



Orazul Energy Perú S.A. and Subsidiaries

Unaudited Condensed Consolidated Interim Financial Statements

September 30, 2019

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

**KPMG en Perú**

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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 September 30, 2019, the condensed consolidated statements of profit or loss and other comprehensive income for the nine and three-month periods ended as at September 30, 2019, the condensed statement of changes in equity and cash flows for the nine-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 nine and three-month periods ended September 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.
- The condensed consolidated financial statements as at and for the nine and three-month periods ended September 30, 2018, were reviewed by another auditor who expressed an unmodified conclusion on those condensed consolidated financial statements on November 30, 2018.

Lima, Peru

October 30, 2019

Countersigned by:

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

September 30, 2019

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Orazul Energy Perú S.A. and Subsidiaries

Unaudited Condensed Consolidated Statement of Financial Position

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

<i>In thousands of U.S. dollars</i>	<i>Note</i>	September 30, 2019	December 31, 2018
Assets			
Current assets			
Cash and cash equivalents	3	78,807	50,014
Trade receivables	4	14,627	16,753
Other receivables	5	2,153	2,236
Intercompany receivables	17	41	1,299
Inventories	6	5,813	5,870
Prepaid expenses		837	203
Income tax receivables	16	6,859	9,676
Total current assets		109,137	86,051
Non-current assets			
Property, plant and equipment - energy generation and transmission	7	316,177	332,815
Gas investments	8	66,055	64,747
Intangible assets and goodwill	9	497,926	498,732
Deferred income tax assets		1,029	950
Prepaid expenses		605	730
Other receivables	5	433	443
Total non-current assets		882,225	898,417
Total assets		991,362	984,468

<i>In thousands of U.S. dollars</i>	<i>Note</i>	September 30, 2019	December 31, 2018
Liabilities			
Current liabilities			
Trade payables	10	6,646	9,050
Other payables	11	19,511	21,116
Lease liabilities under operating contracts		117	905
Intercompany payables	17	4,476	8,893
Deferred income		171	155
Income tax payable	16	153	435
Total current liabilities		31,074	40,554
Non-current liabilities			
Debentures	12	541,149	540,468
Intercompany payables	17	125,158	150,602
Deferred income tax liabilities		93,111	85,844
Other liabilities		7,299	373
Total non-current liabilities		766,717	777,287
Total liabilities		797,791	817,841
Equity			
Share capital	14	196,086	196,086
Additional capital		8,857	-
Other reserves		6,009	-
Retained earnings		(17,424)	(29,500)
Equity attributable to owners of the Company		193,528	166,586
Non-controlling interests		43	41
Total equity		193,571	166,627
Total liabilities and equity		991,362	984,468

The notes on pages 5 to 23 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 (Loss)

For the nine-month and three-month periods ended September 30, 2019 and 2018

<i>In thousands of U.S. dollars</i>	<i>Note</i>	Nine-month periods ended September 30		Three-month periods ended September 30	
		2019	2018	2019	2018
Revenue of energy generation and transmission	15	100,787	100,913	31,089	31,576
Revenue of hydrocarbons	15	12,354	19,802	3,608	5,798
Cost of sales of energy generation and transmission		(22,661)	(26,708)	(8,347)	(9,451)
Cost of sales of hydrocarbons		(5,505)	(12,662)	(1,681)	(5,200)
Depreciation		(26,207)	(33,319)	(9,704)	(11,443)
Gross profit		58,768	48,026	14,965	11,280
Administrative expenses		(7,822)	(11,528)	(2,187)	(2,272)
Impairment loss on trade receivables		-	(155)	-	-
Other income		2,303	3,445	318	2,223
Other expenses		(1,121)	(1,420)	(418)	(206)
Operating profit		52,128	38,368	12,678	11,025
Finance income		684	1,269	355	296
Finance costs		(31,248)	(34,304)	(10,805)	(11,278)
Net foreign exchange difference		(245)	(306)	(674)	(79)
Finance cost, net		(30,809)	(33,341)	(11,124)	(11,061)
Profit before income tax		21,319	5,027	1,554	(36)
Income tax expense	16	(9,241)	(127)	(176)	(1,801)
Profit from continuing operations		12,078	4,900	1,378	(1,837)
Discontinued operations					
Profit for the period from discontinued operations, net of tax		-	(540)	-	(1,589)
Profit (loss) for the period		12,078	4,360	1,378	(3,426)
Other comprehensive income for the period, net of tax		-	-	-	-
Attributable to					
Controlling shareholders		12,076	4,360	1,375	(3,426)
Non-controlling interest		2	-	3	-
Total comprehensive income (loss) for the period		12,078	4,360	1,378	(3,426)

