

**Orazul Energy Egenor S. en C. por
A. (before Duke Energy Egenor S.
en C. por A.) and Subsidiary**

**Unaudited Consolidated Financial
Statements**

As of March 31, 2017 and for the year ended
December, 2016

ORAZUL ENERGY EGENOR S. EN C. POR A. AND SUBSIDIARY

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ORAZUL ENERGY EGENOR S. EN C. POR A. AND SUBSIDIARY**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION****AS OF MARCH 31, 2017 AND DECEMBER 31, 2016****(In thousands of soles S/000)**

| | <u>Notes</u> | <u>2017</u> | <u>2016</u> | | <u>Notes</u> | <u>2017</u> | <u>2016</u> |
|---|--------------|-------------------------|-------------------------|--------------------------------------|--------------|-------------------------|-------------------------|
| | | <u>S/.000</u> | <u>S/.000</u> | | | <u>S/.000</u> | <u>S/.000</u> |
| ASSETS | | | | LIABILITIES AND EQUITY | | | |
| CURRENT ASSETS: | | | | CURRENT LIABILITIES: | | | |
| Cash and cash equivalents | 5 | 99,211 | 30,978 | Financial obligations | 11 | 3,844 | 4,144 |
| Trade accounts receivable (net) | 6 | 36,130 | 40,674 | Trade accounts payable | 12 | 16,281 | 20,304 |
| Other accounts receivable | 7 | 1,703 | 1,394 | Other accounts payable | 13 | 5,748 | 4,198 |
| Accounts receivable from related entities | 8 | 15,254 | 57,605 | Accounts payable to related entities | 8 | - | 316 |
| Inventories (net) | 9 | 4,274 | 4,392 | Income tax liability | 23 (b) | 145 | - |
| Income tax asset | 23 (b) | 2,487 | 3,843 | Liabilities for employee benefits | 14 | 11,185 | 25,009 |
| Other assets | | 574 | 269 | | | | |
| Total current assets | | <u>159,633</u> | <u>139,155</u> | Total current assets | | <u>37,203</u> | <u>53,971</u> |
| NON-CURRENT ASSETS: | | | | NON-CURRENT LIABILITIES: | | | |
| Other accounts receivable | 7 | 1,377 | 1,377 | Financial obligations | 11 | 243,450 | 252,000 |
| Accounts receivable from related entities | 8 | 151,955 | 155,200 | Deferred income tax liabilities | 24 | 161,574 | 161,701 |
| Property, plant and equipment (net) | 10 | 775,756 | 785,700 | Provisions | 15 | 5,653 | 5,141 |
| Other assets | | <u>1,527</u> | <u>1,580</u> | Total non-current liabilities | | <u>410,677</u> | <u>418,842</u> |
| Total non-current assets | | <u>930,615</u> | <u>943,857</u> | Total liabilities | | <u>447,880</u> | <u>472,813</u> |
| TOTAL | | <u>1,090,248</u> | <u>1,083,012</u> | EQUITY: | | | |
| | | | | Issued capital stock | 16 (a) | 353,519 | 353,519 |
| | | | | Legal reserve | 16 (b) | 70,704 | 70,704 |
| | | | | Retained earnings | 16 (c) | <u>218,145</u> | <u>185,976</u> |
| | | | | Total equity | | <u>642,368</u> | <u>610,199</u> |
| | | | | TOTAL | | <u>1,090,248</u> | <u>1,083,012</u> |

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

ORAZUL ENERGY EGENOR S. EN C. POR A. AND SUBSIDIARY**CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE PERIODS OF THREE MONTHS AS OF MARCH 31, 2017 AND 2016****(In thousands of soles S/000)**

| | <u>Notes</u> | <u>2017</u> <u>S/000</u> | <u>2016</u> <u>S/000</u> |
|---|--------------|-----------------------------|-----------------------------|
| CONTINUOUS OPERATIONS | | | |
| Sale of energy | | 94,683 | 117,785 |
| Electrical energy transmission services | | <u>750</u> | <u>708</u> |
| Total | 17 | 95,433 | 118,493 |
| Costs of sale of energy and electrical energy transmission services | 18 | <u>(45,113)</u> | <u>(49,317)</u> |
| Gross profit | | <u>50,320</u> | <u>69,176</u> |
| Administrative expenses | 19 | (11,926) | (13,032) |
| Selling expenses | 20 | (1,020) | (1,288) |
| Other income | 21 | 10,597 | 12,141 |
| Other expenses | | (653) | (3,544) |
| Financial income | | 2,117 | 524 |
| Financial expenses | 22 | (3,727) | (4,028) |
| Exchange difference (net) | | <u>587</u> | <u>1,137</u> |
| Profit before income tax | | 46,295 | 61,086 |
| Income tax expense | 23 (b (i)) | <u>(14,126)</u> | <u>(17,196)</u> |
| Net profit for the year for continuous operations | | 32,169 | 43,890 |
| Other comprehensive income for the year | | <u>-</u> | <u>-</u> |
| Total comprehensive income for the year | | <u><u>32,169</u></u> | <u><u>43,890</u></u> |

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

ORAZUL ENERGY EGENOR S. EN C. POR A. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

