

**Aguaytia Energy del Peru S.R.L.  
and Subsidiaries**

**Consolidated Interim Financial Statements**

For the six-month period ended on June 30,  
2017 and 2016 and for the year ended on  
December, 2016

# AGUAYTIA ENERGY DEL PERU S.R.L. AND SUBSIDIARIES

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**AGUAYTIA ENERGY DEL PERU S.R.L. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

**AS OF JUNE 30, 2017 AND DECEMBER 31, 2016**

**(In thousands of dollars US\$000)**

	<u>Notes</u>	<u>2017</u> US\$000	<u>2016</u> US\$000
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	5	14,513	27,845
Trade accounts receivable (net)	6	8,522	10,614
Other accounts receivable	7	3,056	1,780
Accounts receivable from related entities	8	2,018	86
Inventories (net)	9	4,395	4,716
Income tax asset	18 (e)	44	2,436
Total current assets		<u>32,548</u>	<u>47,477</u>
<b>NON-CURRENT ASSETS:</b>			
Other accounts receivable	7	970	925
Property, plant and equipment (net) - Gas investment	10	63,091	58,609
Property, plant and equipment (net) - Energy generation and transmission	11	80,482	82,538
Deferred income tax assets	19	2,694	2,067
Total non-current assets		<u>147,237</u>	<u>144,139</u>
<b>TOTAL</b>		<u><u>179,785</u></u>	<u><u>191,616</u></u>

	<u>Notes</u>	<u>2017</u> US\$000	<u>2016</u> US\$000
<b>LIABILITIES AND EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Trade accounts payable	12	6,031	10,611
Other accounts payable	13	1,153	1,114
Accounts payable to related entities	8	3,605	16,680
Deferred income		-	485
Total current liabilities		<u>10,789</u>	<u>28,890</u>
<b>NON-CURRENT LIABILITIES:</b>			
Deferred income		487	309
Deferred income tax liabilities	19	1,635	2,403
Provisions		109	254
Total non-current liabilities		<u>2,231</u>	<u>2,966</u>
Total liabilities		<u>13,020</u>	<u>31,856</u>
<b>EQUITY:</b>			
Issued capital stock	14 (a)	145,155	145,155
Other capital reserves		2,056	2,056
Retained earnings	14 (b)	19,554	12,549
Total equity		<u>166,765</u>	<u>159,760</u>
<b>TOTAL</b>		<u><u>179,785</u></u>	<u><u>191,616</u></u>

The accompanying notes are an integral part of these consolidated financial statements

## **AGUAYTIA ENERGY DEL PERU S.R.L. AND SUBSIDIARIES**

### **CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

**FOR SIX-MONTH PERIOD ENDED ON JUNE 30, 2017 AND 2016**

**(In thousands of dollars US\$000)**

	<u>Notes</u>	<u>2017</u> US\$000	<u>2016</u> US\$000
Sale of energy and electrical energy transmission services		40,058	46,858
Sale of hydrocarbons		9,021	10,200
Total of sales	15	49,079	57,058
Costs of sale of energy and electrical energy transmission services		(21,955)	(25,772)
Cost of sales of hydrocarbons		(7,564)	(8,789)
Total of cost of sales	16	(29,519)	(34,561)
Gross profit		19,560	22,497
Administrative expenses	17	(9,032)	(9,337)
Other income		126	319
Other expenses		(720)	(131)
Financial income		41	264
Financial expenses		(109)	(389)
Exchange difference (net)	4 (a)	403	(399)
Profit before income tax		10,269	12,824
Income tax expense	18 (b)	(3,264)	(3,473)
<b>Net profit for the period</b>		7,005	9,351
Other comprehensive income for the period		-	-
<b>Total comprehensive income for the period</b>		7,005	9,351

The accompanying notes are an integral part of these consolidated financial statements

## **AGUAYTIA ENERGY DEL PERU S.R.L. AND SUBSIDIARIES**

### **CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR SIX-MONTH PERIOD ENDED ON JUNE 30, 2017 AND DECEMBER 31, 2016 (In thousands of dollars US\$000)**

	<b>Issued capital stock</b>	<b>Other capital reserves</b>	<b>Retained earnings</b>	<b>Total equity</b>
	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>
	<b>(Nota 14 (a))</b>		<b>(Nota 14 (b))</b>	
BALANCE AS OF JANUARY 1, 2016	145,155	2,056	70,881	218,092
Total comprehensive income for the year	-	-	12,530	12,530
Dividends declared in cash	-	-	(70,862)	(70,862)
BALANCE AS OF DECEMBER 31, 2016	145,155	2,056	12,549	159,760
Total comprehensive income for the period	-	-	7,005	7,005
BALANCE AS OF JUNE 30, 2017	145,155	2,056	19,554	166,765

The accompanying notes are an integral part of these consolidated financial statements

## **AGUAYTIA ENERGY DEL PERU S.R.L. AND SUBSIDIARIES**

### **CONSOLIDATED STATEMENTS OF CASHFLOWS FOR SIX-MONTH PERIOD ENDED ON JUNE 30, 2017 AND 2016 (In thousands of dollars US\$000)**

	<u>2017</u>	<u>2016</u>
	US\$000	US\$000
<b>OPERATING ACTIVITIES:</b>		
Collection from:		
Sale of energy and electrical energy transmission services	40,061	48,792
Sale of hydrocarbons	3,630	11,019
Interests and returns	23	18
Other operating activities	83	417
Payments for/to:		
Royalties	(4,200)	(10,896)
Suppliers of goods and services	(28,708)	(25,524)
Income tax	(2,415)	(11,072)
Taxes	(525)	(518)
Interests	(100)	(154)
Other operating activities	(1,203)	(600)
	<u>6,646</u>	<u>11,482</u>
Net cash and cash equivalents provided by operating activities		
	<u>6,646</u>	<u>11,482</u>
<b>INVESTMENT ACTIVITIES:</b>		
Payments for:		
Loans granted to related entities	(2,000)	-
Purchase of gas investments	(5,973)	(1,576)
Purchase of machinery and equipment	(5)	(688)
	<u>(7,978)</u>	<u>(2,264)</u>
Net cash and cash equivalents used in investment activities		
	<u>(7,978)</u>	<u>(2,264)</u>
<b>FINANCING ACTIVITIES:</b>		
Payments for:		
Loans received from related entities	(12,000)	-
Dividends	-	(70,862)
	<u>(12,000)</u>	<u>(70,862)</u>
Net cash and cash equivalents used in financing activities		
	<u>(12,000)</u>	<u>(70,862)</u>
NET (DECREASE) INCREASE OF CASH AND CASH EQUIVALENTS	(13,332)	(61,644)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	<u>27,845</u>	<u>90,425</u>
CASH AND CASH EQUIVALENT AT THE END OF THE PERIOD	<u>14,513</u>	<u>28,781</u>

The accompanying notes are an integral part of these consolidated financial statements

# **AGUAYTIA ENERGY DEL PERU S.R.L. AND SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS THE SIX-MONTH PERIOD ENDED ON JUNE 30, 2017 AND 2016 AND FOR THE YEAR ENDED ON DECEMBER 31, 2016**  
**(In thousands of U.S dollars (US\$000), unless otherwise indicated)**

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## **1. INCORPORATION, ECONOMIC ACTIVITY, APPROVAL OF THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS, MAIN AGREEMENTS, SUBSIDIARIES AND OPERATING REGULATIONS**

### ***(a) Incorporation***

**Aguaytia Energy del Peru S.R.L.** (hereinafter, the Company) is a subsidiary of Aguaytia Energy LLC, which owns 97.22% of voting shares which are representative of its issued capital stock. The Company was incorporated in Peru on November 16, 1995 and commenced its operations in July 1998.

On December 20, 2016, Aguaytia Energy LLC.'s shares were acquired by Orazul Energia Peru S.A.C (ultimate parent Company in Peru of Aguaytia Energy LLC) and Orazul Energia (España) Holdings S.R.L., which are part of ISQ Global Infrastructure Fund. Since the acquisition date, the Company and subsidiaries no longer belong to Duke Energy Corporation Group; and Orazul Energia Peru S.A.C. obtained the control of the Company.

### ***(b) Economic activity***

The Company owns a natural gas field located in central rainforest of Peru (Block 31-C), from which it obtains dry natural gas and natural gas liquids; those gas liquids are then treated at the Fractionation Plant which produces liquefied petroleum gas (LPG) and natural gasoline. Dry natural gas is used by its Subsidiary, Termoselva S.R.L. (hereinafter Termoselva), 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. LPG is sold to wholesalers and distributors, which perform their activities in the central rainforest and highlands of the country.

The Company's legal domicile is Av. Dionisio Derteano 144, Floor 19, San Isidro, Lima, Peru. The Fractionation Plant is located at Carretera Federico Basadre Km. 10 Coronel Portillo, Ucayali, Peru and the gas extraction plant is located at Block 31-C, Padre Abad – Ucayali, Peru.

The Company and Subsidiaries (Note 1(g)) do not have employees for the execution of their economic and administrative activities. Those activities are performed by related entities with which they have entered into certain agreements, as explained below.

### ***(c) Approval of the Consolidated Interim Financial Statements***

The consolidated interim financial statements for the six-month period ended June 30, 2017, prepared under International Financial Reporting Standards, and will be submitted for approval for issuance by the Company's Management on August 16, 2017.

The Consolidated Interim Financial Statements for the year ended December 31, 2016, prepared under International Financial Reporting Standards, were approved for issuance by the Company's Management on April 14, 2017.

**(d) Additional Explanation for translation into English of the original Consolidated Interim Financial Statements issued in Spanish**

These Consolidated Interim Financial Statements have been translated into English for convenience of the English-speaking readers and have been derived from the financial statements originally issued in Spanish. In the event of discrepancy, the Spanish language version prevails.

These financial statement were originally prepared and presented in accordance with International Financial Reporting Standards (“IFRS”) issued by International Accounting Standards Board. The effects of the differences between IFRS and the accounting principles generally accepted in the countries in which the financial statements are to be used have not been quantified.

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

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

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

The expense for royalties in 2017 was US\$4,200 (US\$16,209 in 2016) and is presented in item cost of sales of the consolidated statement of profit or loss and other comprehensive income (Note 17).

In July 2013 the Company initiated a process of arbitration against Perupetro requesting a readjustment in the royalties that the Company paid for the exploitation of the resources produced from the block 31-C.

On December 28, 2016, the Court issued a final decision in which accepted the request of the Company to readjust the price of the natural gas royalty. The changes to these royalties will be in force since January 1, 2017.

**(iv) Taxes**

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



(v) Other rights

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

(f) *Agreements entered into the Company and Subsidiaries with related entities and third parties*

*Operation and maintenance agreements*

- The Company and Orazul Energy Egenor S. en C. por A. a related entity, entered into an agreement in which Orazul Energy Egenor S. en C. por A. provides operation and maintenance services since March 1, 2010. The agreement can be renewed under the express consent of the parties each year (Note 8). The maturity of this agreement is on December 31, 2017.
- The Subsidiary Termoselva and Orazul Energy Egenor S. en C. por A., a related entity, entered into an agreement whereby, Orazul Energy Egenor S. en C. por A. provides operation and maintenance services since September 01, 2014, which can be renewed under the express consent of the parties each year (Note 8). The maturity of this agreement is on December 31, 2017.
- The subsidiary Eteselva and Orazul Energy Egenor S. en C. por A., a related entity, entered into an agreement whereby, Orazul Energy Egenor S. en C. por A. provides operation and maintenance services from January 1, 2015, which can be renewed under the express consent of the parties each year (Note 8). The maturity of this agreement is on December 31, 2017.