The notes on pages 5 to 23 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 nine-month periods ended September 30, 2019 and 2018

		Attributable to owners of the Company						Non-controlling Interests	Total equity
		Number of shares (note 14)	Share capital (note 14)	Additional capital (note 17.B)	Retained earnings	Other reserves (note 17.A)	Total equity attributable to owners of the Company		
<i>In thousands of U.S. dollars</i>	<i>Note</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		-	-	-	4,899	-	4,899	1	4,900
Other comprehensive income		-	-	-	(540)	-	(540)	-	(540)
Total comprehensive income for the period		-	-	-	4,359	-	4,359	1	4,360
Share capital reduction		(55,212,000)	(17,197)	-	-	-	(17,197)	-	(17,197)
Total transactions with owners of the Company		651,224,289	(17,197)	-	4,359	-	(12,838)	1	(12,837)
Balance as of September 30, 2018		651,224,289	196,086	-	(16,479)	-	179,607	4	179,611
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		-	-	-	12,076	-	12,076	2	12,078
Total comprehensive income for the period		-	-	-	12,076	-	12,076	2	12,078
Additional Capital	14	-	-	8,857	-	-	8,857	-	8,857
Other reserves		-	-	-	-	6,009	6,009	-	6,009
Total transactions with owners of the Company		-	-	8,857	-	6,009	14,866	-	14,866
Balance as of September 30, 2019		651,224,289	196,086	8,857	(17,424)	6,009	193,528	43	193,571

The notes on pages 5 to 23 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 nine-month periods ended September 30, 2019 and 2018

<i>In thousands of U.S. dollars</i>	<i>Note</i>	Nine-month periods ended September 30	
		2019	2018
Cash flows from operating activities			
Collections of energy generation and transmission		100,768	107,241
Collections of hydrocarbons		12,156	22,598
Payment to suppliers		(18,361)	(24,838)
Payment of royalties		(8,980)	(13,017)
Payment to employees		(6,843)	(14,627)
Cash generated from operating activities		78,740	77,357
Income tax paid		(1,880)	(9,921)
Net cash provided by operating activities		76,860	67,436
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		49	190
Dividends received		-	1,049
Acquisition of property, plant, and equipment		(4,863)	(6,713)
Acquisition of intangibles		(7,745)	-
Net cash used in investing activities		(12,559)	(5,474)
Cash flows from financing activities			
Payment to related entities		(20,000)	-
Interests		(15,469)	(15,618)
Capital reduction		-	(17,197)
Payment of lease liabilities		(379)	(680)
Net cash used in financing activities		(35,848)	(33,495)
Net increase in cash and cash equivalents		28,453	28,467
Cash and cash equivalents as of January 1		50,014	23,429
Effects of variations on exchange difference on held cash		340	150
Cash and cash equivalents as of September 30	3	78,807	52,046

The notes on pages 5 to 23 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 Energia (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 Energia (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 operate power station	Installed capacity (MW)	Location
Central Térmica Aguaytía	Termoselva	Natural gas	192	Aguaytía, Ucayali
Cañón del Pato	Orazul Energy Peru	Hydropower	247	Huallanca, Ancash
Carhuaquero	Orazul Energy Peru	Hydropower	105	LLacma, Cajamarca
544				

As of September 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
OEG II	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. (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 his investment in Orazul Energy Hidrocarburos S.A. for a total of US\$ 108,574 (in thousands). 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 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 Petróleos 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.