AS OF MARCH 31, 2017 AND DECEMBER 31, 2016

(In thousands of soles S/000)

| | <u>Issued Capital Stock</u> | <u>Legal Reserve</u> | <u>Retained Earnings</u> | <u>Total Equity</u> |
|---|---------------------------------|----------------------|------------------------------|---------------------|
| | <u>S/000</u> | <u>S/000</u> | <u>S/000</u> | <u>S/000</u> |
| | <u>(Note 16 (a))</u> | <u>(Note 16 (b))</u> | <u>(Note 16 (c))</u> | |
| AS OF JANUARY 1, 2016 | 353,519 | 70,704 | 324,883 | 749,106 |
| Total comprehensive income for the year | - | - | 108,693 | 108,693 |
| Dividends declared in cash | - | - | (247,600) | (247,600) |
| AS OF DECEMBER 31, 2016 | 353,519 | 70,704 | 185,976 | 610,199 |
| Total comprehensive income for the year | - | - | 32,169 | 32,169 |
| AS OF MARCH 31, 2017 | <u>353,519</u> | <u>70,704</u> | <u>218,145</u> | <u>642,368</u> |

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

ORAZUL ENERGY EGENOR S. EN C. POR A. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE PERIODS OF THREE MONTHS AS OF MARCH 31, 2017 AND 2016

(In thousands of soles S/000)

| | 2017 | 2016 |
|---|----------------|------------------|
| | S/.000 | S/.000 |
| OPERATING ACTIVITIES: | | |
| Collection from: | | |
| Sale of energy and electrical energy transmission services | 101,321 | 132,040 |
| Other operating activities | 10,470 | 11,143 |
| Payments for/to: | | |
| Suppliers of goods and services | (37,105) | (52,523) |
| Income tax | (12,825) | (17,043) |
| Employees and social benefits | (25,796) | (25,013) |
| Taxes | (1,284) | (14,098) |
| Interests | (3,698) | (5,860) |
| Other operating activities | (7,875) | (5,090) |
| | <u>23,208</u> | <u>23,556</u> |
| Net cash and cash equivalents provided by operating activities | | |
| | <u>23,208</u> | <u>23,556</u> |
| INVESTMENT ACTIVITIES: | | |
| Collection from: | | |
| Sale of property, plant and equipment | - | 17 |
| Payments for: | | |
| Purchase of property, plant and equipment | (1,029) | (3,656) |
| Purchase of intangible assets | (55) | - |
| | <u>(1,084)</u> | <u>(3,639)</u> |
| Net cash and cash equivalents (used in) provided by investment activities | | |
| | <u>(1,084)</u> | <u>(3,639)</u> |
| FINANCING ACTIVITIES: | | |
| Payments for: | | |
| Capital reduction | - | - |
| Dividends | - | (247,600) |
| Loans to related entities | 47,362 | - |
| Financial obligations | - | - |
| | <u>47,362</u> | <u>(247,600)</u> |
| Net cash and cash equivalents used in financing activities | | |
| | <u>47,362</u> | <u>(247,600)</u> |
| EFFECT OF EXCHANGE DIFFERENCE ON CASH AND CASH EQUIVALENTS | <u>(1,253)</u> | <u>(2,404)</u> |
| NET (DECREASE) INCREASE OF CASH AND CASH EQUIVALENTS | 69,486 | (227,683) |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD | <u>30,978</u> | <u>348,199</u> |
| CASH AND CASH EQUIVALENT AT THE END OF THE PERIOD | <u>99,211</u> | <u>118,112</u> |

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

ORAZUL ENERGY EGENOR S. EN C. POR A. AND SUBSIDIARY

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS OF MARCH 31, 2017 AND DECEMBER 31, 2016 AND FOR THE PERIODS ENDED
MARCH, 2017 AND 2016.
(In thousands of soles (S/000), unless otherwise indicated)**

1. INCORPORATION, ECONOMIC ACTIVITY, APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS, MAIN AGREEMENTS, SUBSIDIARY AND OPERATING REGULATIONS

(a) Incorporation

Orazul Energy Egenor S. en C. por A. is a partnership limited by shares (hereinafter, the Company) and a subsidiary of Orazul Energy Peru Holdings S.R.L. which owns 99.97% of voting shares which are representative of its issued capital stock. The Company was incorporated in Peru under the name of Egenor S.A. on January 1, 1997, resulting from the merger of Empresa de Generacion Electrica Nor Peru S.A. (a company owned by the Peruvian government until August 1996) and Power North S.A.

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

(b) Economic activity

The Company is engaged in the generation of electrical energy within the area of its concessions and authorizations through its hydroelectric power plants Cañon del Pato and Carhuaquero, and also in the 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 the Company participates in.

During 2014, the thermoelectric power plants of Chimbote, Chiclayo, Piura and Trujillo were withdrawn from SEIN since they were not being operated, according to the termination of the generation permits approved by the Economic Operation Committee of the National Interconnected System (COES-SINAC, for its acronym in Spanish) (Note 11 (b)).

The Company's legal domicile, where its administrative offices are located, is Calle Dionisio Derteano 144, Floor 19, San Isidro, Lima, Peru.

(c) Approval of the consolidated financial statements

The consolidated financial statements for the year ended as of March 31, 2017, prepared under International Financial Reporting Standards, were approved for issuance by the Company's Management on May 15, 2017.