Operation and maintenance services received by the Company and Subsidiaries in 2017 amounted approximately to US\$3,376 (US\$6,538 in 2016) and are presented in item cost of sales of the consolidated statement of profit or loss and other comprehensive income (Note 17).

(g) *Agreement for management and other services*

The Company and Subsidiaries and Orazul Energy Egenor S. en C. por A., a related entity, entered into an agreement for management and other services in February 2009, which can be renewed under the express consent of the parties each year (Note 8). The maturity of this agreement is on December 31, 2017.

(h) *Subsidiaries*

Subsidiaries are entities (including special purpose entities) in which the Company has the power over the investee; is exposed, or has rights, to variable returns from its involvement with the investee; and has the ability to use its power to affect its returns. This situation is usually observed by controlling the equity interest of more than half of voting shares.

Subsidiaries are entirely consolidated as from the date when their control was effectively transferred to the Company, and will cease to be so when the Company loses such control.

The Subsidiaries, as of June 30, 2017 and December 31, 2016, and the percentages of interest owned by the Company are detailed below:

<b><u>Consolidated subsidiaries:</u></b>	<b>Direct equity interest</b>	
	<b>2017</b>	<b>2016</b>
	<b>%</b>	<b>%</b>
Termoselva S.R.L.	99.99	99.99
Eteselva S.R.L.	99.99	99.99

***Termoselva S.R.L.***

The economic activity of this subsidiary is the generation of electrical energy within its concession area. In order to perform its operations, Termoselva operates its thermoelectric power plant in Ucayali exclusively with dry natural gas provided by the Gas Plant of the Company, with which it has entered into an agreement for the purchase of dry natural gas and sale of electrical energy to regulated and free customers in the Peruvian territory that are part of the National Interconnected Electrical System (SEIN, for its acronym in Spanish) which Termoselva participates in.

***Eteselva S.R.L.***

The economic activity of this subsidiary is electrical transmission services, for which it has a transmission line of 392.7 km., divided in three sections: (a) Line 251 that connects the Aguaytia substation in Ucayali with Tingo Maria Substation, (b) Line 252 that connects Tingo Maria substation in Huanuco to Vizcarra substation, and (c) Line 253 that connects Vizcarra substation in Ancash to Paramonga Substation in Lima. The latter has been defined by the Ministry of Energy and Mines as part of the Main Transmission Network of the National Interconnected Electrical System. Its main customer is related entity Termoselva, with which it has entered into an agreement for electricity transmission and reserve capacity.

***Amounts of the financial statements of consolidated Subsidiaries***

Certain amounts of the separate financial statements of Subsidiaries as of June 30, 2017 and December 31, 2016, prepared under International Financial Reporting Standards, before eliminations for consolidation purposes, are presented below:

<u>Subsidiary</u>	<u>2017</u> US\$000	<u>2016</u> US\$000
<b><u>Termoselva S.R.L.</u></b>		
Total Assets	72,198	74,477
Total Liabilities	<u>10,539</u>	<u>15,988</u>
Equity	<u>61,659</u>	<u>58,489</u>
Net profit	<u>10,782</u>	<u>18,143</u>
Other comprehensive income	<u>-</u>	<u>-</u>
<b><u>Eteselva S.R.L.</u></b>		
Total Assets	34,488	34,166
Total Liabilities	<u>1,384</u>	<u>2,657</u>
Equity	<u>33,104</u>	<u>31,509</u>
Net profit	<u>1,061</u>	<u>1,034</u>
Other comprehensive income	<u>-</u>	<u>-</u>

**(i) *Operating regulations and legal standards that affect the hydrocarbons sector***

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

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

**(j) *Operating regulations and legal standards that affect the electrical sector***

Main operating regulations and legal standards of the electrical sector, where the Subsidiaries Termoselva and Eteselva develop their activities are as follows:

- Electrical Concessions Law.
- Law to ensure the efficient development of electrical generation.
- Law that establishes a mechanism to ensure the electricity supply for the regulated market.
- Technical Quality Standard for Electrical Services.
- Anti-monopoly and Anti-oligopoly Law in the Electrical Sector.

- Supervisory Entity of Investment in Energy and Mining
- Break-even Law for the Budget of the Public Sector for Taxable Period 2014 (Law No. 30115), whose Tenth Supplementary Provision sets out the extension of the effective term of Emergency Decree No. 049-2008 until December 31, 2016 and extended up to October 1, 2017 by sixth article Sixth of Law 30513.
- Regulations for Environmental Protection during Electrical Activities (Supreme Decree No. 29-94-EM).
- Promotion of Investments for Electricity Generation by using Renewable Energy.
- Energy Security System in Hydrocarbons and the Energy Social Inclusion Fund (Law No. 29852), and its regulation, Supreme Decree No. 021-2012-EM.
- Supreme Decree No. 026-2016-EM, which approves the Regulation of the Wholesale Electricity Market.
- Law that guarantees energy security and promotes the development of the petrochemical pole southern Peru (Law No. 29970) and its Regulations, Supreme Decree No. 038-2013-EM and Supreme Decree No. 005-2014-EM.
- Law for the Promotion of Investments for Economic Growth and Sustainable Development (Law No. 30327), which establishes the simplification and incorporation of permits and procedures, as well as investment promotion measures.
- Legislative Decree that improves the Regulation of Electricity Distribution in order to promote the access to electrical energy in Peru (Legislative Decree No. 1221), which establishes amendments to the Electrical Concessions Law. It also establishes guidance for the development of Distributed Generation.
- Legislative Decree of the private investment promotion framework through private and public associations and projects (Legislative Decree No. 1224) and its Regulations approved by Supreme Decree No. 410-2015-EF, which establish process and methods to promote private investments for the development of public infrastructure, public services, services related to them, applied research and/or technological innovation projects and execution of asset projects.

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

## 2. SIGNIFICANT ACCOUNTING POLICIES

Main accounting policies used by the Company and Subsidiaries for the preparation and presentation of these Consolidated Interim Financial Statements are presented below:

### *(a) Statement of compliance and basis of preparation and presentation*

The accompanying Consolidated Interim Financial Statements were prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), effective as of December 31, 2016, including the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) and Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC), adopted by the IASB. Historical cost basis was applied for these purposes. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Fair value is the price that would be received when selling an asset, or paid when transferring a liability in an organized transaction between market participants at a measurement date, regardless of the fact that such price is directly observable or considerable through another valuation technique. When estimating the fair value of an asset or liability, the Company and Subsidiaries considers the characteristics of such asset or liability in the event that market participants would want to consider them when setting a price at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined over such basis, except for shared-based payments (within the scope of IFRS 2), lease transactions (within the scope of IAS 17), and measurements somehow similar to fair value, but not fair value, such as net realizable value in IAS 2, or value in use in IAS 36.

Additionally, for financial reporting purposes, fair value measurements are categorized in three levels: 1, 2 or 3; depending on the degree in which the information for fair value measurements are observable, and their significance to fair value measurement in its entirety, as described below:

Level 1: Input is quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company may access to at the measurement date.

Level 2: Input is different than quoted prices included in Level 1, which are observable for the asset or liability, whether directly or indirectly.

Level 3: Input is not observable for the asset or liability.

### *(b) Functional and presentation currency*

The Company and its Subsidiaries prepare and present its Consolidated Interim Financial Statements in U.S dollars, their functional currency determined by Management. The functional currency is the currency of the main economic environment in which an entity operates, which influences the selling prices of traded goods, among other factors.

### *(c) Foreign currency transactions*

Operations performed in currencies other than the U.S dollars are considered as “foreign currency transactions”, and are recognized by applying exchange rates effective at the date of transactions. At the end of each reporting period, balances of monetary items denominated in foreign currency are translated at exchange rates effective at that date. Balances of non-monetary items which are recognized in terms of historical cost in foreign currency are translated using exchange rates effective at the date of transactions.

Exchange differences derived from monetary items are recognized in net profit or loss for the period when arisen.

**(d) Basis of consolidation**

The accompanying Consolidated Interim Financial Statements include the accounts of the Company and of those entities controlled by the Company (Subsidiaries), as indicated in Note 1 (h). The Company considers that control of an entity is achieved when the Company has the power to govern their financial and operating policies in order to obtain benefits from their activities.

All intercompany transactions have been eliminated for consolidation. When necessary, adjustments are made to the financial statements of the Subsidiaries to bring their accounting policies into line with those used by the controlling Company.

Total comprehensive income of the Subsidiaries is attributed to the Company's partners and to the non-controlling owners of the Subsidiaries even in cases when these interests result in a deficit balance.

**(e) Financial instruments**

Financial instruments are defined as contracts that give rise simultaneously to a financial asset in a company and a financial liability or equity instrument in another company. Financial assets and liabilities are recognized when the Company and Subsidiaries becomes part of the contractual agreements of the corresponding instrument.

Financial assets and liabilities are initially recognized at fair value plus transaction costs directly attributable to the acquisition or issue of financial assets and financial liabilities, except for those classified at fair value through profit or loss, which are initially recognized at fair value and whose transaction costs, directly attributable to their acquisition or issue, are immediately recognized in profit or loss for the period.

**Financial assets**

Conventional purchases or sales of financial assets are recognized and derecognized using the accounting method at the contracting date, in which the following are recognized at such date: a) the asset to be received and the liability to be paid, and b) the derecognition of the asset being sold, the recognition of the possible output of the sale or disposal by other means, and the recognition of an account receivable from the buyer.

Financial assets held by the Company and Subsidiaries are classified as loans and receivables. These assets are recorded at amortized cost using the effective interest rate less any accumulated loss for recognized impairment. Income from interests is recognized using the effective interest rate, except for those short-term accounts receivable whose recognition is not considered significant. The Company and Subsidiaries does not hold financial assets that require to be classified as: Financial assets at fair value through profit or loss; held-to-maturity investments or available-for-sale financial assets, nor has it carried out transactions during the period when those classifications have been required.

**Financial liabilities**

Financial liabilities and equity instruments are classified in accordance with the content of contractual arrangements entered into and considering the economic substance of the contract. An equity instrument is any contract that evidences a residual interest in the Company's equity once all its liabilities are deducted.

The financial liabilities held by the Company and Subsidiaries are classified as other financial liabilities, and are recorded at amortized cost after initial recognition using the effective interest rate method, recognizing the interest expense throughout the corresponding period.

**(f) Inventories**

Inventories (supplies and spare parts) are stated at the lower of cost and net realizable value. Net realizable value represents the estimated selling price for inventories less all costs necessary to make the sale. Cost is determined using the weighted-average method. The estimate for obsolescence is recognized for those inventories in poor conditions and is charged to profit or loss in the year when obsolescence is identified.

**(g) Property plant and equipment - Gas investments**

Gas investments are presented at cost, net of accumulated depreciation and any recognized impairment loss. Initial disbursements, as well as those subsequently incurred, related to goods whose cost can be estimated reliably, and it is probable that future economic benefits will be obtained from them, are recognized as gas investments.