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

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

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

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 16% of its operating income (17% in 2018).

Financial statements of consolidated Subsidiaries

Summary of the financial statements of the Subsidiaries as of September 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>	September 30, 2019	December 31, 2018
Subsidiaries		
Etenorte S.R.L.		
Total assets	9,662	10,136
Total liabilities	(1,192)	(1,192)
Equity	8,470	8,944
Profit from the period	2,310	2,053
Aguaytía del Perú S.R.L.		
Total assets	143,931	137,841
Total liabilities	(13,247)	(5,464)
Equity	130,684	132,377
Profit from the period	10,706	11,764
Termoselva S.R.L.		
Total assets	66,778	68,338
Total liabilities	(7,665)	(9,255)
Equity	59,113	59,083
Profit from the period	8,030	8,430
Eteselva S.R.L.		
Total assets	32,236	32,771
Total liabilities	(428)	(491)
Equity	31,808	32,280
Profit from the period	1,302	1,280
Orazul Energy Group S.A.C.		
Total assets	206,318	176,478
Total liabilities	(1)	(250)
Equity	206,317	176,228
Profit from the period	16,968	15,278
Orazul Energy Group II S.A.		
Total assets	108,574	-
Total liabilities	-	-
Equity	(108,574)	-
Profit from the period	-	-
Orazul Energy Hidrocarburos S.A.		
Total assets	109,917	109,703
Total liabilities	-	(3)
Equity	109,917	109,700
Profit from the period	12,407	21,327

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

<i>In thousands of U.S. dollars</i>	September 30, 2019	December 31, 2018
Orazul Energy Transmisión S.A.		
Total assets	95,353	95,233
Total liabilities	-	(2)
Equity	95,353	95,231
Profit from the period	4,557	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.

This is the first set of financial statements in which IFRIC 23 has been applied. Changes to significant accounting policies are described in note 2.D.

These condensed consolidated interim financial statements were approved by the Group Management on October 29, 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 nine-month period ended as of September 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, except for new significant judgments and key sources of estimation uncertainty related to the application of IFRIC 23 which are described in note 2.D.

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

Except as described below, 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.

The changes in accounting policies are also expected to be disclosed in the Company's financial statements as at and for the year ending December 31, 2019.

The company has initially adopted IFRIC 23 *Uncertainty over income tax treatments* from January 1, 2019.

IFRIC 23: Uncertainty over income tax treatments

The Company applied IFRIC 23 to all current and deferred taxes if there is uncertainty about an income tax treatment.

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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 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 impact on the adoption on this interpretation.

A number of new standards and amendments are effective for annual periods beginning on or after January 1, 2019 and earlier application is permitted (note 19).

3. Cash and Cash Equivalents

Comprises the following:

<i>In thousands of U.S. dollars</i>	September 30, 2019	December 31, 2018
Petty cash	12	17
Checking accounts	78,795	49,997
	78,807	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.

4. Trade Receivables

Comprises the following:

<i>In thousands of U.S. dollars</i>	September 30, 2019	December 31, 2018
Energy and capacity delivered but not billed	13,180	13,571
Invoices	20,759	22,523
Subtotal (a)	33,939	36,094
Less-allowance for doubtful accounts (b)	(19,312)	(19,341)
	14,627	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 September 30, 2019, correspond to 5 non-regulated, 7 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 September 30, 2019, the annual average interest rates for the Group are 8.45% and 4.35% for local and foreign currency, respectively (8.41% and 4.05% as of December 31, 2018 for local and foreign currency, respectively).

Orazul Energy Perú S.A. and Subsidiaries

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

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

<i>In thousands of U.S. dollars</i>	September 30, 2019	December 31, 2018
Unexpired	14,539	14,819
Less than 30 days	21	1,839
31 to 90 days	-	3
181 to 360 days	67	66
More than 361 days (b)	19,312	19,367
	33,939	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 September 30, 2019 and December 31, 2018.