(d) **Main agreements**

(i) **Operation and maintenance agreement**

- (i.1) The Company and Aguaytia Energy del Peru S.R.L., a related entity, entered into an agreement whereby the Company provides operation and maintenance services from March 1, 2010, which can be renewed under the express consent of the entities each year (Note 8). The maturity of this agreement is on December 31, 2017.
- (i.2) The Company and Termoselva S.R.L., a related entity, entered into an agreement whereby the Company provides operation and maintenance services from September 1, 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.
- (i.3) The Company and Eteselva S.R.L., a related entity, entered into an agreement whereby the Company 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.

(ii) **Agreement for management and other services**

The Company and Aguaytia Energy del Peru S.R.L., Termoselva S.R.L. and Eteselva S.R.L., related entities, 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.

(e) **Subsidiary**

The Subsidiary is the entity 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.

The Subsidiary is 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 Subsidiary, as of March 31, 2017 and as of December, 2016, and the percentages of interest owned by the Company are detailed below:

| | Direct and indirect Equity interest | |
|-----------------|--|-------------|
| | 2017 | 2016 |
| | % | % |
| Etenorte S.R.L. | 99.99 | 99.99 |

(i) **Incorporation**

Etenorte S.R.L. (hereinafter, Etenorte) was incorporated on November 1, 2006, by the contribution of an equity block comprising assets and liabilities of the Company, related to the transmission of electricity.

(ii) Economic activity

Etenorte is engaged in the transmission of electrical energy in accordance with Peruvian regulations, through the concession of certain transmission lines in northern Peru. The Company is its main client, which represents approximately 82% of its operating income during 2017 (85% in 2016).

(iii) Amounts of the financial statements of the consolidated Subsidiary

Certain amounts of the financial statements of the Subsidiary as of March 31, 2017 and December, 2016, prepared under International Financial Reporting Standards, before elimination for consolidation purposes, are presented below:

| | <u>2017</u> S/000 | <u>2016</u> S/000 |
|----------------------------|----------------------|----------------------|
| Total assets | 37,753 | 36,485 |
| Total liabilities | <u>4,470</u> | <u>4,923</u> |
| Equity | <u>33,283</u> | <u>31,562</u> |
| Net profit | <u>1,721</u> | <u>1,565</u> |
| Other comprehensive income | <u>-</u> | <u>-</u> |

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

Main operating regulations and legal standards of the electrical sector, where the Company and Subsidiary 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 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 establishes 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 Subsidiary' 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 Subsidiary for the preparation and presentation of these consolidated financial statements are presented below:

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

The accompanying consolidated 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 and 2015 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 Subsidiary 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 payemnts (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

Functional currency

The Company and its Subsidiary prepare and present its consolidated financial statements in Soles, 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.

Presentation currency and unit of currency

These consolidated financial statements have been prepared in Soles, which is the currency of the primary economic environment of Orazul Energy Egenor S. en C. por A. and Subsidiary (“functional currency”).

(c) Foreign currency transactions

Operations performed in currencies other than the Peruvian soles 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 financial statements include the accounts of the Company and of those entities controlled by the Company (Subsidiary), as indicated in Note 1 (f). 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 Subsidiary to bring their accounting policies into line with those used by the controlling Company.

Total comprehensive income of the Subsidiary is attributed to the Company’s partners and to the non-controlling owners of the Subsidiary 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 Subsidiary 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 Subsidiary 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 Subsidiary 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 Subsidiary 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 realisable value. Net realisable 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*

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 Subsidiary 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.

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 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.

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

| | <u>Years</u> |
|-----------------------------------|--------------|
| Buildings and other constructions | 12 – 80 |
| Machinery and equipment | 3 – 35 |
| Vehicles | 2 – 24 |
| Furniture and fixtures | 10 – 16 |
| Sundry equipment | 2 – 28 |

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 equipment, prospectively incorporating the effects of any change in these estimates against net profit or loss in the period they are made.

(h) 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 recognised in profit or loss in the period in which they are incurred.

(i) Assets held for sale

Non-current assets and the disposal group are classified as held for sale if its carrying amount is recovered principally through a sale transaction rather than continuing use. This condition is valid when the sale is highly probable and the non-current asset (or disposal group) is eligible for immediate sale in its present condition. In addition, Management must be committed to a plan to sell the asset, which is expected to be performed within a year from the classification date, which is when the depreciation of these assets is suspended.

Non-current assets (or disposal group) classified as held for sale shall be measured at the lower of its carrying amount and fair value less costs to sell.

(j) Leases

Situations where the Company is the lessee

Operating leases

A lease is classified as an operating lease if the lessor does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset. Payments made under an operating lease including prepayments (net of any incentive received from the lessor) are charged to profit or loss based on the straight line method in the lease term.

Finance leases

A lease is classified as a finance lease if the Company and Subsidiary assume substantially all the risks and rewards incidental to ownership of an underlying asset. The amounts of finance leases are capitalized at the beginning of the lease at the lower value of comparing the fair value of the leased asset and the present value of minimum lease payments.

Each lease installment is distributed between the liability and financial charge in order to obtain a constant rate on the outstanding balance. The obligation for pertinent lease installments, net of financial charges, is include in financial obligations. The component of financial cost is treated as a debt cost and is recognized in profit or loss or is capitalized during the lease term in order to obtain a regular and constant interest rate on the liability balance for each period.

