annual financial statements.

These condensed consolidated interim financial statements were approved by the Group Management on July 26, 2019.

Comparative information

The condensed consolidated interim financial statements of profit or loss and other comprehensive income, changes in the equity and cash flow for the six-month period ended as of June 30, 2018, have not been audited or reviewed by an independent auditor and are presented only for comparative purposes. The consolidated financial statements for the year ended as of December 31, 2018 presented for comparative purposes are derived from our consolidated financial statements as of December 31, 2018 issued on March 29, 2019.

B. Use of estimates and judgements

The preparation of these condensed consolidated interim financial statements requires Management to make judgments, estimates and assumptions that affect the application of Group's accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgments made by Management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended December 31, 2018.

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

C. Measurement of fair values

Some of the Group's accounting policies and disclosures require the measurement of fair value of financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Group uses market observable 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 might be categorized in different levels of their 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 measurement.

The Group recognizes transfers between levels of the 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 included in note 13 – Financial Instruments.

D. Change in significant accounting policies

The accounting policies applied in these condensed consolidated financial statements are the same as those applied in the financial statements as and for the year ending December 31, 2018.

3. Cash and Cash Equivalents

Comprises the following:

<i>In thousands of U.S. dollars</i>	June 30, 2019	December 31, 2018
Petty cash	12	17
Checking accounts	66,473	49,997
	66,485	50,014

Petty cash and banks mainly comprise checking accounts and correspond to balances held in local and foreign banks, in soles and U.S. dollars, and are freely available.

The credit quality that safeguards the Company's bank deposits has the same evaluation as compared to December 31, 2018.

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

4. Trade Receivables

Comprises the following:

<i>In thousands of U.S. dollars</i>	June 30, 2019	December 31, 2018
Energy and capacity delivered but not billed	14,087	13,571
Invoices	31,824	22,523
Subtotal (a)	45,911	36,094
Less-allowance for doubtful accounts (b)	(19,322)	(19,341)
	26,589	16,753

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 June 30, 2019, correspond to 3 non-regulated, 8 regulated customers and 2 hydrocarbon customers (3 non-regulated, 5 regulated clients and 1 hydrocarbon customer as of December 31, 2018).

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 June 30, 2019, the annual average interest rates for the Group are 8.44% and 4.41% for local and foreign currency, respectively (8.41% and 4.05% as of December 31, 2018 for local and foreign currency, respectively).

- (a) The aging of trade receivables is the following:

<i>In thousands of U.S. dollars</i>	June 30, 2019	December 31, 2018
Unexpired	25,462	14,819
Less than 30 days	772	1,839
31 to 90 days	-	3
181 to 360 days	292	66
More than 361 days (b)	19,385	19,367
	45,911	36,094

- (b) The main amount for receivables of more than 361 days corresponds to the non-collectability of the invoices issued to Maple for natural gasoline sales.
- (c) 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 June 30, 2019 and December 31, 2018.

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

5. Other Receivables

Comprises the following:

<i>In thousands of U.S. dollars</i>	June 30, 2019	December 31, 2018
Current portion		
Income tax	9,315	9,676
Fund for the stabilization of fuel prices (a)	1,018	1,719
Guarantee deposits (b)	1,285	-
Other receivables	506	517
	12,124	11,912
Non-current portion		
Credit on temporary taxes on net assets - ITAN	438	435
Other receivables	8	8
	446	443
	12,570	12,355

(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.

(b) Correspond to guarantee deposits for the legal consulting in the Maple process.

6. Inventories

Comprises the following:

<i>In thousands of U.S. dollars</i>	June 30, 2019	December 31, 2018
Supplies and spare parts	6,239	6,315
Fuel to sale	106	121
Fuel and lubricants	87	64
	6,432	6,500
Impairment (a)	(630)	(630)
	5,802	5,870

(a) The impairment of inventories was determined based on internal technical reports. Management believes that this estimate covers the obsolescence risk appropriately as of June 30, 2019 and December 31, 2018.