5. Other Receivables

Comprises the following:

<i>In thousands of U.S. dollars</i>	September 30, 2019	December 31, 2018
Current portion		
Fund for the stabilization of fuel prices (a)	589	1,719
Guarantee deposits (b)	1,258	-
Other receivables	306	517
	2,153	2,236
Non-current portion		
Credit on temporary taxes on net assets - ITAN	425	435
Other receivables	8	8
	433	443
	2,586	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.
- (b) Correspond to guarantee deposits for the legal consulting in the Maple process.

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6. Inventories

Comprises the following:

<i>In thousands of U.S. dollars</i>	September 30, 2019	December 31, 2018
Supplies and spare parts	6,177	6,315
Fuel to sale	167	121
Fuel and lubricants	99	64
	6,443	6,500
Impairment (a)	(630)	(630)
	5,813	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 September 30, 2019 and December 31, 2018.

7. Property, Plant and Equipment

Comprises the following:

<i>In thousands of U.S. dollars</i>	September 30, 2019	December 31, 2018
Cost		
Beginning balance	831,346	870,235
Additions		
Building and constructions	-	1,326
Asset retirement cost	408	-
Vehicles	-	297
Sundry equipment	20	132
Work in process	1,690	5,588
Total additions	2,118	7,343
Transfers		
Building and constructions	2,891	203
Vehicles	-	27
Machinery and equipment	-	1,008
Sundry equipment	-	233
Work in progress	(2,891)	(1,638)
Total transfers	-	(167)
Disposals		
Building and constructions	(731)	(1,949)
Vehicles	(161)	(292)
Machinery and equipment	-	(41,780)
Sundry equipment	-	(1,687)
Furniture	-	(357)
Total disposals	(892)	(46,065)
Ending balance	832,572	831,346
Accumulated depreciation		
Beginning balance	(497,988)	(501,088)
Additions		
Building and constructions	(5,032)	(8,769)
Vehicles	(220)	(627)
Machinery and equipment	(12,172)	(25,303)
Sundry equipment	(1,232)	(1,630)
Furniture	(90)	(212)
Total additions	(18,746)	(36,541)

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<i>In thousands of U.S. dollars</i>	September 30, 2019	December 31, 2018
Disposals		
Building and constructions	725	1,949
Vehicles	157	270
Machinery and equipment	-	35,394
Sundry equipment	-	1,705
Furniture	-	323
Total disposals	882	39,641
Ending balance	(515,852)	(497,988)
Net cost at the beginning of the period	333,358	369,147
Net cost of the end of the period	316,720	333,358
Impairment	(543)	(543)
Net cost of the end of the period	316,177	332,815

- (a) Accumulated impairment loss as of September 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 September 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:

	Nine-month periods ended September 30		Three-month periods ended September 30	
<i>In thousands of U.S. dollars</i>	2019	2018	2019	2018
Cost of sale of electrical energy	17,573	26,529	6,125	9,142
Administrative and selling expenses	1,173	447	154	136
	18,746	26,976	6,279	9,278

- (c) As of September 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>	September 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	3,193	5,762
Total additions	9,255	11,755
Transfers		
Sundry equipment	2,028	(4,280)
Work in progress	(2,028)	(1,713)
Total transfers	-	(5,993)
Ending balance	167,184	157,929

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<i>In thousands of U.S. dollars</i>	September 30, 2019	December 31, 2018
Accumulated depreciation		
Beginning balance	(93,182)	(83,508)
Additions		
Gas and fractionation plant	(7,445)	(9,764)
Vehicles	(15)	(20)
Furniture and fixtures	(13)	(31)
Sundry equipment	(98)	141
Asset retirement	(374)	-
Total additions	(7,945)	(9,674)
Ending balance	(101,127)	(93,182)
Net cost at the beginning of the period	64,747	68,659
Net cost of the end of the period	66,055	64,747

- (a) Distribution of depreciation was as follows:

	Nine-month periods ended September 30		Three-month periods ended September 30	
<i>In thousands of U.S. dollars</i>	2019	2018	2019	2018
Cost of sale of electrical energy	7,945	5,184	3,351	2,061