The depreciation of leased assets is calculated using the straight line method according to the useful life of assets on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives. Corresponding obligations are recognized as liabilities.

The useful life, residual value and depreciation method are reviewed at the end of each reporting period. Any change in these estimates will be adjusted prospectively.

(k) Impairment of long-term assets

The Company and Subsidiary 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 Subsidiary 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 its 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.

(l) Provisions

Provisions are recognized only when the Company and Subsidiary have a present obligation (legal or constructive) as a result of a past event, it is probable that the Company and Subsidiary 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.

(m) Contingent liabilities and assets

Contingent liabilities are not recognized in the consolidated financial statements, but are only disclosed in a note 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 financial statements, but are only disclosed in a note to the consolidated 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 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 financial statements in the period when it is determined that an inflow of resources is virtually certain to occur.

(n) Employee benefits

Employee benefits include, among others, short-term benefits, such as wages, salaries and social security contributions, annual paid leaves, paid sick leaves, and profit-sharing and incentives, if paid within twelve months following the end of the period. These benefits are recognized against profit or loss for the period when the employee has provided services that entitle them to receive those benefits. These obligations are presented as part of the liabilities for employee benefits in the consolidated statement of financial position.

(o) 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.

Provision of services and others

- 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.
- Revenue from management, administration and maintenance services are recognized in the month when such services are provided.
- 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 Subsidiary 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 as a reference.

Costs and expenses

- 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.
- The payroll cost related to management, administration and maintenance are recognized when accrued.
- Other costs and expenses are recognized when accrued.

(p) 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 Subsidiary 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 Subsidiary 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 Subsidiary 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.

(q) 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.

(r) Segment information

Information reported to the chief operating decision maker, who is the CEO, for the purposes of resources allocation and assessment of segment performance. The CEO of the Company have chosen to organize the Company and Subsidiary in a single segment information, and is presented on an entity level basis, due to the Company and its Subsidiary has the same nature of economic activities or class of customers for their services and are subject to the same regulatory environment of the electrical sector. Therefore, the Company and Subsidiary have determined that they operate in a single operating and reportable segment.

The Company and Subsidiary do not provide services to any foreign customers, the total customers are domestics and during 2017 and 2016, have two external customers which individual sales are higher than 10% of the consolidated sales. The Company and Subsidiary's non-current assets are located in Peru and all sales are generated in Peru.

The measurement of segment profits is based on profit before income tax as presented in the consolidated statements of profit or loss and other comprehensive income.

(s) Critical accounting judgments and key sources of uncertainty

Responsibility over information and estimations made

The Company and Subsidiary Management is responsible for the information contained in these consolidated financial statements. For the preparation of these consolidated 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 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 (o)).
- Energy and power purchases not billed provision (Note 2 (o)).
- Estimate for electric energy transmission revenues (Note 2 (o)).

- Useful life of property, plant and equipment (Note 2 (g)).
- Impairment losses on specific assets (Note 2 (f), (g), (k)).
- Current and deferred income tax determination (Note 2 (p)).
- Probability of contingencies (Note 2 (m)).

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 Subsidiary compare the carrying amount of the assets with their recoverable value at least annually and whenever there are indications, applying the accounting policy described in Note 2 (k).

The methodology used by the Company and Subsidiary 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 generation plants for the purpose of evaluating the Company's impairment; taking into account the business strategies are defined based on the client portfolio and not on an individual basis of each plant.

Useful life of property, plant and equipment

As described in Note 2(g), the Company and Subsidiary review the estimated useful life of its property, plant and equipment. In 2016, the management determined with its internal specialist that there were no significant changes on regard to the useful life estimate of the assets related to the hidroelectrical plants 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.

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's tax balances (Notes 24 and 25).

3. NEW STANDARDS AND INTERPRETATIONS INTERNATIONALLY ISSUED

- (a) *New IFRSs, interpretations and modifications to existant 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 Subsidiary 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 financial statements due to this IFRS is not applicable to the operation of the Company and Subsidiary.

- ***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 financial statements as the Company and Subsidiary 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 financial statements as the Company and Subsidiary did not have any transactions or information that would need further aggregated or disaggregated 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 Subsidiary 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 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 Subsidiary 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 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 Subsidiary 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 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.*** 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 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, have no a material impact on reported amounts and disclosures of the consolidated financial statements of the Company and Subsidiary. However, it is not feasible to provide a reasonable estimate of the impact of IFRS 15 until the Company and Subsidiary 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.

As of December 31, 2016, the Company and its Subsidiary have non-cancellable operating lease commitment of US\$881 per year for office space. IAS 17 does not require the recognition of any right-of-use or liability for future payments for these leases; instead, certain information is disclosed as operating lease commitment in Note 29. A preliminary assessment indicates that these arrangement may meet the definition of a lease under IFRS 16, and hence the Company and its Subsidiary will not recognize a right-of-use asset and a corresponding liability in respect of all these unless they qualify for short-term leases upon the application of IFRS 16. The new requirement to recognize right-of-use assets and a related liability is expected to have an impact on the amounts recognized in the consolidated financial statements and the Management are currently assessing its potential impact. It is not practicable to provide a reasonable estimate of the financial effect until the directors complete the review.