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

7. Property, Plant and Equipment

Comprises the following:

<i>In thousands of U.S. dollars</i>	June 30, 2019	December 31, 2018
Cost		
Beginning balance	831,346	870,235
Additions		
Building and constructions	66	1,326
Vehicles	-	297
Sundry equipment	175	132
Work in process	787	5,588
Total additions	1,028	7,343
Transfers		
Building and constructions	-	203
Vehicles	-	27
Machinery and equipment	-	1,008
Sundry equipment	-	233
Work in progress	-	(1,638)
Total transfers	-	(167)
Disposals		
Building and constructions	(725)	(1,949)
Vehicles	(161)	(292)
Machinery and equipment	-	(41,780)
Sundry equipment	-	(1,687)
Furniture	-	(357)
Total disposals	(886)	(46,065)
Ending balance	831,488	831,346
Accumulated depreciation		
Beginning balance	(497,988)	(501,088)
Additions		
Building and constructions	(3,614)	(8,769)
Vehicles	(151)	(627)
Machinery and equipment	(7,922)	(25,303)
Sundry equipment	(737)	(1,630)
Furniture	(43)	(212)
Total additions	(12,467)	(36,541)
Disposals		
Building and constructions	725	1,949
Vehicles	156	270
Machinery and equipment	-	35,394
Sundry equipment	-	1,705
Furniture	-	323
Total disposals	881	39,641
Ending balance	(509,574)	(497,988)
Net cost at the beginning of the period	333,358	369,147
Net cost of the end of the period	321,914	333,358
Impairment	(543)	(543)
Net cost of the end of the period	321,371	332,815

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Notes to the Unaudited Condensed Consolidated Interim Financial Statements

- (a) Accumulated impairment loss as of June 30, 2019 and as of December 31, 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 June 30, 2019, impairment is not required, other than the estimate previously recognized in the records for the impairment of property, plant and equipment.
- (b) Distribution of depreciation was as follows:

<i>In thousands of U.S. dollars</i>	June 30, 2019	June 30, 2018
Cost of sale of electrical energy	11,448	17,387
Administrative and selling expenses	1,019	311
	12,467	17,698

- (c) As of June 30, 2019 and December 31, 2018, the Company has insured all plants' assets for property damage under its Property Damage Business Interruption (PDBI) policy. In Management's opinion, this insurance policy is consistent with the international industry practice and the risk of possible losses for claims considered in the insurance policies is reasonable, taking into consideration the Company's types of assets.

8. Gas Investments

<i>In thousands of U.S. dollars</i>	June 30, 2019	December 31, 2018
Cost		
Beginning balance	157,929	152,167
Additions		
Gas and fractionation plant	-	5,993
Asset retirement cost	6,062	-
Work in progress	1,939	5,762
Total additions	8,001	11,755
Transfers		
Sundry equipment	-	(4,280)
Work in progress	-	(1,713)
Total transfers	-	(5,993)
Ending balance	165,930	157,929
Accumulated depreciation		
Beginning balance	(93,182)	(83,508)
Additions		
Gas and fractionation plant	(4,272)	(9,764)
Vehicles	(10)	(20)
Furniture and fixtures	(9)	(31)
Sundry equipment	(54)	141
Asset retirement	(259)	-
Total additions	(4,594)	(9,674)
Ending balance	(97,776)	(93,182)
Net cost at the beginning of the period	64,747	68,659
Net cost of the end of the period	68,154	64,747

The expense for depreciation of property, plant and equipment - gas investments for the six-month period ended June 30, 2019 is US\$ 4,594 thousand (US\$ 3,123 thousand for the six-month period ended June 30, 2018).

9. Intangible Assets and Goodwill

Comprises the following:

<i>In thousands of U.S. dollars</i>	June 30, 2019	December 31, 2018
Goodwill (a)	395,456	395,456
Electric and hydrocarbon concessions (b)	91,318	91,777
Other rights (c)	9,953	9,965
Software	1,451	1,534
	498,178	498,732

- (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 June 30, 2019, Management estimates are not required to establish reserves for the possible impairment of its intangible assets with an indefinite life.

Amortization of hydrocarbon concessions for the six-month period ended June 30, 2019 is US\$ 461 thousand (US\$ 1,375 thousand for the six-month period ended June 30, 2018). This expense is presented as part of cost of sales in the consolidated statement of profit or loss and other comprehensive income.

- (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 11).

Management analysis indicated there were no impairment indicators on the value of the intangibles as of June 30, 2019 (no impairment indicators as of December 31, 2018).