9. Intangible Assets and Goodwill

Comprises the following:

<i>In thousands of U.S. dollars</i>	September 30, 2019	December 31, 2018
Goodwill (a)	395,456	395,456
Electric and hydrocarbon concessions (b)	91,087	91,777
Other rights (c)	9,953	9,965
Software	1,430	1,534
	497,926	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 September 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 was as follows:

	Nine-month periods ended September 30		Three-month periods ended September 30	
<i>In thousands of U.S. dollars</i>	2019	2018	2019	2018
Cost of sale of electrical energy	689	1,606	228	231

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- (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 September 30, 2019 (no impairment indicators as of December 31, 2018).

10. Trade Payables

Comprises the following:

<i>In thousands of U.S. dollars</i>	September 30, 2019	December 31, 2018
Goods and services received but not billed	5,368	4,587
Invoices	1,278	4,463
	6,646	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.

11. Other Payables

Comprises the following:

<i>In thousands of U.S. dollars</i>	<i>Nota</i>	September 30, 2019	December 31, 2018
Interest payables-debentures	12	13,320	5,500
Option agreements	9.C	2,294	9,965
Value-Added Tax		1,348	1,047
Other taxes		2,461	1,933
Vacations and compensations payables		8	495
Employee severance indemnities		2	1,776
Self-employment and regular employment income tax payables		4	211
Various accruals and other accounts payables		7	121
Rural electricity contribution		67	68
		19,511	21,116

12. Debentures

Comprises the following:

<i>In thousands of U.S. dollars</i>	September 30, 2019	December 31, 2018
International bonds		
Notes Orazul Energy Perú 2027 (a)	550,000	550,000
Transaction costs	(8,851)	(9,532)
	541,149	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.

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Notes to the Unaudited Condensed Consolidated Interim Financial Statements

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	541,149	540,468

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

<i>In thousands of U.S. dollars</i>	
2024 and thereafter	541,149
	541,149

B. Financial obligations and covenants

The conditions of the notes as of September 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			Total	Fair value
	Current	Non-current	Other financial		Level 2
	Amortized cost	Other financial liabilities	liabilities		
<i>In thousands of U.S. dollars</i>					
As of September 30, 2019					
Financial assets not measured at fair value					
Cash and cash equivalents	78,807	-	-	78,807	-
Trade receivables	14,627	-	-	14,627	-
Other receivables (*)	2,153	-	-	2,153	-
Intercompany receivables	41	-	-	41	-
Financial liabilities not measured at fair value					
Trade payable	-	(6,646)	-	(6,646)	-
Other payable (*)	-	(15,621)	-	(15,621)	-
Intercompany payables	(4,476)	-	(125,158)	(129,634)	-
Debentures	-	-	(541,149)	(541,149)	(567,875)
	91,152	(22,267)	(666,307)	(597,422)	(567,875)
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 September 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>	September 30, 2019	December 31, 2018
Orazul Energia (UK) Holdings Ltd.	196,066	196,066
Others	20	20
	196,086	196,086

As of September 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 September 30, 2019 and December 31, 2018.

15. Revenue

Comprises the following:

	Nine-month periods ended September 30		Three-month periods ended September 30	
<i>In thousands of U.S. dollars</i>	2019	2018	2019	2018
Sale of electrical energy				
Sale of energy and capacity				
Energy	61,020	58,567	19,935	17,167
Capacity	20,034	16,332	5,935	5,317
COES (regulated clients)				
Energy	4,922	11,024	77	3,982
Capacity	7,261	8,414	2,410	2,990
Other	1,237	952	564	169
Energy transmission	6,313	5,624	2,168	1,951

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	Nine-month periods ended September 30		Three-month periods ended September 30	
<i>In thousands of U.S. dollars</i>	2019	2018	2019	2018
	100,787	100,913	31,089	31,576
Sale of hydrocarbons				
Natural gasoline	8,436	13,320	2,725	3,730
LPG	3,918	6,482	883	2,068
	12,354	19,802	3,608	5,798
	113,141	120,715	34,697	37,374

The estimated revenues pending of invoicing for the nine-month period ended September 30, 2019 amounts to US\$ 13,126 thousand (US\$ 14,272 thousand for the nine-month period ended September 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 nine-month period ended September 30, 2019 is 43% (28% for the nine-month period ended September 30, 2018). The increase in the effective tax rate for the nine-month period ended September 30, 2019 correspond mainly to the impact of exchange difference in local currency.