Disbursements for maintenance and repairs are recognized as expenses in the year when incurred. Profits or losses arising from the sale or disposal of an item of gas investments are determined as the difference between the sales proceed and the carrying amount of the asset, which are recognized in profit or loss for the period when the sale is considered performed.

Important components and spare parts that the Company and Subsidiaries expect to use for more than one period and that are related to an item of gas investments are recognized as such at the date of acquisition.

Work in progress are presented at cost. The cost of these assets in process includes professional fees and other costs, for qualifying assets, borrowing costs. Those assets are subsequently reclassified to their category of gas investments once the construction or acquisition process is complete and they are ready for their intended use. These assets are depreciated from that moment, similarly to the rest of gas investments.

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

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

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

	<u>2016</u>	<u>2015</u>
	%	%
Gas and fractionation plant	5.0, 5.1 and 10.2	6.3, 6.4 and 13.3

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

	<u>Years</u>
Vehicles	5
Furniture and fixtures	10
Sundry equipment	4 – 10

Estimates on useful lives, residual values, if applicable, and depreciation method are reviewed regularly at the end of each reporting period in order to ensure that the depreciation method and period are consistent with the expected pattern of economic benefits of items of gas investments, prospectively incorporating the effects of any change in these estimates against net profit or loss in the period they are made.

***(h) Property, plant and equipment – Energy generation and transmission***

Property, plant and equipment are presented at cost, net of accumulated depreciation and any recognized impairment loss. Initial disbursements, as well as those subsequently incurred, related to goods whose cost can be estimated reliably, and it is probable that future economic benefits will be obtained from them, are recognized as property, plant and equipment.

Disbursements for maintenance and repairs are recognized as expenses in the year when incurred. Profits or losses arising from the sale or disposal of an item of property, plant and equipment are determined as the difference between the sales proceed and the carrying amount of the asset, which are recognized in profit or loss for the period when the sale is considered performed.

Important components and spare parts that the Company and Subsidiaries expect to use for more than one period and that are related to an item of property, plant and equipment are recognized as such at the date of acquisition.

Works in progress are presented at cost. The cost of these assets in process includes professional fees and other costs, for qualifying assets, borrowing costs. Those assets are subsequently reclassified to their category of property, plant and equipment once the construction or acquisition process is complete and they are ready for their intended use. These assets are depreciated from that moment, similarly to the rest of property, plant and equipment.

Annual depreciation is recognized as expense for the period and is determined as follows:

Property, plant and equipment directly related to the electrical energy generation process, which exclusively uses dry natural gas from the field of the Company and Aguaytia substation, are depreciated on the estimated useful life of the gas field of the Company, under the units of production method.

Allocation factors of depreciation are determined by dividing the monthly production level by proven reserves of dry gas at the beginning of the period, provided by the Company. Such factor is determined for each asset involved in the electrical generation process.

As of June 30, 2017 and December 31, 2016, depreciation factors applied to property, plant and equipment related to the useful life of the gas field of the Parent Company ranged between 5.0% and 5.1%, between 6.3% and 6.4% and between 5.2% and 5.5%, respectively.

The substations and transmission lines: Tingo Maria, Vizcarra and Paramonga, are depreciated by the straight-line method, based on the estimated useful life of 20 years, represented by equivalent depreciation rates.



Property, plant and equipment that are not involved directly in the energy generation process are depreciated using the straight-line method based on the estimated useful life of assets, represented by equivalent depreciation rates.

Useful lives estimated for certain items are as follows:

	<u>Years</u>
Buildings and other constructions	Between 22 and 33
Machinery and equipment	Between 4 and 10
Furniture and fixtures	5
Sundry and computer equipment	Between 4 and 10

Estimates on useful lives, residual values, if applicable, and depreciation method are reviewed regularly at the end of each reporting period in order to ensure that the depreciation method and period are consistent with the expected pattern of economic benefits of items of property, plant and equivalent, prospectively incorporating the effects of any change in these estimates against net profit or loss in the period they are made.

**(i) Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

**(j) Impairment of long-term assets**

The Company and Subsidiaries regularly review the carrying amounts of its long-lived assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). If it is not possible to estimate the recoverable amount of an individual asset, the Company and Subsidiaries estimate the recoverable amount of the cash-generating unit where the asset belongs. If a reasonable and consistent allocation basis is identified, corporate assets are also allocated to individual cash-generating units, or otherwise, to the smallest group of cash-generating units for which a reasonable and consistent allocation basis is identified.

The recoverable amount is the higher of fair value less their cost to sell and value in use. Value in use is determined based on estimated future cash flows which are discounted to their present value, by using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks inherent to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is immediately recognized as expense.

An impairment loss can be subsequently reversed and recorded as income in profit for the period up to the amount in which the increased carrying amount does not exceed the carrying amount that had been determined if an impairment loss had not been recognized for the asset (or cash-generating unit) in previous years.

**(k) Provisions**

Provisions are recognized only when the Company and Subsidiaries have a present obligation (legal or constructive) as a result of a past event, it is probable that the Company and Subsidiaries will have to use resources which include economic benefits in order to settle such obligation and the amount of the obligation can be estimated reliably.

The amount recognized as provision reflects the best estimate of the disbursement necessary to settle the current obligation at the date of the consolidated statement of financial position, considering risks and uncertainties surrounding most of the events and circumstances concurrent to its valuation. If the amount of the provision is measured using estimated cash flows to settle the obligation, the carrying amount is the present value of corresponding disbursements.

In case it is expected that a part or the total disbursement necessary to settle the provision may be refunded by a third party, the portion receivable is recognized as an asset when its recovery is virtually certain, and the amount of such portion can be determined reliably.

**(l) Contingent liabilities and assets**

Contingent liabilities are not recognized in the Consolidated Interim Financial Statements, but are only disclosed in a note thereto unless the possibility of an outflow of resources is remote. When the possibility of an outflow of resources to cover a contingent liability is remote, such disclosure is not required.

Contingent assets are not recognized in the Consolidated Interim Financial Statements, but are only disclosed in a note to the Consolidated Interim Financial Statements when it is probable that an inflow of resources will occur.

Items previously treated as contingent liabilities will be recognized in the Consolidated Interim Financial Statements in the period when a change in probabilities occurs, that is, when it is determined that an outflow of resources is probable to occur to cover such liability. Items previously treated as contingent assets will be recognized in the Consolidated Interim Financial Statements in the period when it is determined that an inflow of resources is virtually certain to occur.

**(m) Revenue recognition, costs and expenses**

Revenue is measured using the fair value of the consideration, received or receivable, derived therefrom. Such revenue is reduced by estimates such as discounts and other similar concepts.

***Sale of products, provision of services and others***

- Revenue from the sale of dry natural gas, LPG and natural gasoline is recognized in the period when the good is delivered, all risks and benefits inherent to ownership have been transferred to the buyer and it is probable that economic benefits related to the transaction will flow to the Company.

Revenue from energy and power generation and energy transmission delivered but not billed at the end of each month is billed the following month, but is recognized as revenue based on estimated consumption of customers in the corresponding month.

- Other revenue is recognized as realized and is recorded in the periods which it relates.

### ***Interests***

- Revenue from interests is recognized when it is probable that the Company and Subsidiaries will receive the economic benefits associated with the transaction and the revenue amount can be measured reliably. Such revenue is accumulated on a regular basis by taking the outstanding principal balance and applicable effective interest rate.

### ***Costs and expenses***

- The cost for sale of dry natural gas, LPG and natural gasoline is recorded in profit or loss of the year when goods are delivered, simultaneously with revenue recognition. Expenses are recorded in the periods they relate to and are recognized in profit or loss of the year when accrued, regardless of the payment date.
- The cost of generation of electrical energy and energy transmission are recorded in profit or loss of the year when service is provided, simultaneously with revenue recognition. Expenses are recorded in the periods they relate to and are recognized in profit or loss of the year when accrued, regardless of the payment date.
- Other costs and expenses are recognized when accrued.

### ***(n) Accounting in foreign currency***

The Consolidated Interim Financial Statements of the Company have been prepared according to the accounting records which are carried at U.S. dollars, pursuant to article 87°, paragraph 5 of the Peruvian Tax Code, which will remain effective in accordance with the license agreement for the production of hydrocarbons (Block 31-C) (Note 1).

The Subsidiaries Termoselva and Eteselva have prepared their financial statements in U.S. dollars (functional currency) based on their accounting records carried at Peruvian soles.

### ***(o) Income tax***

Income tax expense comprises estimated current income tax payable plus deferred income tax.

Current income tax is determined by applying the tax rate established under effective tax laws on net taxable income of the year.

Deferred income tax corresponds to the tax amount expected to be recovered or paid on temporary differences between reported carrying amounts of assets and liabilities, and their corresponding tax bases. Deferred income tax liabilities are generally recognized for all taxable temporary differences. Deferred income tax assets are generally recognized for all deductible temporary differences and tax credits discounts and unused tax losses, to the extent that it is probable that the Company and Subsidiaries will have sufficient future taxable profit to make them effective. Those assets and liabilities are not recognized if temporary differences proceed from goodwill or initial recognition (except in a business combination) of other assets and liabilities in an operation that does not affect tax or accounting profit/loss.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is not probable that the Company and Subsidiaries hold sufficient future taxable profit to recover the entirety, or a part, of those assets.

Deferred income tax assets and liabilities are measured at tax rates expected to be applied when the asset is realized or the liability is settled, based on approved rates and tax laws, or whose approval process is virtually completed at the end of the reporting period. The measurement of such deferred taxes reflects tax consequences that could derive from the manner the Company

and Subsidiaries expect to recover or settle the carrying amount of its assets and liabilities at the end of the reporting period.

Current and deferred income taxes are recognized as expense or income, and are included in the determination of net profit or loss for the period, except if those taxes relate to items recognized in other comprehensive income or directly in equity, in which case, current or deferred income taxes are also recognized in other comprehensive income or directly in equity, respectively.

***(p) Cash and cash equivalents***

Cash includes cash on hand and freely available deposits. Cash equivalents comprise short-term financial investments, maturing in less than 90 days as from the acquisition date, are readily convertible into a known cash amount and are not subject to a significant risk of changes in value.

***(q) Critical accounting judgments and key sources of uncertainty***

***Responsibility over information and estimations made***

The Company and Subsidiaries Management is responsible for the information contained in these Consolidated Interim Financial Statements. For the preparation of these Consolidated Interim Financial Statements, certain estimates have been used to quantify some assets, liabilities, revenue, expenses and commitments recorded therein, based on experience and other relevant factors. Final results may differ from those estimates.

These estimates are reviewed on an ongoing basis. Changes in accounting estimates are prospectively recognized by recording the effects of changes in the corresponding profit or loss accounts for the period when corresponding reviews are conducted.

The most important estimates considered for the preparation of the Consolidated Interim Financial Statements of the Company and Subsidiaries refer to:

- Determination of functional currency and record of foreign currency transactions (Note 2 (b) and (c)).
- Estimate for energy and power revenues delivered and not billed (Note 2 (m)).
- Energy and power purchases not billed provision (Note 2 (m)).
- Estimate for electric energy transmission revenues (Note 2 (m)).
- Useful life of property, plant and equipment - gas investments (Note 2 (g)).
- Useful life of property, plant and equipment - Energy generation and transmission (Note 2 (h)).
- Impairment losses on specific assets (Note 2 (f), (g), (h), (j)).
- Current and deferred income tax determination (Note 2 (o)).
- Probability of contingencies (Note 2 (l) and (l)).