10. Trade Payables

Comprises the following:

<i>In thousands of U.S. dollars</i>	June 30, 2019	December 31, 2018
Good and services received but not billed	5,913	4,587
Invoices	1,278	4,463
	7,191	9,050

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

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11. Other Payables

Comprises the following:

<i>In thousands of U.S. dollars</i>	<i>Nota</i>	June 30, 2019	December 31, 2018
Interest payables-debentures	12	5,414	5,500
Option agreements	9	4,355	9,965
Value-Added Tax		1,390	1,047
Other taxes		1,693	1,933
Vacations and compensations payables		1,297	495
Employee severance indemnities		97	1,776
Self-employment and regular employment income tax payables		179	211
Income tax		123	435
Various accruals and other accounts payables		39	121
Rural electricity contribution		89	68
		14,676	21,551

12. Debentures

Comprises the following:

<i>In thousands of U.S. dollars</i>	June 30, 2019	December 31, 2018
International bonds		
Notes Orazul Energy Perú 2027 (a)	550,000	550,000
Transaction costs	(9,081)	(9,532)
	540,919	540,468

- (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.

A. Terms and debt repayment schedule

The terms and conditions 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	540,919	540,468

The table below presents the payment schedule of the non-current portion of the long-term debt as of June 30, 2019:

<i>In thousands of U.S. dollars</i>	
2024 and thereafter	540,919
	540,919

B. Financial obligations and covenants

The conditions of the notes as of June 30, 2019 are the same disclosed in the annual financial statements of the Company as of December 31, 2018.

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Notes to the Condensed Consolidated Interim Financial Statements

13. Financial Instruments
A. Carrying amounts and fair values

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

	Carrying amount				Fair value
	Current		Non-current		
	Amortized cost	Other financial liabilities	Amortized cost	Total	Level 2
<i>In thousands of U.S. dollars</i>					
As of June 30, 2019					
Financial assets not measured at fair value					
Cash and cash equivalents	66,485	-	-	66,485	-
Trade receivables	26,589	-	-	26,589	-
Other receivables (*)	2,809	-	-	2,809	-
Intercompany receivables	926	-	-	926	-
Financial liabilities not measured at fair value					
Trade payable	-	(7,191)	-	(7,191)	-
Other payable (*)	-	(9,808)	-	(9,808)	-
Intercompany payables	(10,489)	-	(105,303)	(115,792)	-
Debentures	-	-	(540,919)	(540,919)	(559,405)
	86,320	(16,999)	(646,222)	(576,901)	(559,405)
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 (*)	2,227	-	-	2,227	-
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)
	61,400	(24,636)	(691,070)	(654,306)	(509,135)

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

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Notes to the Condensed Consolidated Interim Financial Statements

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 June 30, 2019 and December 31, 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

14. Equity**Share capital**

Comprises the following:

<i>In thousands of U.S. dollars</i>	June 30, 2019	December 31, 2018
Orazul Energia (UK) Holdings Ltd.	196,066	196,066
Others	20	20
	196,086	196,086

As of June 30, 2019 and December 31, 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

There were no dividends declared and not paid as of June 30, 2019 and December 31, 2018.

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

15. Revenues

Comprises the following:

	Six-month period ended June 30		Three-month period ended June 30	
<i>In thousands of U.S. dollars</i>	2019	2018	2019	2018
Sale of electrical energy				
Sale of energy and capacity				
Energy	41,085	41,400	20,981	20,790
Capacity	14,099	11,015	6,515	6,155
COES (regulated clients)				
Energy	4,845	7,042	2,397	1,559
Capacity	4,851	5,424	2,448	2,670
Other	673	783	405	374
Energy transmission	4,145	3,673	2,175	1,911
	69,698	69,337	34,921	33,459
Sale of hydrocarbons				
Natural gasoline	5,711	9,590	2,916	5,599
LPG	3,035	4,414	1,551	2,486
	8,746	14,004	4,467	8,085
	78,443	83,341	39,388	41,544

The estimated revenues pending of invoicing for the six-month period ended June 30, 2019 amounts to US\$ 13,982 thousand (US\$ 13,645 thousand for the six-month period ended June 30, 2018).

16. Tax Issues

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

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

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

The estimated average effective annual tax rate used for the six-month period ended June 30, 2019 is 59% (28% for the six-month period ended June 30, 2018). The increase in the effective tax rate for the six-month period ended June 30, 2019 correspond mainly to the impact of exchange difference in local currency.

17. Related Party Transactions**A. Parent companies 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 June 30, 2019, there are no loans to directors (no loans to directors as of December 31, 2018).