In contrast, for finance leases where the Company and its Subsidiary are a lessee, as they already recognize an asset and a related finance lease liability for the lease arrangement, the Management do not anticipate that the application of IFRS 16 will have a significant impact on the amounts recognized in the consolidated financial statements.

- ***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 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 Subsidiary 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 financial statements to evaluate changes in liabilities arising from financing activities.

Management is evaluating the possible impact that amendment will have on the consolidated 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 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 financial statements since the Company and Subsidiary do 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 financial statements since the Company and Subsidiary 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 Subsidiary since it does 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 Subsidiary since do not execute those types of operations.

4. FINANCIAL INSTRUMENTS AND FINANCIAL RISK

Categories of financial instruments

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

| | <u>2017</u> | <u>2016</u> |
|---|----------------|----------------|
| | <u>S/. 000</u> | <u>S/. 000</u> |
| Financial assets: | | |
| Loans and receivable (including cash and cash equivalents) | | |
| Cash and cash equivalents | 99,211 | 30,978 |
| Trade accounts receivable (net) | 36,130 | 40,674 |
| Other accounts receivable | 1,703 | 1,394 |
| Accounts receivable from related entities | 167,209 | 212,805 |
| Total | <u>304,253</u> | <u>285,851</u> |
| Financial liabilities: | | |
| At amortized cost | | |
| Financial obligations | 247,294 | 256,144 |
| Trade accounts payable | 16,281 | 20,304 |
| Other accounts payable | 638 | 571 |
| Accounts payable to related entities | - | 316 |
| Total | <u>264,213</u> | <u>277,335</u> |

Financial risks

The Company and Subsidiary are constantly exposed to credit, liquidity and market risks, which arise from the variation of exchange and interest rates. These risks are concentrated on 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 Subsidiary mainly bill in Peruvian soles. The exchange rate risk in the Company and Subsidiary mainly arises from cash and cash equivalents, accounts receivable from related entities and from financial obligations held in foreign currency. The Company and Subsidiary 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 March 31, 2017, and December, 2016, reflected according to the basis of accounting described in Note 2 (c) to the consolidated financial statements, is presented below:

| | <u>2017</u> | <u>2016</u> |
|---|-----------------|----------------|
| | US\$000 | US\$000 |
| Assets: | | |
| Cash and cash equivalents | 13,934 | 7,546 |
| Other accounts receivable | 119 | 116 |
| Accounts receivable from related entities | 51,545 | 63,389 |
| Total | <u>65,598</u> | <u>71,051</u> |
| Liabilities: | | |
| Financial obligations | 76,184 | 76,233 |
| Trade accounts payable | 591 | 979 |
| Other accounts payable | 99 | 99 |
| Accounts payable to related entities | 10 | 10 |
| Total | <u>76,884</u> | <u>77,311</u> |
| (Liability)/Asset position (net) | <u>(11,286)</u> | <u>(6,260)</u> |

The balances of financial assets and liabilities in foreign currency correspond to balances in U.S. dollars and are expressed in Peruvian soles 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 S/3.246 for selling and S/3.242 for buying (S/3.360 for selling and S/3.352 for buying as of December 31, 2016) per US\$1.00.

As of March 31, 2017, the Company and Subsidiary recorded foreign exchange profit for S/13,634 (S/36,325 in 2016) and foreign exchange losses for S/13,047 (S/35,188 in 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 Peruvian Soles (S/), 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 and equity</u> |
|--------------|--|---|
| | % | S/.000 |
| 2017: | | |
| US\$ / Soles | +10% | (3,664) |
| US\$ / Soles | -10% | 3,664 |
| 2016: | | |
| US\$ / Soles | +10% | (2,160) |
| US\$ / Soles | -10% | 2,160 |

(ii) **Interest rate risk**

The Company and Subsidiary have financial assets related to loans granted to related entities that accrue interests at fix rates. Sales and operating cash flows of the Company and Subsidiary are independent of changes in market interest rates.

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

(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 Subsidiary. Financial instruments that partially expose the Company and Subsidiary to credit risk concentrations mainly comprise cash and cash equivalents and trade accounts receivable.

Management considers that this risk is mitigated since trade accounts receivable are concentrated on highly renowned entities in the international market and the policy of the Company and Subsidiary to continuously assess the credit records of customers as well as their financial conditions to meet their obligations.

Regarding deposits in banks, the Company and Subsidiary 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 Subsidiary 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 Subsidiary 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 March 31, 2017 and as of December, 2016; except for the loan granted to related entities during 2016 which maturity date is in 2026.

The analysis of financial liabilities, including interest payable of the Company and Subsidiary, classified per maturity, considering the remaining period to reach such maturity at the date of the consolidated statement of financial position, is presented below:

| | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | More than 5 years | Total |
|---|-----------------------------|----------------------------------|----------------------------------|------------------------------|----------------|
| | S/000 | S/000 | S/000 | S/000 | S/000 |
| 2017: | | | | | |
| Financial obligations | 11,016 | 14,790 | 44,369 | 298,531 | 368,706 |
| Trade accounts payable | 16,281 | - | - | - | 16,281 |
| Other accounts payable | 638 | - | - | - | 638 |
| Total | <u>27,935</u> | <u>14,790</u> | <u>44,369</u> | <u>298,531</u> | <u>385,625</u> |
| 2016: | | | | | |
| Financial obligations | 15,309 | 15,309 | 45,927 | 309,015 | 385,560 |
| Trade accounts payable | 20,304 | - | - | - | 20,304 |
| Other accounts payable | 571 | - | - | - | 571 |
| Accounts payable to related entities | 316 | - | - | - | 316 |
| Total | <u>36,500</u> | <u>15,309</u> | <u>45,927</u> | <u>309,015</u> | <u>406,751</u> |

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 Subsidiary, 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 Subsidiary comprises net debt (financial obligations less cash and cash equivalents) and consolidated equity.