***Key sources of uncertainty in estimates***

We present the following basic assumptions regarding the future and other key sources of uncertainty in estimates, at the end of the reporting period, which may imply adjustments in the carrying amounts of assets and liabilities during the next financial period.

**Non-current assets impairment**

In order to review if the assets have suffered an impairment, the Company and Subsidiaries compare the carrying amount of the assets with their recoverable value at least annually and whenever there are indicators, applying the accounting policy described in Note 2 (j).

The methodology used by the Company and Subsidiaries in estimating the recoverable amount of the assets is the value in use calculated from the present value of the expected future cash flows derived from the use of such assets.

The Company's Management has evaluated as a single Cash Generating Unit (CGU) all of its gas investment, thermoelectric power plant and transmission line on regard to the impairment assessment of the Company; taking into account the business strategies are interrelated and are mainly depend on Block 31-C.

#### Useful life of property, plant and equipment

As described in Note 2(g) and (h), the Company and Subsidiaries review the estimated useful life of its gas investment and property, plant and equipment. In 2016, the management determined with its internal and external specialist that there were no significant changes on regard to the useful life estimate of the assets related to gas investment, the thermoelectric plant and transmission lines. The key sources of uncertainty considered for estimation of useful life are expected physical wear and tear and technical or commercial obsolescence arising from changes in use or changes in the demand for assets.

#### Proven reserves

Depreciation is calculated using the units-of-production method on proved developed producing gas reserves. In arriving at rates under the units-of-production method, the quantities of recoverable natural gas is established based on estimates made by our geologists and engineers. We periodically review our proved reserve estimates and makes changes as needed to depreciation expenses to account for new wells drilled and other events which may have caused significant changes in our estimated proved developed producing reserves.

#### Provisions for litigation and contingencies

The final cost of settlement of claims, claims and litigation may vary due to estimates based on different interpretations of standards, opinions and final assessments of the amount of damages. Therefore, any variation in circumstances related to this type of contingencies could have a significant effect on the amount of the provision for contingencies recorded.

#### Income tax and liabilities for deferred income tax

The correct valuation of income tax expense depends on several factors, including estimates of the realization of deferred tax assets and liabilities and the accrual of income tax payments. Current collections and payments may differ materially from these estimates as a result of changes in tax rules, as well as unforeseen future transactions impacting the Company and Subsidiaries tax balances (Notes 18 and 19).

### 3. NEW STANDARDS AND INTERPRETATIONS INTERNATIONALLY ISSUED

- (a) *New IFRSs, interpretations and modifications to existent standards that did not significantly affect reported amounts and disclosures in current and previous years.*

The following standards, interpretations and amendments to current standards were published with mandatory application for accounting periods beginning on or after January 1, 2016, but were not relevant to the Company and Subsidiaries operations:

- ***IFRS 14 Regulatory Deferral Accounts.*** Effective for annual periods beginning on or after January 1, 2016.

IFRS 14 permits eligible first-time adopters of International Financial Reporting Standards to continue their previous GAAP rate-regulated accounting policies, with limited changes, at the time of initial adoption of IFRSs as well as in subsequent financial statements.

The application of this IFRS has had no impact on the Consolidated Interim Financial Statements due to this IFRS is not applicable to the operation of the Company and Subsidiaries.

- ***Amendments to IFRS 11 Joint Arrangements.*** Effective for annual periods beginning on or after January 1, 2016.

The amendments to IFRS 11 provide guidance on how to account for the acquisition of an interest in a joint operation in which the activities constitute a business as defined in IFRS 3 Business Combinations. Specifically, the amendments state that the relevant principles on accounting for business combinations in IFRS 3 and other standards (e.g. IAS 36 Impairment of Assets regarding impairment of a cash-generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

A joint operator is also required to disclose the relevant information required by IFRS 3 and other standards for business combinations.

The amendments apply prospectively to acquisitions of interests in joint operations (in which the activities of the joint operations constitute businesses as defined in IFRS 3) occurring from the beginning of annual periods beginning on or after January 1, 2016.

The application of these amendments has had no impact on the Consolidated Interim Financial Statements as the Company and Subsidiaries does not hold joint arrangements.

- ***Amendments to IAS 1 Presentation of Financial Statements.*** Effective for annual periods beginning on or after January 1, 2016.

The amendments were a response to comments of financial information preparers that there were difficulties in applying the judgment when preparing and presenting information in the financial statements, and included the following changes:

- Clarification that information should not be obscured by aggregating or by providing immaterial information, materiality considerations apply to all parts of the financial statements, even when some standards require specific disclosures.
- Clarification that the list of line items to be presented in the financial statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in

these statements and the clarification that an entity's share of other comprehensive income of equity-accounted associates and joint ventures should be presented in aggregate as single line items based on whether (or not) it will subsequently be reclassified to profit or loss.

- Examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order so far listed in paragraph 114 of IAS 1.

The application of these amendments has had no impact on the Consolidated Interim Financial Statements as the Company and Subsidiaries did not have any transactions or information that would need further aggregated or desegregated disclosures that previously have been considered.

- ***Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization.*** Effective for annual periods beginning on or after January 1, 2016.

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

- When the intangible asset is expressed as a measure of revenue, or
- When it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

As the Company and Subsidiaries already use the straight-line method for the depreciation for its property, plant and equipment, the application of these amendments has had no impact on these Consolidated Interim Financial Statements.

- ***Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants.*** Effective for annual periods beginning on or after January 1, 2016.

The amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with IAS 16, instead of IAS 41. The produce growing on bearer plants continues to be accounted for in accordance with IAS 41. These amendments include the option that bearer plants can be measured using either the cost model or the revaluation model set out in IAS 16.

Management considers that these amendments are not applicable to the Company and Subsidiary since they do not hold biological assets.

- ***Annual Improvements to IFRSs 2012 – 2014 Cycle.*** Effective for annual periods beginning on or after January 1, 2016.

The annual improvements to IFRSs 2012 – 2014 cycle include a number of amendments to various IFRSs, which are summarized below:

The amendments to IFRS 5 introduce specific guidance for when an entity reclassifies an asset (or disposal group) from held for sale to hold for distribution to owners (or vice versa). The amendments clarify that such a change should be considered as a continuation of the original plan of disposal and hence requirements set out in IFRS 5 regarding the

change of sale plan do not apply. The amendments also clarify the guidance for when held-for-distribution accounting is discontinued.

The amendments to IFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets.

The amendments to IAS 19 clarify that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The assessment of the depth of a market for high quality corporate bonds should be at the currency level (the same currency as the benefits are to be paid). For currencies for which there is no deep market, the market yields at the end of the reporting period on government bonds denominated in that currency should be used instead.

Management considers that these amendments are not applicable to the Company and Subsidiaries due to there were no any such transaction in the current year.

- ***Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception.*** Effective for annual periods beginning on or after January 1, 2016.

The amendments clarify that the exemption from preparing Consolidated Interim Financial Statements is available to a parent company that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with IFRS 10. The amendments also clarify that the requirement for an investment entity to consolidate a subsidiary providing services related to the former's investment activities applies only to subsidiaries that are not investment entities themselves.

Management considers these amendments are not applicable to the Company and Subsidiaries are not an investment entity and does not have a parent, subsidiary, associate or joint venture classified as an investment entity.

- ***Amendments to IAS 27 Equity Method in Separate Financial Statements.*** Effective for annual periods beginning on or after January 1, 2016

The amendments on IAS 27 allow to account for investment in subsidiaries, joint ventures and associates in it separates financial statements using the equity method in such statements.

Management applied in advance the amendments to IAS 27 in its separate financial statements for the period ended December 31, 2014.

- (b) ***New IFRSs and interpretations issued applicable after the date of submission of the Consolidated Interim Financial Statements***

The following standards and interpretations have been published for application to periods beginning after the date of presentation of these financial statements:

- ***IFRS 9 Financial Instruments. Effective for annual periods beginning on or after January 1, 2018*** IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013, to include new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include: a) impairment requirements for financial assets, and b) limited changes



to the classification and measurement requirements by introducing a “fair value through other comprehensive income” (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9:

- IFRS 9 requires all recognized financial assets within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortized cost or fair value. Specifically, debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interests on the principal outstanding, are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specific dates to cash flows that are solely payments of principal and interests on the principal amount outstanding, are generally measured at fair value through other comprehensive income. All other debt and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, only with dividend income generally recognized in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of such liability is recognized in other comprehensive income, unless the recognition of the changes of credit risk of the liability in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability’s credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated at fair value through profit or loss is recognized in profit and loss.
- In relation to the impairment of financial assets, IFRS 9 requires an expected credit impairment loss model, as opposed to an incurred credit impairment loss model under IAS 39. The credit impairment loss model requires an entity to account for expected credit losses and changes in those losses at each presentation date of the financial statements to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.
- The new general hedge accounting requirements retain three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an “economic relationship”. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity’s risk management activities have also been introduced.

Management believes that at the date of the Consolidated Interim Financial Statements it is not practicable to provide a reasonable estimate of the effect of the application of this standard until a detailed review has been completed.

- **IFRS 15 Revenue from Contracts with Customers.** Effective for periods beginning on or after January 1, 2018.

IFRS 15, issued in May 2014, establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. Specifically, this standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract with a customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, that is, when “control” of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

The Company’s Management believes that the application of IFRS 15, in the future, may have a material impact on reported amounts and disclosures of the Consolidated Interim Financial Statements of the Company and Subsidiaries. However, it is not feasible to provide a reasonable estimate of the impact of IFRS 15 until the Company and Subsidiaries conducts a detailed review.

- **IFRS 16 Leases.** Effective for annual periods beginning on or after January 1, 2019.

IFRS 16 establishes how to recognize, measure, present and disclose leases. This standard introduces only one accounting model, and requires lessees to recognize one asset and one liability for all leases provided they are not hired for 12 months or less, or the underlying asset has a less significant value. Lessors will continue classifying leases as operating or financial, with no further changes as they have been doing so under IAS 17.

Management believes that the application of IFRS 16, in the future, will not have an impact as the Company and Subsidiaries do not have currently any contract that is under the scope of IFRS 16.

- **IFRIC 22 Foreign Currency Transactions and Advance Consideration.** Effective for annual periods beginning on or after January 1, 2018.

The interpretation addresses foreign currency transactions or parts of transactions where:

- There is consideration that is denominated or priced in a foreign currency;
- The entity recognizes a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and
- The prepayment asset or deferred income liability is non-monetary.

The Interpretations Committee came to the following conclusion:

- The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability.
- If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

Management is evaluating the possible impact that this interpretation will have in the Consolidated Interim Financial Statements.

- ***Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.*** The date of effective application of these amendments has been determined to be indefinite.

These amendments deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, these amendments state that profits or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, profits and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

Management believes that the amendments to this standard are not applicable to the Company and Subsidiary since it does not have associates or joint ventures.

- ***Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses.*** Effective for annual periods beginning on or after January 1, 2017.