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

ii. Key management compensation

	Transaction value		Outstanding balances	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
<i>In thousands of U.S. dollars</i>				
Short-term employee benefits	49	425	-	-

iii. Transactions with key management personnel

During the six-month period ended June 30, 2019 there were no transactions between the Company and key management, other than those in (ii) (no transactions between the Company and key management during the six-month period ended June 30, 2018 other than those in (ii)).

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:

	Transaction type	Transaction value		Outstanding balances	
		2019	2018	2019	2018
<i>In thousands of U.S. dollars</i>					
Kallpa Generación S.A.	Management				
	Services	(1,656)	-	(1,656)	-
Samay I S.A.	COES	(899)	(882)	-	(5)
Kallpa Generación S.A.	COES	4,487	1,029	-	-
Orazul Energía (España) Holding S.L.	Loan	(50)	(794)	(8,832)	(8,803)
Orazul Energía Partners LLC (a)	Loan	(2,373)	(3,807)	(105,303)	(150,602)
Orazul Energía Management LLC - Delaware	Loan	-	903	884	1,142
Orazul Energía Partners LLC	Others	-	-	41	41
Orazul Energy Group BV - Netherlands	Loan	(1)	-	(1)	-
Orazul Energy Group BV - Netherlands	Others	-	-	1	-
Orazul Energía (UK) Holding Ltd.	Capital reduction	-	(17,197)	-	-
Goldwat BD, S.L. -Spain	Loan	-	872	-	-
Compañía Boliviana de Energía					
Electrica Cobee-Sucursal	Services	386	-	-	-
Other related entities	Others	-	-	-	26
		(106)	(19,876)	(114,866)	(158,201)

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 accrues annual interest rate of 6% until final maturity on December 20, 2026.

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.

In January 2019, Orazul Energy Partners LLC modified the subordinated loan rate from 6% to 0%, without modifying the terms of maturity and payment. As a result of this change, the liability was reduced and increased equity by US\$ 47,673 thousand net of a deferred tax of US\$ 14,063 thousand.

18. Contingencies

As of June 30, 2019 the main contingencies of the Company are described as follows:

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/ 4,692 thousand (equivalent to US\$ 1,426 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\$264 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 against the SUNAT decision before the Tax Court, which has not been resolved to date. The updated contingency is US\$ 430.

(c) Penalty withholding tax

Fine imposed by the Tax Administration during the Tax Audit of the fiscal year 2000, due the Company did not paid withholding taxes, despite the fact it did not pay for the service either. 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. In February 2019, the Company filed an appeal against SUNAT decision before the Tax Court, which has not been resolved to date. The updated contingency is US\$ 321.

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 (recurso de casación) 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.

19. Standards Issued but not yet Effective

A number of new standards and amendments to standards are effective for annual periods beginning on or after January 1, 2019 and earlier application is permitted; however, the Group's Management has not early adopted the following new or amended standards in preparing these condensed consolidated interim financial statements.

New currently effective requirements

New IFRS	Date of mandatory application
IFRS 16 <i>Leases</i> (*)	Annual periods beginning on or after January 1, 2019.
IFRIC 23: Uncertainty over income tax treatments.	Annual periods beginning on or after January 1, 2019.
Prepayments features with negative compensation (Amendments to IFRS 9).	Annual periods beginning on or after January 1, 2019.
Plan amendments, curtailment or settlement (Amendments to IAS 19).	Annual periods beginning on or after January 1, 2019.
Annual improvements to IFRSs 2015-2017 Cycle (Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23).	Annual periods beginning on or after January 1, 2019.

(*) IFRS 16 was early adopted by the Company in 2018.

Forthcoming requirements

New IFRS	Date of mandatory application
Amendments to References to Conceptual Framework in IFRS Standards.	Annual periods beginning on or after January 1, 2020.
Definition of Business (Amendments to IFRS 3).	Annual periods beginning on or after January 1, 2020.
Definition of Material (Amendments to IAS 1 and IAS 8)	Annual periods beginning on or after January 1, 2020.
IFRS 17 Insurance Contracts.	Annual periods beginning on or after January 1, 2021.

The Company's Management is evaluating the impact, if any, of the adoption of these amendments and interpretation issued but not yet effective as of the date of the condensed consolidated interim financial statements.

20. Subsequent Events

Subsequent to June 30, 2019 there have been no events that may have an effect on the condensed interim financial statements of the Company.