The net debt ratio comprises the following:

| | <u>2017</u> S/.000 | <u>2016</u> S/.000 |
|---------------------------|-----------------------|-----------------------|
| Financial obligations | 247,294 | 256,144 |
| Cash and cash equivalents | <u>(99,211)</u> | <u>(30,978)</u> |
| Total net debt | <u>148,083</u> | <u>225,166</u> |
| Total equity | <u>642,369</u> | <u>610,199</u> |
| Net debt ratio | <u>0.23</u> | <u>0.37</u> |

(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 March 31, 2017 and as of December, 2016, Management of the Company and Subsidiary considers that the accounting values 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, except for the non-current account receivable with related entity, in less than one year, so it has been considered that their fair value is not significantly different than their carrying amount. The Company's management considers that the carrying amount of the non-current account receivable with related entity approximate their fair value, since the receivable accrued an interest rate that is similar to market interest.
- In case of long-term financial obligations of the Company, as of December 31, 2016, the fair value of long-term financial obligations is S/264,429 (S/246,330 in 2015). For the calculation of such fair value, Management has projected each long-term debt according to the terms and conditions established at the contracting date and has discounted them at interest rates obtained from the Superintendence of Banking and Insurance, current in the market. Market rates have been obtained through bank quotations received by the Company. This fair value is classified as Level 2 since the measurement corresponds to variables that are based on observable market data, either directly or indirectly, other than quoted prices included in Level 1.

- 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> | <u>2016</u> |
|-----------------------------|---------------|---------------|
| | S/.000 | S/.000 |
| Cash on hands and banks (a) | 15,829 | 30,978 |
| Time deposits (b) | <u>83,382</u> | <u>-</u> |
| Total | <u>99,211</u> | <u>30,978</u> |

- (a) Cash on hands and 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 March 31, 2017, time deposits correspond to funds held by the Company and Subsidiary in local banks, in Peruvian soles and U.S. dollars, which mature in between 6 and 8 days and accrue interests at an annual rate of 4.26% for deposits in soles and 0.66% in U.S. dollars.

6. TRADE ACCOUNTS RECEIVABLE (NET)

Trade accounts receivables (net) comprise the following:

| | <u>2017</u> | <u>2016</u> |
|---|----------------|----------------|
| | S/.000 | S/.000 |
| Energy and power delivered not billed | 254 | 247 |
| Invoices | 4,717 | 8,619 |
| Estimate for services provided not billed | <u>33,100</u> | <u>33,749</u> |
| Total | 38,071 | 42,615 |
| Impairment estimate | <u>(1,941)</u> | <u>(1,941)</u> |
| Total | <u>36,130</u> | <u>40,674</u> |

The average credit period granted to customers of the Company and Subsidiary ranges between 7 and 15 days and between 30 and 60 days, respectively.

Once the terms indicated above expire, overdue balances accrue interests. The interest is determined by the annual average of the active and passive rate of the local and foreign currency. As of March 31, 2017, the annual average rate for the Company and Subsidiary are 9.88% and 3.89% for local and foreign currency, respectively (10.31% and 3.9% as of December 31, 2016 for local and foreign currency, respectively).

As of March 31, 2017, the Company and Subsidiary hold accounts receivable within their maturity terms for S/30,480 (S/30,409 as of December 31, 2016).

As of March 31, 2017, the Company and Subsidiary hold trade accounts receivable overdue but not impaired trade accounts receivable for S/5,650 (S/7,265 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 Management of the Company and Subsidiary considers that those amounts are still recoverable.

The aging of these balances is summarized as follows:

| | <u>2017</u> | <u>2016</u> |
|--------------------------------|--------------|--------------|
| | S/.000 | S/.000 |
| Overdue for up to 30 days | 3,657 | 7,237 |
| Overdue between 31 and 90 days | 1,993 | 28 |
| Total | <u>5,650</u> | <u>7,265</u> |

Energy and power delivered 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 March 31, 2017, estimated energy delivered but not billed includes the amount of S/1,597 (S/1,597 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 (g) of the consolidated financial statements.

Energy and power delivered but not billed as of March 31, 2017 and as of December of 2016 was billed and collected substantially in April 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> | <u>2016</u> |
|-----------------|--------------|--------------|
| | S/.000 | S/.000 |
| Opening balance | 1,941 | 1,941 |
| Additions | - | - |
| Closing balance | <u>1,941</u> | <u>1,941</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 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 March 31, 2017 and as of December 2016.