This standard amends IAS 12 Income Tax and clarifies the following:

- Unrealized losses on debt instruments measured at fair value but at cost for tax purposes give rise to deductible temporary differences, regardless of whether the holder of the debt instrument expects to recover the carrying amount of the debt instrument until maturity or by selling it.
- The carrying amount of an asset does not limit the estimation of probable future taxable profits.
- The estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.
- An entity assesses a deferred tax asset in combination with other deferred tax assets. In circumstances in which local tax law restricts the utilization of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

Management believes that this amendment will not have a material impact on the financial statements since the Company and Subsidiaries do not have unrealized losses on debt instruments.

- ***Amendments to IAS 7 Disclosure Initiative.*** Effective for annual periods beginning on or after January 1, 2017.

These amendments require an entity to provide disclosures that enable users of Consolidated Interim Financial Statements to evaluate changes in liabilities arising from financing activities.

Management is evaluating the possible impact that amendment will have on the Consolidated Interim Financial Statements.

- ***Clarifications to IFRS 15 Revenue from Contracts with Customers.*** Effective for annual periods beginning on or after January 1, 2018.

These clarifications deal with three aspects of the standard (identification of performance obligations, principal versus agent considerations, and licenses) and provides a transition guidance for modified and finished contracts.

Management is evaluating the possible impact that amendment will have on the Consolidated Interim Financial Statements.

- ***Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions.*** Effective for annual periods beginning on or after January 1, 2018.

These amendments clarify the standard in relation to the accounting for cash-settled share-based payment transactions that include a performance conditions, the classification of share-based payment transactions settled with net of tax withholdings and the accounting for the modification of share-based payment transactions from cash-settled to equity-settled.

Management believes that this amendment will not have a material impact on the Consolidated Interim Financial Statements since the Company and Subsidiaries does not have share-based payment plans.

- ***Amendments to IFRS 4. Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts.*** The overlay approach should be applied when IFRS 9 is used for the first time. The deferral approach should be applicable for annual periods beginning on or after January 1, 2018 and can only be available for three years after such date.

These amendments provide two options for entities that issue insurance contracts within the scope of IFRS 4:

- An option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income of expenses arising from designated financial assets (the "overlay approach").
- An optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4 (the "deferral approach").

The application of both approaches is optional and an entity is permitted to stop applying them before the new insurance contracts standard is applied.

Management believes that this amendment will not have a material impact on the Consolidated Interim Financial Statements since the Company and Subsidiaries does not issue contracts that can be classified as such within the scope of IFRS 4 Insurance Contracts.

- ***Amendments to IAS 40 Transfers of Investment Property.*** Effective for annual periods beginning on or after January 1, 2018.

The amendments in IAS 40 Investment Property are:

- Paragraph 57 has been amended to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use.
- The list of evidence in paragraph 57(a) – (d) was designated as non-exhaustive list of examples instead of the previous exhaustive list.

Management believes that this amendment is not applicable to the Company and Subsidiaries since do not have investment property.

- ***Annual Improvements to IFRSs 2014 – 2016 Cycle***

The annual improvements to IFRSs 2014 – 2016 cycle include a number of amendments to various IFRSs, which are summarized below:

- IFRS 1 – Deleted the short-term exemptions in paragraphs E3–E7 of IFRS 1, because they have now served their intended purpose.
- IFRS 12 – Clarified the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10–B16, apply to an entity's interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.
- IAS 28 – Clarified that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after January 1, 2018. The amendments to IFRS 12 are effective for annual periods beginning on or after January 1, 2017.

Management believes that the amendments to these standards are not applicable to the Company and Subsidiaries since do not execute those types of operations

#### 4. FINANCIAL INSTRUMENTS AND FINANCIAL RISKS

##### *Categories of financial instruments*

The financial assets and liabilities of the Company and Subsidiaries comprise the following:

	<u>2017</u> US\$000	<u>2016</u> US\$000
<b>Financial assets:</b>		
<b>Loans and receivable (including cash and cash equivalents)</b>		
Cash and cash equivalents	14,513	27,845
Trade accounts receivable (net)	8,522	10,614
Other accounts receivable	1,771	890
Accounts receivable from related entities	<u>2,018</u>	<u>86</u>
Total	<u><u>26,824</u></u>	<u><u>39,435</u></u>
<b>Financial liabilities:</b>		
<b>At amortized cost</b>		
Trade accounts payable	6,031	10,611
Other accounts payable	522	288
Accounts payable to related entities	<u>3,605</u>	<u>16,680</u>
Total	<u><u>10,158</u></u>	<u><u>27,579</u></u>

##### *Financial risks*

The Company and Subsidiaries are constantly exposed to credit, liquidity and market risks, which arise from the variation of exchange and interest rates. These risks are concentrated on hydrocarbons and electrical energy markets and are managed through specific policies and procedures established by the Financial Management. The Financial Management area is in charge of dealing with risks, and identifies, evaluates and covers financial risks.

##### *(a) Market risk*

##### *(i) Exchange rate risk*

The Company and Subsidiaries mainly bill in U.S. dollar which enables it to meet its obligations in that currency. The exchange rate risk in the Company and Subsidiaries mainly arises from cash and cash equivalents and others account receivables held in foreign currency. The Company and Subsidiaries do not use derivative financial instruments to cover its exposure to exchange rate risk.

The carrying amount of monetary assets and liabilities in foreign currency as of June 30, 2017 and December 31, 2016, reflected according to the basis of accounting described in Note 2 (c) to the Consolidated Interim Financial Statements, is presented below:

	<u>2017</u> S/000	<u>2016</u> S/000
<b>Assets:</b>		
Cash and cash equivalents	479	6,472
Other accounts receivable	<u>3,040</u>	<u>3,930</u>
Total	<u>3,519</u>	<u>10,402</u>
<b>Liabilities:</b>		
Other accounts payable	<u>2,157</u>	<u>2,947</u>
Total	<u>2,157</u>	<u>2,947</u>
Asset position (net)	<u>1,362</u>	<u>7,455</u>

The balances of financial assets and liabilities in foreign currency correspond to balances in Soles and are expressed in U.S dollars at the supply and demand exchange rates published by Superintendencia de Banca, Seguros y AFP – SBS (Superintendence of Banking, Insurance and Private Pension Fund Administrators), effective at those dates, which were US\$0.3072 for selling and US\$0.3077 for buying (US\$0.2976 for selling and US\$0.2983 for buying as of December 31, 2016) per US\$1.00.

As of June 30, 2017, the Company and Subsidiaries recorded foreign exchange profit for US\$1,858 (US\$1,280 in June 2016) and foreign exchange losses for US\$1,455 (US\$1,679 in June 2016), whose net amount is included in item exchange difference, net in the consolidated statement of profit or loss and other comprehensive income.

Management considers a sensitivity rate of 10% as reasonable in the evaluation of exchange rate risk. A sensitivity analysis assuming the revaluation/devaluation of the U.S dollar (US\$), equivalent at the aforementioned rates, exclusively on balances of monetary assets and liabilities reflected above, is detailed in the following table:

	<u>Increase (decrease in): Exchange rate %</u>	<u>Effect on profit (loss) before income tax US\$000</u>
<b>2017:</b>		
US\$ / Soles	+10%	(42)
US\$ / Soles	-10%	42
<b>2016:</b>		
US\$ / Soles	+10%	(222)
US\$ / Soles	-10%	222

**(ii) Price Risk**

The Management analyzes price risks related to the sale of LPG and natural gasoline.

Regarding the sale of LPG, the Management believes that the price risk is mitigated considering the mechanism established by the Fund for the Stabilization of Fuel Prices for the domestic market, which seeks to compensate the high volatility of crude oil prices, so there are no significant risks as a result of variations of international prices of LPG.

Regarding the selling price of natural gasoline, the Company is exposed to commercial risks arising from changes in selling prices since they are determined in international markets.

**(iii) Interest rate risk**

The Company and Subsidiaries do not have significant assets that accrue interests. Revenue and operating cash flows of the Company and Subsidiaries are independent of changes in market interest rates.

The policy of the Company and Subsidiaries is to maintain borrowings at fixed interest rates mainly. In this regard, long-term debts at fixed rates represent all total financial debt as of June 30, 2017 and December 31, 2016; therefore, any change in interest rates would not adversely affect profit or loss of the Company and Subsidiaries.

**(b) Credit risk**

Credit risk refers to the event that the other party fails to meet their contractual obligations, which causes a financial loss for the Company and Subsidiaries. Financial instruments that partially expose the Company and Subsidiaries to credit risk concentrations mainly comprise cash and cash equivalents and trade accounts receivable.

Regarding accounts receivable arise from the inability of debtors to meet their obligations. During 2017 and 2016, the higher credit risk that faces the Company is the non-collectability on invoices issued to Maple for natural gasoline sales, which during 2017 represented the 9% of period revenue (8% in 2016). Management is assessing new strategies with the customer in order to collect the outstanding amounts and to overcome this situation.

The Company has adopted actions to avoid the increase in the exposition on the aforementioned accounts receivables, these actions consist of the construction and coming set up of a dispatch plant that will allow the sale of natural gasoline to other clients. The dispatch plant's operations started in July of 2017.

Regarding deposits in banks, the Company and Subsidiaries place their liquidity excess in renowned financial institutions, establish conservative credit policies and constantly evaluate existing conditions in the market they operate. As a result, the Company and Subsidiaries do not estimate significant losses arising from this risk.

**(c) Liquidity risk**

Management is mainly responsible for dealing with liquidity risk for which it has established policies and procedures regarding short, medium and long term debts. The Company and Subsidiaries manage liquidity risk by monitoring their cash flows and the maturities of their financial assets and liabilities.

The contractual maturity of non-derivative financial assets is current as of June 30, 2017 and December 31, 2016. The Company has short-term maturity liabilities



Management handles the risk associated with the amounts included in each one of the categories mentioned above, which include maintaining good credit history with local banks in order to ensure sufficient credit lines and also pay its working capital with cash flows provided by its operations.

***(d) Capital risk management***

The objectives of the Company and Subsidiaries when managing capital, are to safeguard their ability to continue as going concern in order to generate returns to its partners and other interest groups.

The capital structure of the Company and Subsidiaries comprises net debt (financial obligations less cash and cash equivalents) and consolidated equity.

As of June 30, 2017 and December 31, 2016, cash and cash equivalents exceed the balances of net indebtedness at those dates, with which this risk is mitigated.

***(e) Fair Value of financial instruments***

Fair value is defined as the amount for which a financial instrument could be exchanged in a transaction between two willing parties, which should not be a forced sale or settlement, and the best evidence of its value is its price, if any.

As of June 30, 2017 and December 31, 2016, Management of the Company and Subsidiaries considers that the carrying amounts of their financial instruments are similar to their fair values estimated in the market, based on methodologies and assumptions indicated below:

- The item cash and cash equivalents does not represent a significant credit or interest rate risk, so it has been assumed that the carrying amount is similar to fair value.
- Accounts receivable and payable mature in less than one year, so it has been considered that their fair value is not significantly different than their carrying amount.
- Management considers that the fair values of other financial liabilities are similar to their carrying amount due to their short-term maturity.