As of September 30, 2019 and December 31, 2018, the Group have balance for debit and credits with the tax administration as follow:

<i>In thousands of U.S. dollars</i>	September 30, 2019	December 31, 2018
Income tax receivables	6,859	9,676
Income tax payable	153	435

17. Related Party Transactions**A. Parent companies and ultimate parent Company**

The Company's main shareholder is Orazul Energia (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 September 30, 2019, there are no loans to directors (no loans to directors as of December 31, 2018).

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ii. Key management compensation

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

iii. Transactions with key management personnel

During the nine-month period ended September 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 nine-month period ended September 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	(4,475)	-	(4,474)	-
Samay I S.A.	COES	(1,359)	(1,501)	-	(4)
Kallpa Generación S.A.	COES	6,367	2,205	-	-
Orazul Energia (España) Holding S.L. (b)	Loan	-	(1,023)	-	(8,803)
Orazul Energia Partners LLC (a)	Loan	(3,965)	(5,742)	(125,158)	(150,602)
Orazul Energia Management LLC - Delaware	Loan	-	127	(1)	1,142
Orazul Energia Partners LLC	Others	-	-	40	41
Orazul Energy Group BV - Netherlands	Loan	(1)	-	(1)	-
Orazul Energy Group BV - Netherlands	Others	-	-	1	-
Orazul Energia (UK) Holding Ltd.	Capital reduction	-	(17,197)	-	-
Goldwat BD, S.L. -Spain	Loan	-	862	-	-
Compañía Boliviana de Energía Eléctrica Cobee-Sucursal	Services	386	-	-	-
Other related entities	Others	-	-	-	26
		(3,047)	(22,269)	(129,593)	(158,226)

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 Energia 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.

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

In January 2019, Orazul Energia 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\$ 8,524 thousand net of a deferred tax of US\$ 2,515 thousand, generating a net effect of US\$ 6,009 thousand

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In July and September 2019, the Company paid US\$ 20,000 thousand and US\$ 885 thousand respectively, as a result of these payments the fair value loan were adjusted.

- (b) On August 16, 2019 Orazul Energia (Spain) Holding S.L. assigned the rights of its account receivable in favor of Orazul Energia (UK) Holdings Ltd for a total of US\$ 8,844 thousand. Subsequently, on September 16, 2019, Orazul Energia (UK) Holdings Ltd made a contribution (pending capitalization) of US\$ 8,857 thousand in favor of the Company, included in Additional Capital.

18. Contingencies

As of September 30, 2019 the main contingencies of the Company 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/ 4,680 thousand (equivalent to US\$ 1,378 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 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 October 2019. The updated contingency is US\$ 421 thousand.

(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 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 Constitutional Court, which has not been resolved to date. The updated contingency is US\$ 316 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 Aguaytía 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.

Up to this date, the Tax Administration has not pronounced on the petition of the Tax Court. The updated contingency is US\$ 881.

(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 periods 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 Tax Court. The updated contingency is US\$ 166.

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.

19. Standards Issued**New currently effective requirements**

This table lists the recent changes to IFRS that are required to be applied by an entity with an annual reporting period beginning on January 1, 2019.

New IFRS	Date of mandatory application
IFRS 16: Leases.	Annual periods beginning on or after January 1, 2019. Adopted by the Company in 2018.
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.

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Forthcoming requirements

A number of new standards and amendments to standards are effective for annual periods beginning 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 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

On October 30, 2019 the Company paid the intercompany account payable with Orazul Energy Partners for US\$ 10,000 thousand.