7. OTHER ACCOUNTS RECEIVABLE

Other accounts receivable comprise the following:

| | Current | | Non Current | |
|------------------------------|---------------|---------------|---------------|---------------|
| | 2017 S/000 | 2016 S/000 | 2017 S/000 | 2016 S/000 |
| Financial assets: | | | | |
| Claims to COES | 467 | 467 | - | - |
| Sundry items | 1,236 | 927 | - | - |
| Sub total | 1,703 | 1,394 | - | - |
| Non-financial assets: | | | | |
| Claims to SUNAT | - | - | 1,377 | 1,377 |
| Total | 1,703 | 1,367 | 1,377 | 1,377 |

8. BALANCES AND TRANSACTIONS WITH RELATED ENTITIES

The parent Company of the Company and Subsidiary is Orazul Energy Peru Holding S.R.L., which belonged to the group of Duke Energy Corporation (United States of America) until December 20, 2016.

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

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

| | Sales | | | Others |
|------------------------------------|--|--|--|---------------------------------------|
| | Sale of active and reactive electrical energy S/000 | Management and administrative services S/000 (Note 21) | Operation and maintenance services S/000 (Note 21) | Energy transmission services S/000 |
| 2017 | | | | |
| Orazul Energy Peru Holdings S.R.L. | - | - | - | - |
| Aguaytía Energy del Perú S.R.L. | - | 1,745 | 3,392 | - |
| Termoselva S.R.L. | - | 1,745 | 1,225 | 16 |
| Eteselva S.R.L. | - | 871 | 897 | 84 |
| Others related entities | - | - | - | - |
| Total | - | 4,361 | 5,514 | 100 |
| 2016 | | | | |
| Orazul Energy Peru Holdings S.R.L. | - | - | - | - |
| Aguaytía Energy del Perú S.R.L. | - | 2,243 | 3,825 | - |
| Termoselva S.R.L. | 147 | 1,641 | 1,458 | (9) |
| Eteselva S.R.L. | - | 721 | 1,090 | (101) |
| Others related entities | - | - | - | - |
| Total | 147 | 4,605 | 6,373 | (110) |

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

| | <u>Relation</u> | <u>2017</u> S/.000 | <u>2016</u> S/.000 |
|--|-----------------|-----------------------|-----------------------|
| Non-trade accounts receivable: | | | |
| Aguaytía Energy del Perú S.R.L. (a) | Related entity | 1,821 | 2,010 |
| Termoselva S.R.L. (a) | Related entity | 1,014 | 51 |
| Eteselva S.R.L. (a) | Related entity | 598 | - |
| Duke Energy International Duqueco S.P.A. | Related entity | 1,769 | 1,788 |
| Orazul Energy Perú Holdings S.R.L. | Parent Company | 25 | - |
| Orazul Energía Perú S.A.C. | Related entity | 277 | - |
| Other related entities | Related entity | 6 | 17 |
| Total | | <u>5,510</u> | <u>3,866</u> |
| Loans granted - current portion | | | |
| Aguaytía Energy del Perú S.R.L. (c) | Related entity | | |
| Capital | | 9,726 | 36,872 |
| Intereses | | 18 | 73 |
| Total | | <u>9,744</u> | <u>36,945</u> |
| Termoselva S.R.L (c) | Related entity | | |
| Capital | | - | 13,408 |
| Intereses | | - | 27 |
| Total | | <u>-</u> | <u>13,435</u> |
| Eteselva S.R.L. (c) | Related entity | | |
| Capital | | - | 3,352 |
| Intereses | | - | 7 |
| Total | | <u>-</u> | <u>3,359</u> |
| | | <u>9,744</u> | <u>53,739</u> |
| | | <u>15,254</u> | <u>57,605</u> |
| Loans granted - non-current portion | | | |
| Orazul Energía Perú S.A.C. (b) | Related entity | | |
| Capital | | 149,881 | 154,910 |
| Intereses | | 2,074 | 290 |
| Total | | <u>151,955</u> | <u>155,200</u> |
| Trade payable accounts: | | | |
| Eteselva S.R.L. | Related entity | 33 | - |
| | | <u>33</u> | <u>-</u> |
| Non-trade payable accounts: | | | |
| Eteselva S.R.L | Related entity | - | 289 |
| Other related entities | Related entity | - | 27 |
| Total | | <u>-</u> | <u>316</u> |

- (a) As of March 31, 2017, this item corresponds to the outstanding balance for administration, operation and maintenance services (Note 1).
- (b) As of March 31, 2017, corresponds to non-current loan with Orazul Energia Peru S.A.C. The loan matures on December 2026 and accrues a 5% interest per year; accrued interests and the loan will be paid at maturity.
- (c) Correspond to current term loans to related entities, which mature between May and December 2017. These loans accrue an interest on a 2.2% rate per year.

Remunerations to key personnel

Remunerations paid to key personnel who have the authority and responsibility of planning, managing and controlling the activities of the Company, whether directly or indirectly, amounted to S/1,331 and S/1,360 in 2017 and 2016, respectively.

9. INVENTORIES (NET)

Inventories (net) comprise the following:

| | <u>2017</u> | <u>2016</u> |
|--------------------------|----------------|----------------|
| | <u>S/.000</u> | <u>S/.000</u> |
| Supplies and spare parts | 6,197 | 6,263 |
| Fuel and lubricants | 294 | 332 |
| | <u>6,491</u> | <u>6,595</u> |
| Obsolescence estimate | <u>(2,217)</u> | <u>(2,203)</u> |
| Total | <u>4,274</u> | <u>4,392</u> |

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

| | <u>2017</u> | <u>2016</u> |
|-----------------|---------------|---------------|
| | <u>S/.000</u> | <u>S/.000</u> |
| Opening balance | 2,203 | 2,018 |
| Increase | - | 571 |
| Recovery | - | (386) |
| Others | 14 | - |
| Closing balance | <u>2,217</u> | <u>2,203</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 March 31, 2017 and as of December, 2016.