## 5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the following:

	<u>2017</u> US\$000	<u>2016</u> US\$000
Cash on hands and banks (a)	3,263	10,845
Term deposits (b)	<u>11,250</u>	<u>17,000</u>
Total	<u><u>14,513</u></u>	<u><u>27,845</u></u>

- (a) Cash on hands and cash in banks mainly comprise checking accounts and correspond to balances held in local and foreign banks, in Peruvian soles and U.S. dollars, and are freely available.
- (b) As of June 30, 2017 and December 31, 2016, term deposits correspond to funds held by the Company and Subsidiaries in local banks, in U.S. dollars, which mature in between 7 and 13 days and accrue interests at an annual rate of 0.3% and 0.2% respectively.

## 6. TRADE ACCOUNTS RECEIVABLE (NET)

Trade accounts receivable (net) comprise the following:

	<u>2017</u> US\$000	<u>2016</u> US\$000
Energy and power delivered not billed	6,346	6,294
Invoices	<u>19,601</u>	<u>15,953</u>
Total	25,947	22,247
Impairment estimate	<u>(17,425)</u>	<u>(11,633)</u>
Total	<u><u>8,522</u></u>	<u><u>10,614</u></u>

The average credit period granted to customers ranges between 15 and 35 days. Once the period indicated above expiry, overdue balances accrue interests. The interest is determined by the annual average of the active and passive rate in soles. As of June 30, 2017, the annual average rate is 10.31% (10.31% in 2016) and 3.90% (3.90% in 2016) for local and foreign currency, respectively.

As of June 30, 2017, the Company has accounts receivable within their maturity terms for US\$8,158 (US\$6,742 as of December 31, 2016).

As of June 30, 2017, Aguaytia and its subsidiary Termoselva hold trade accounts receivable overdue but not impaired for US\$364 (US\$3,872 as of December 31, 2016), for which no impairment estimate of accounts receivable has been determined since their credit quality has not varied significantly, and the Company's Management considers that those amounts are still recoverable.

The aging of these balances is summarized as follows:

	<u>2017</u> US\$000	<u>2016</u> US\$000
Overdue for up to 30 days	360	3,480
Overdue between 31 and 90 days	<u>4</u>	<u>392</u>
Total	<u><u>364</u></u>	<u><u>3,872</u></u>

***Energy and powered delivered but not billed***

Energy and power delivered but not billed corresponds to the consideration for power and energy that the Economic Operation Committee of the National Interconnected System (COES-SINAC) monthly allocates to each generator and communicates to be billed to other generators or distributors, members of SINAC. Such energy and power basically corresponds to sales performed in December.

As of June 30, 2017, estimated energy delivered but not billed includes the amount of US\$223 (US\$216 as of December 31, 2016) corresponding to consumptions of power and energy of customers (distribution companies) without contracts, under the scope of Law No. 29179 and Emergency Decree No. 049-2008, according to Note 1 (i) of the Consolidated Interim Financial Statements.

Energy and power delivered but not billed as of June 30, 2017 and December 31, 2016 was billed and collected substantially in July 2017 and January 2017, respectively, except the impaired estimate amount, with no significant changes.

***Impairment estimate of accounts receivable***

The movement of the impairment estimate of accounts was as follows:

	<u>2017</u> US\$000	<u>2016</u> US\$000
Opening balance	11,633	3,020
Additions (Note 17)	5,782	8,940
Collections (Note 17)	-	(331)
Exchange difference	<u>10</u>	<u>4</u>
Closing balance	<u><u>17,425</u></u>	<u><u>11,633</u></u>

The impairment estimate of accounts receivable is determined according to policies established by Management. This estimate is recognized considering, among other factors, uncollected balances for more than 90 days, the possibilities to be collected, and the evidence of financial difficulties of the debtor that will increase, beyond normal, the uncollectible risk of uncollected balances, so that its amount has a level that Management estimates appropriate to cover possible losses in accounts receivable at the date of the consolidated statement of financial position. The estimate amount is recognized against profit or loss of the year. Subsequent collections are recognized against profit or loss of the year. Basic criteria to derecognize impaired financial assets against such valuation account are: (i) depletion of the collection process, including enforcement of guarantees, and (ii) the debtor's financial difficulties that evidence the inability to enforce the collection of accounts receivable.

The aging of accounts receivable and the status of customers are constantly monitored to ensure the appropriateness of the estimate in the Consolidated Interim Financial Statements. As a

result, Management considers that the impairment estimate of accounts receivable covers sufficiently the risk of loss of doubtful accounts as of June 30, 2017 and December 31, 2016.

During 2017, the higher credit risk that faces the Company is the un-collectability on the invoices issued to Maple for natural gasoline sales. The impairment estimate for this customer was US\$5,782 (US\$8,609 in December 2016) recognized in 2017.

## 7. OTHER ACCOUNTS RECEIVABLE

Other accounts receivable comprise the following:

	Current		Non-current	
	2017 US\$	2016 US\$	2017 US\$	2016 US\$
<b>Financial assets:</b>				
Fund for the stabilization of fuel prices (b)	1,073	220	-	-
Sundry items	698	670	-	-
Subtotal	1,771	890	-	-
<b>Non-financial assets:</b>				
Credits on Value Added tax	1,285	799	-	-
Credit on Temporary Taxes on net assets - ITAN (a)	-	91	560	448
Income tax asset (c)	-	-	410	477
Subtotal	1,285	890	970	925
Total	3,056	1,780	970	925

(a) Claims to third parties correspond to temporary tax on net assets (ITAN):

- (i) Eteselva: As of June 30, 2017 and December 31, 2016, this item refers to ITAN from 2006, and 2007. During 2008, Eteselva submitted a return request for years 2006 and 2007 to the Tax Administration, which was partially disallowed, and an appeal is currently being processed at the Tax Court. On January and June 2015, the Tax Administration refunded an amount of S/370 and S/351 equivalent to US\$124 and US\$111, respectively, corresponding to ITAN from 2010 and 2011, respectively.
- (ii) Termoselva: As of June 30, 2017 and December 31, 2016, this item refers to ITAN from 2006 and 2007 for S/606 (equivalent to US\$178) and S/343 (equivalent to US\$101), respectively. During 2008, the Company submitted a return request for ITAN from 2006 and 2007 to the Tax Administration. After the tax review of those periods, the Tax Administration partially disallowed the return of ITAN, and an appeal is currently being processed at the Tax Court.

Subsidiaries Termoselva and Eteselva have the right to request the return within a period of 4 years after having submitted the pertinent tax return to the Tax Administration. Management considers that these ITAN balances will be recovered in the long term.

- (b) This item corresponds to an account receivable from the Peruvian government in relation to the Fund for the stabilization of fuel prices (Note 1). The collection term of such fund unilaterally depends on the Peruvian government; however, Management considers that there is no impairment risk of accounts receivable since there is a fund held by the government which is intended exclusively for the pertinent payment.
- (c) As of June 30, 2017 and December 31, 2016, this item comprises the balance in favor of income tax of Eteselva, regarding the payments on account made in 2005, whose total

amount exceeded the provision for income tax of such year. In December 2010, the Management submitted a return request to the Tax Administration, which was disallowed. In October 2012, the Management filed an appeal before the Tax Court. Up to date, it's pending the resolution from the Tax Court.

## 8. BALANCES AND TRANSACTIONS WITH RELATED ENTITIES

The parent Company of the Company and Subsidiaries is Aguaytia Energy, LLC, which belonged to the group of Duke Energy Corporation Group (United States of America) until December 20, 2016.

As described in Note 1(a), from December 20, 2016 and on, the Company and Subsidiaries belongs to ISQ Global Infrastructure Fund Group (United States of America).

During 2017 and 2016, the Company and Subsidiaries performed the following significant transactions with related entities in the normal course of operations:

	<u>2017</u>	<u>2016</u>
	US\$000	US\$000
<b>Sales:</b>		
Sale of electrical energy transmission (Note 1)		
Orazul Energy Egenor S. en C. por A. (a)	52	12
<b>Expenses:</b>		
Orazul Energy Egenor S. en C. por A. (a) by:		
Operation and maintenance services (Note 18)	(3,376)	(3,678)
Management services and other		
administration services (Note 18)	(2,670)	(2,738)
Purchase of active and reactive electrical energy	(865)	(176)
<b>Dividends paid:</b>		
Aguaytia Energy LLC (Note 15 (b))	-	(68,892)
Peru Energy Holding LLC (Note 15 (c))	-	(1,970)
<b>Loans granted:</b>		
Orazul Energy Perú S.A.C. (b)	2,000	-

- (a) Related entity
- (b) Parent company
- (c) Partner

These transactions, and other less relevant, resulted in the following balances receivable from and payable to the related entity:

	<u>2017</u>	<u>2016</u>
	US\$000	US\$000
<b>Non-trade accounts receivable</b>		
Orazul Energy Egenor S. en C. por A.	-	86
<b>Loans granted - current portione</b>		
Orazul Energy Perú S.A.C.		
Capital	2,000	-
Interests	18	-
Subtotal	<u>2,018</u>	<u>-</u>
Total	<u><u>2,018</u></u>	<u><u>86</u></u>
<b>Non-trade accounts payable</b>		
Orazul Energy Egenor S. en C. por A. (a)		
Loans	3,022	16,032
Other accounts receivable	583	648
Total	<u><u>3,605</u></u>	<u><u>16,680</u></u>

(a) Related entity

Non-trade accounts payable to Orazul Energy Egenor S. en C. por A. correspond mainly to management, administrative and maintenance services.

On 2016, the Company and Subsidiaries subscribed financing agreements for US\$16,032 with Orazul Energy Egenor S. en C. por A.; with maturity interest established between May and December 2017. Loans received were agreed at a 2.2% annual rate. To date the debt amounts is US\$3,022.

## 9. INVENTORIES (NET)

Inventories (net) comprise the following:

	<u>2017</u> <u>US\$000</u>	<u>2016</u> <u>US\$000</u>
Supplies and spare parts	5,047	5,366
Fuel	<u>7</u>	<u>12</u>
Total	5,054	5,378
Obsolescence estimate	<u>(659)</u>	<u>(662)</u>
Total	<u><u>4,395</u></u>	<u><u>4,716</u></u>

The movement of the obsolescence estimate of inventories was as follows:

	<u>2017</u> <u>US\$000</u>	<u>2016</u> <u>US\$000</u>
Opening balance	662	565
Increase	-	132
Recovery	<u>(3)</u>	<u>(35)</u>
Closing balance	<u><u>659</u></u>	<u><u>662</u></u>

The obsolescence estimate of inventories was determined based on external technical reports. Management believes that this estimate covers the obsolescence risk appropriately as of June 30, 2017 and December 31, 2016.

## 10. PROPERTY, PLANT AND EQUIPMENT (NET) - GAS INVESTMENTS

The movement in the cost and accumulated depreciation of property, plant and equipment – gas investments during 2017 and 2016 was as follows:

	Gas and fractionation plant US\$000	Vehicles US\$000	Furniture and fixture US\$000	Sundry equipment US\$000	Works in progress US\$000	Total US\$000
<b>COST:</b>						
As of January 2016	119,938	150	279	748	8,217	129,332
Additions	-	-	-	-	7,776	7,776
Disposals	(20)	-	-	(9)	-	(29)
Transfers and others	7,822	-	70	88	(7,980)	-
As of December 31, 2016	<u>127,740</u>	<u>150</u>	<u>349</u>	<u>827</u>	<u>8,013</u>	<u>137,079</u>
Additions	-	-	-	-	5,972	5,972
Disposals	(3)	(20)	-	(3)	-	(26)
As of June 30, 2017	<u>127,737</u>	<u>130</u>	<u>349</u>	<u>824</u>	<u>13,985</u>	<u>143,025</u>
<b>ACCUMULATED DEPRECIATION:</b>						
As of January 2016	73,868	141	265	434	-	74,708
Additions	3,677	10	11	87	-	3,785
Disposals	(17)	-	-	(6)	-	(23)
As of December 31, 2016	<u>77,528</u>	<u>151</u>	<u>276</u>	<u>515</u>	<u>-</u>	<u>78,470</u>
Additions	1,440	-	5	42	-	1,487
Disposals	-	(21)	-	(2)	-	(23)
As of June 30, 2017	<u>78,968</u>	<u>130</u>	<u>281</u>	<u>555</u>	<u>-</u>	<u>79,934</u>
<b>NET COST:</b>						
As of June 30, 2017	<u>48,769</u>	<u>-</u>	<u>68</u>	<u>269</u>	<u>13,985</u>	<u>63,091</u>
As of December 31, 2016	<u>50,212</u>	<u>(1)</u>	<u>73</u>	<u>312</u>	<u>8,013</u>	<u>58,609</u>

- (a) The charge for depreciation of property, plant and equipment - gas investments in 2017 for US\$1,487 (US\$3,785 in December 2016) is presented in item cost of sales in the consolidated statement of profit or loss and other comprehensive income (Note 16).



## 11. PROPERTY, PLANT AND EQUIPMENT (NET) – ENERGY GENERATION AND TRANSMISSION

The movement in the cost and accumulated depreciation of property, plant and equipment – energy generation and transmission during 2017 and 2016 was as follows:

	<u>Land</u> US\$000	<u>Buildings and other constructions</u> US\$000	<u>Machinery and equipment</u> US\$000	<u>Vehicles</u> US\$000	<u>Furniture and fixtures</u> US\$000	<u>Sundry equipment</u> US\$000	<u>Works in progress</u> US\$000	<u>Units in transit</u> US\$000	<u>Total</u> US\$000
<b>COST:</b>									
As of January 1, 2016	218	3,829	177,052	52	500	871	396	725	183,643
Additions	-	-	-	-	-	-	1,658	-	1,658
Transfers	-	107	1,576	-	31	208	(1,922)	-	-
As of December 31, 2016	218	3,936	178,628	52	531	1,079	132	725	185,301
Additions	-	-	-	-	-	-	5	-	5
Transfers	-	-	-	-	-	-	-	-	-
As of June 30, 2017	218	3,936	178,628	52	531	1,079	137	725	185,306
<b>ACCUMULATED DEPRECIATION:</b>									
As of January 1, 2016	-	1,290	94,091	52	388	549	-	-	96,370
Additions	-	128	6,160	-	27	78	-	-	6,393
As of December 31, 2016	-	1,418	100,251	52	415	627	-	-	102,763
Additions	-	65	1,944	-	11	41	-	-	2,061
As of June 30, 2017	-	1,483	102,195	52	426	668	-	-	104,824
<b>NET COST:</b>									
As of June 30, 2017	218	2,453	76,433	-	105	411	137	725	80,482
As of December 31, 2016	218	2,518	78,377	-	116	452	132	725	82,538

- (a) The charge for depreciation of property, plant and equipment - energy generation and transmission in 2017 for US\$2,061 (US\$6,393 in December 2016) is presented in item cost of sales in the consolidated statement of profit or loss and other comprehensive income (Note 16).
- (b) As of June 30, 2017 and December 31, 2016, the Company's Management considers that there are situations that could indicate that the value of property, plant and equipment - energy generation and transmission and gas investments (Note 10) may be impaired such as the impairment of the accounts receivable from Maple and the reduction of the hydrocarbons sales; however the Company's Management evaluated and concluded that there is not an impairment that should be recorded in the financial statements.
- (c) As of June 30, 2017 and December 31, 2016, the Company and Subsidiaries do not have commitments for the acquisition of property, plant and equipment - energy generation and transmission and gas investments (Note 10).
- (d) According to the policies established by the Company's Management, as of June 30, 2017 and December 31, 2016, the Company has hired corporate insurance policies against strikes, riots, damages, vandalism and all risks to cover its property, plant and equipment - energy generation and transmission and gas investments (Note 10) and also the property, plant and equipment of its Subsidiaries. Management considers that those corporate insurance policies meet the standard used by equivalent companies of the industry and cover appropriately the risk of possible losses for any damage that may occur, considering the type of assets owned by the Subsidiaries.

## 12. TRADE ACCOUNTS PAYABLE

Trade accounts payable comprise the following:

	<u>2017</u> <u>US\$000</u>	<u>2016</u> <u>US\$000</u>
Invoices	5,417	6,356
Goods and services received not invoiced	<u>614</u>	<u>4,255</u>
Total	<u><u>6,031</u></u>	<u><u>10,611</u></u>

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

### 13. OTHER ACCOUNTS PAYABLE

Other accounts payable comprise the following:

	<u>2017</u> <u>US\$000</u>	<u>2016</u> <u>US\$000</u>
<b>Financial liabilities:</b>		
Sundry items	491	288
Guarantee deposits	31	-
Subtotal	<u>522</u>	<u>288</u>
<b>Non-financial liabilities:</b>		
Value-Added Tax	597	765
Other taxes	34	61
Subtotal	<u>631</u>	<u>826</u>
Total	<u><u>1,153</u></u>	<u><u>1,114</u></u>

Other accounts payable are mainly denominated in Peruvian soles and have current maturity.

### 14. EQUITY

#### (a) *Issued capital stock*

As of June 30, 2017 and December 31, 2016, issued capital stock is represented by 1,889,286 shares with a face value of S/240 (equivalent to US\$76.83) per share, duly authorized, issued and paid.

As of June 30, 2017 and December 31, 2016, the equity interest structure of the Company was as follows:

<u>Partners</u>	<u>Shares</u> N°	<u>Participation</u> %
Aguaytia Energy LLC	1,836,836	97%
Peru Energy Holdings LLC	52,450	3%
Total	<u><u>1,889,286</u></u>	<u><u>100%</u></u>

#### (b) *Retained earnings*

According to Legislative Law 945 of December 23, 2003, which amended the Income Tax Law, domiciled legal entities that agree to the distribution of dividends or any other form of distribution of profits, will retain the rate applicable as described in Note 20 of the amount to be distributed, except when the distribution is made in favor of legal entities domiciled in Peru.

There are no restrictions for dividend remittance or capital repatriation to foreign investors.

#### (c) *Dividend distribution*

The Annual Mandatory Partners' Meeting held on March 29, 2016 agreed to distribute dividends for US\$70,862, which were paid in such year (Note 8).

## 15. SALE OF ENERGY, ELECTRICAL ENERGY TRANSMISSION SERVICES AND SALE OF HYDROCARBONS

For six-month period ended on June 30, 2017 and 2016, the sale of energy, electrical energy transmission services and sale of hydrocarbons include the following:

	<u>2017</u> US\$000	<u>2016</u> US\$000
Sale of energy	22,070	25,385
Sale of power	13,016	12,986
Other revenue	-	6,491
Sub total of energy	<u>35,086</u>	<u>44,862</u>
Electrical energy transmission	<u>4,972</u>	<u>1,996</u>
Sub total of electrical energy transmission	4,972	1,996
Sale of hydrocarbons:		
LPG	4,392	5,540
Natural gasoline (a)	<u>4,629</u>	<u>4,660</u>
Sub total of hydrocarbons	<u>9,021</u>	<u>10,200</u>
Total of sales	<u><u>49,079</u></u>	<u><u>57,058</u></u>

(a) The main customer has financial difficulties and a bad debt reserve has been accounted for (Note 1 (f) and Note 17).

## 16. COST OF SALE OF ENERGY, ELECTRICAL ENERGY TRANSMISSION SERVICES AND HYDROCARBONS

For six-month period ended on June 30, 2017 and 2016, cost of sale of energy, electrical energy transmission services and hydrocarbons includes the following debit balances:

	<u>2017</u> US\$000	<u>2016</u> US\$000
Royalties for natural gas liquids (Note 1)	3,305	3,050
Royalties for dry natural gas (Note 1)	895	7,845
Transmission lines services with third parties	7,764	7,260
Purchase of energy	9,371	4,886
Services by third parties	650	755
Operating and maintenance expenses with related entities (Notes 1 y 8)	3,376	3,678
Operating and maintenance expenses with third parties (Note 1)		
Sundry management charges	610	1,281
Estimates of the period:		
Depreciation (Notes 10 y 11)	<u>3,548</u>	<u>5,806</u>
Total	<u><u>29,519</u></u>	<u><u>34,561</u></u>

## 17. ADMINISTRATIVE EXPENSES

For six-month period ended on June 30, 2017 and 2016, administrative expenses include the following debit balances:

	<u>2017</u> US\$000	<u>2016</u> US\$000
Services provided by related parties (Note 8)	2,670	2,738
Services provided by third parties	283	688
Sundry management charges	297	403
Estimates of the period:		
Impairment estimate of accounts receivable, net (a) (Note 6)	<u>5,782</u>	<u>5,508</u>
Total	<u>9,032</u>	<u>9,337</u>

## 18. INCOME TAX

### (a) *Income tax regime*

#### *Gas operation and processing activities*

As described in Note 1, gas operation and processing activities are subject to the tax regime effective as of March 30, 1994, by virtue of the Legal Stability Agreement entered into by the Company. The income tax rate applicable to the Company at the execution date of the Agreement is 30%, which will remain effective during the term of the License Agreement, also mentioned in Note 1. The Company's Management and its legal advisors believe that, as the Legal Stability Agreement remains effective, changes made to tax regulations are not applicable to the Company, after the execution date of the Agreement, for the determination of income tax.

#### *Electrical energy generation and transmission activities*

Electrical energy generation and transmission activities performed by Termoselva and Eteselva, respectively, are subject to the general tax regime, whose main aspects are detailed below:

### (i) *Tax rates*

The income tax rate for legal entities domiciled in Peru shall be determined by applying the following rates on their net income:

<b>Taxable periods</b>	<b>Rates</b>
2015 – 2016	28%
2017 and subsequent years	29.5%

Legal entities domiciled in Peru are subject to an additional rate, as shown below, on any amount that may be considered as indirect income, 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.

<b>Taxable periods</b>	<b>Rates</b>
2015 – 2016	6.8%
2017 and subsequent years	5%

**(ii) Transfer pricing**

Legislative Decree N° 1312 (published 31 December 2016) introduces changes to the Peruvian transfer pricing rules and reflects the intention of Peru to implement the recommendations from Actions 10 and 13 of the OECD’s base erosion and profit shifting (BEPS) project.

There are new rules for transfer pricing information returns, pursuant to BEPS Action 13. Specifically, there are the following three transfer pricing reporting requirements:

Local file—Applicable to taxpayers with annual revenue greater than approximately U.S. \$2.9 million. The first year to be reported under this new rule relates to FY 2016, so that the report is due in 2017. Exact deadlines are pending, having yet to be defined.

Master file—Applicable to taxpayers that belong to an economic group with annual revenue greater than approximately U.S. \$24.9 million. The reporting requirement is first due in 2018. Exact deadlines are pending, having yet to be defined.

Country-by-country (CbC) reporting—Applicable to taxpayers that belong to a multinational group. The CbC report is first due in 2018. Exact deadlines are pending, having yet to be defined.

**Intragroup services**

With the new measures, it is now necessary for taxpayers to comply with a benefit test and to provide specific information as set forth in the new law before a taxpayer / company can deduct intragroup service charges for tax purposes. The arm’s length value of intragroup services must be determined based on a cost plus mark-up basis. In the case of “low value” added services, the mark-up cannot exceed 5%.

The Company and Subsidiaries have prepared the corresponding Transfer Pricing Technical Study for 2015 and they are now preparing the corresponding study for 2016.

Management believes that no significant liabilities will arise for the Consolidated Interim Financial Statements as of June 30, 2017 and December 31, 2016, with regard to transfer pricing.

**(iii) Significant changes to Income Tax regime in Peru**

After June 30, 2017 and December 31, 2016, no significant changes have been made to the income tax regime in Peru which may impact these Consolidated Interim Financial Statements. The standards and interpretations effective as of June 30, 2017 and December 31, 2016 have been considered by Management when preparing these Consolidated Interim Financial Statements.

**(iv) Tax situation**

The situation of the Company and each Subsidiary are described below:

***Aguaytia***

Income tax returns of years 2013, 2014, 2015 and 2016 have not been reviewed by the Tax Administration yet, which is empowered to conduct such reviews within four years immediately after the submittal date of pertinent tax returns.

***Termoselva***

Income tax returns of years 2014, 2015 and 2016 have not been reviewed by the Tax Administration yet, which is empowered to conduct such reviews within four years immediately after the submittal date of pertinent tax returns.

***Eteselva***

Income tax returns of years 2013, 2014, 2015 and 2016 have not been reviewed by the Tax Administration yet, which is empowered to conduct such reviews within four years immediately after the submittal date of pertinent tax returns.

Due to possible interpretations that tax authorities may have on current applicable regulations each year, it is not possible to determine to date whether liabilities for the Company and Subsidiaries will arise or not from the reviews to be conducted. Therefore, any income tax or charge which may result from such tax reviews would be applied to results for the year when determined. Company and Subsidiaries Management believes that any additional tax payment would not be significant for the Consolidated Interim Financial Statements as of June 30, 2017 and December 31, 2016.

***Temporary Tax on Net Assets***

This tax is applicable to third category recipients subject to the general income tax regime. Since 2009, the tax rate of 0.4% is applicable to the amount of net assets exceeding S/1 million.

The actually paid amount can be used as credit against payments on account of the general income tax regime or against the payment of regularizations of income tax of the corresponding taxable period.

Only Termoselva and Eteselva are subjected to pay the temporary tax on net assets.

(b) Income tax expense comprises the following:

	<u>2017</u> US\$000	<u>2016</u> US\$000
Current income tax	4,835	-
Deferred income tax - expense	(1,450)	(1,671)
Adjustment on income tax from previous periods	<u>(121)</u>	<u>(430)</u>
Total	<u><u>3,264</u></u>	<u><u>(2,101)</u></u>

The expense for current income tax corresponds to the income tax to be paid, calculated by applying a 30% rate for the Company and 28% for Subsidiaries over taxable income.

- (c) During six-month period ended June 30, 2017 and 2016, the effective rate of income tax expense is different from the tax rate applicable to profit before taxes. The nature of this difference is due to certain items related to the determination of taxable income, whose effects on applicable tax rate are presented below (in percentages on profit before taxes):

	2017		2016	
	Amount US\$000	Percentage %	Amount US\$000	Percentage %
Profit before income tax	10,269	100.00	12,824	100.00
Income tax calculated as per tax rate	3,081	30.00	3,847	30.00
Tax effect on additions and deductions:				
Non-deductible expenses	235	1.83	182	1.42
Effect for the difference between functional currency and currency for tax purposes	(487)	(3.80)	(200)	(1.56)
Adjustment recognized in the present year in relation to income tax from previous years	(121)	(0.94)	(729)	(5.68)
Effect of rate change	-	-	17	0.13
Other adjustments	556	4.34	356	2.78
Current and deferred income tax as per effective rate	3,264	31.43	3,473	27.08

- (d) Compensation of tax loss carry forward

According to Legislative Decree No. 774 (applicable for Aguaytia Hydrocarbon operations), it will be possible to compensate the tax loss from Peruvian sources determined registered on a taxable period, imputing it on a year basis, until the amount is extinguished, to the taxable income that are obtained in the next four subsequent years completed from the year following of its generation period. The balance that is not compensated after this period can be carry forward to the following years.

As of June 30, 2017 the Company has a tax loss carryforward of US\$7,8456 (US\$5,808 in December 2016) and which was generated in 2017 period.

- (e) The Company and Subsidiaries hold receivable balances with the Tax Administration for US\$44 as of June 30, 2017 and US\$2,436 as of December 31, 2016.



## 19. DEFERRED INCOME TAX

The movement of net deferred income tax and the description of temporary differences that generated them are shown below:

<b>Temporary differences</b>	<b>Balance as of December 31, 2016</b>	<b>Profit/loss for the period</b>	<b>Balance as of June 30, 2017</b>
	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>
Deferred liability:			
Difference in basis and depreciation rates of gas investment and property, plant and equipmer	(6,657)	(1,588)	(8,245)
Deferred assets:			
Difference in basis and depreciation rates of property plant and equipment	1,457	271	1,728
Tax loss	1,801	556	2,357
Effect originated by difference between functional currency and currency for tax purposes in Non-monetary assets	444	487	931
Obsolescence estimate of inventory	163	1	164
Impairment estimate of accounts receivable	2,382	1,735	4,117
Other temporary differences	74	(67)	7
Deferred liability (net)	<u>(336)</u>	<u>1,395</u>	<u>1,059</u>

<b>Temporary differences</b>	<b>Balance as of December 31, 2016</b>	<b>Profit/loss for the period</b>	<b>Effect of rate change</b>	<b>Balance as of December 31, 2016</b>
	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>
Deferred liability:				
Difference in basis and depreciation rates of gas investment and property, plant and equipmer	(6,861)	204	-	(6,657)
Deferred assets:				
Difference in basis and depreciation rates of property plant and equipment	1,352	71	34	1,457
Tax loss	-	1,801	-	1,801
Effect originated by difference between functional currency and currency for tax purposes in Non-monetary assets	156	288	-	444
Obsolescence estimate of inventory	160	3	-	163
Impairment estimate of accounts receivable	905	1,477	-	2,382
Other temporary differences	158	(84)	-	74
Deferred liability (net)	<u>(4,130)</u>	<u>3,760</u>	<u>34</u>	<u>(336)</u>

Variation for 2016 period on deferred income tax liability amounts to US\$1,395 (US\$3,794 in 2016 a) is recognized in the results and presented on the exchange difference, net for US\$55 (US\$46 in December 2016) and as income tax expense for US\$1,450 (US\$3,840 in December 2016).

## 20. CONTINGENCIES

The Company and Subsidiaries has the following contingencies that are individually significant claims that, in the opinion of the Company and Subsidiaries' Management and its legal advisors, have a possible perspective of loss. In this order, and based on the information available to the Company and Subsidiaries, including the estimated time remaining until the completion of the litigation, the results of the evidence presented in the cases, and the evaluation of the Internal and external advisors, the Company and Subsidiaries cannot estimate a loss or range of loss reasonably possible with respect to certain issues described below:

Aguaytia:

- (a) Aguaytía is party to a sanctioning administrative proceeding initiated by OSINERGMIN for not having a Supervisory Control and Data Acquisition (“SCADA”) system in place at Block 31-C in connection with which OSINERGMIN has imposed a fine of 5,674.38 UIT (equivalent to US\$6,840). Aguaytía has initiated one proceeding in local court to dispute the amount of the fine and another proceeding to determine whether Aguaytía committed the infraction in connection with which the fine is being imposed.

Eteselva:

- (b) Eteselva is party to a sanction proceeding initiated in 2017 related to alleged breaches of the Technical Standard for the Exchange of Information in Real Time with the SEIN in connection with which it could be fined up to 1,000 UIT (equivalent to US\$1,205). Eteselva is party to a second proceeding related to non-compliance with the monitoring and trimming of the trees across a transmission line, which occasioned six disconnection events during 2016, in connection with which it could be fined up to 1,000 UIT (equivalent to US\$1,205). Finally, Eteselva is party to a third sanction proceeding initiated in 2017, related to alleged breaches of the Technical Standard for the Coordination of the Operation in Real Time with the Interconnected Systems and the Internal Safety and Health at Work Regulations (Reglamento de Seguridad y Salud en el Trabajo con Electricidad) in connection with which it could be fined up to 1,150 UIT (equivalent to US\$1,386).

Termoselva:

- (c) Termoselva is party to a sanction proceeding initiated by OSINERGMIN for an alleged breach of Technical Standard for the Exchange of Information in Real Time with the SEIN in connection with which it could be fined up to 1,000 UIT (equivalent to US\$1,205).

## 21. COMMITMENTS AND GUARANTEES

### *Sale of energy*

As of June 30, 2017 and December 31, 2016, main commitments of sale of energy in charge of Termoselva are as follows:

<u>Clients</u>	<u>Contracted Power (kw)</u>	<u>Start Date of Agreement</u>	<u>Termination Date of Agreement</u>
Regulated	From 74 to 103,233	Between 2013 and 2014	Between 2022 and 2023
Free	From 1,000 to 10,000	2013	Between 2015 and 2017

## 22. ENVIRONMENT

The Company and Subsidiaries have an Environmental Impact Assessment for Block 31-C, which was approved by Official Letter No. 248-95-EM/DGH in August 1995. Pursuant to the provisions set forth in Supreme Decree No. 015-2006-EM, Regulations for Environmental Protection in Hydrocarbons Activities and Supreme Decree No. 029-94-EM, Regulations for Environmental Protection in Electrical Activities, the Company and Subsidiaries submit a report from the previous period every year, signed by an environmental auditor, in which they report

their compliance with the current environmental law and include recommendations of the EIA and Environmental Management and Adaptation Program (PAMA), if any. The Company and Subsidiaries also submit a consolidated report on controls performed on waste emissions and/or disposals.

### **23. SUBSEQUENT EVENTS**

We are not aware of any events occurring after the closing date of these interim financial statements that may significantly affect them. However, there was a significant subsequent event that did not represent adjustments, which is disclosed only for the reference of the readers.

August 17, 2017 marked the date of the official merger, with Orazul Energy Perú S.A. (“OEP”) remaining as the surviving company. The primary changes associated with the corporate reorganization include the following:

- Aguaytia Energy del Peru S.R.L., the principal guarantor, and its subsidiaries became subsidiaries of Energy Egenor S. en C. por A. (Egenor).
- Egenor was merged into OEP.
- In September 2017, OEP subsidiary, Orazul Energy Group Cooperatie U.A., a Chilean entity, will sell its interest in Pacific Power Holdings N°1 B.V. to Orazul Energy (España) Holdings S.L.
- Orazul Energy Group S.A.C. will sell its interests in Orazul Energy Group Cooperatie to Orazul Energy (España) Holdings S.R.L.

As consequence of this reorganization, as of September 2017, OEP will issue consolidated financial information for the issuer and the principal guarantor, and will include a part of the Chilean business.