10. PROPERTY, PLANT AND EQUIPMENT (NET)

The movement in the cost, accumulated depreciation and impairment loss of property, plant and equipment (net) during 2017 and 2016 was as follows:

| | <u>Land</u> S/000 | <u>Buildings and other constructions</u> S/000 | <u>Machinery and equipment</u> S/000 | <u>Vehicles</u> S/000 | <u>Furniture and fixtures</u> S/000 | <u>Sundry equipment</u> S/000 | <u>Cost for disposal of assets</u> S/000 | <u>Constructions in process</u> S/000 | <u>Total</u> S/000 |
|----------------------------------|----------------------|---|---|--------------------------|--|--------------------------------------|---|--|-----------------------|
| COST: | | | | | | | | | |
| As of January 1, 2016 | 9,469 | 1,143,275 | 803,536 | 10,423 | 3,759 | 52,742 | 135 | 9,707 | 2,033,046 |
| Additions | - | 6,071 | 5,065 | 789 | 5 | 6,909 | - | 15,581 | 34,420 |
| Sales | - | (2,071) | (48,328) | (300) | (136) | (1,098) | - | - | (51,933) |
| Transfers | - | - | - | - | - | - | - | (18,839) | (18,839) |
| As of December 31, 2016 | 9,469 | 1,147,275 | 760,273 | 10,912 | 3,628 | 58,553 | 135 | 6,449 | 1,996,694 |
| Additions | - | - | - | - | - | - | - | 1,028 | 1,028 |
| Sales | - | - | - | - | - | - | - | - | - |
| Transfers | - | - | - | - | - | - | - | - | - |
| As of March 31, 2017 | 9,469 | 1,147,275 | 760,273 | 10,912 | 3,628 | 58,553 | 135 | 7,477 | 1,997,722 |
| ACCUMULATED DEPRECIATION: | | | | | | | | | |
| As of January 1, 2016 | - | 556,694 | 582,160 | 6,745 | 2,684 | 39,495 | 135 | - | 1,187,913 |
| Additions | - | 19,510 | 18,525 | 1,432 | 160 | 3,693 | - | - | 43,320 |
| Sales | - | (1,194) | (38,468) | (282) | (120) | (997) | - | - | (41,061) |
| As of December 31, 2016 | - | 575,010 | 562,217 | 7,895 | 2,724 | 42,191 | 135 | - | 1,190,172 |
| Additions | - | 4,962 | 4,657 | 353 | 39 | 1,041 | - | - | 11,052 |
| Sales | - | - | - | - | - | - | - | - | - |
| As of March 31, 2017 | - | 579,972 | 566,874 | 8,248 | 2,763 | 43,232 | 135 | - | 1,201,224 |
| IMPAIRMENT LOSS: | | | | | | | | | |
| As of January 1, 2016 | - | 2,787 | 27,941 | - | 3 | 5 | 113 | - | 30,849 |
| Additions | - | - | - | - | - | - | - | - | - |
| Recovery | - | - | (10,027) | - | - | - | - | - | (10,027) |
| As of December 31, 2016 | - | 2,787 | 17,914 | - | 3 | 5 | 113 | - | 20,822 |
| Additions | - | - | - | - | - | - | - | - | - |
| Recovery | - | (29) | (50) | - | (0) | (1) | - | - | (80) |
| As of March 31, 2017 | - | 2,758 | 17,864 | - | 3 | 4 | 113 | - | 20,742 |
| NET COST: | | | | | | | | | |
| As of March 31, 2017 | 9,469 | 564,545 | 175,535 | 2,664 | 862 | 15,317 | (113) | 7,477 | 775,756 |
| As of December 31, 2016 | 9,469 | 569,478 | 180,141 | 3,017 | 901 | 16,357 | (113) | 6,449 | 785,700 |
| As of January 1, 2016 | 9,469 | 583,794 | 193,435 | 3,678 | 1,072 | 13,242 | (113) | 9,707 | 814,284 |

- (a) The expense for depreciation of the period of property, plant and equipment for the year ended March 31, 2017 and December, 2016, have been recorded in the following items in the consolidated statement of profit or loss and other comprehensive income:

| | <u>2017</u> | <u>2016</u> |
|--|---------------|---------------|
| | <u>S/000</u> | <u>S/000</u> |
| Costs of sale of electrical energy (Note 18) | 10,752 | 42,459 |
| Administrative expenses (Note 19) | <u>300</u> | <u>861</u> |
| Total | <u>11,052</u> | <u>43,320</u> |

- (b) Accumulated impairment loss as of March 31, 2017 and December, 2016, mainly corresponds to the impairment of thermoelectric power plants for S/16,922 and S/ 26,689, respectively; since their carrying amounts exceeded their recoverable values. Management of the Company and Subsidiary considers that, as of March 31, 2017 and December, 2016, provisions are no longer required, other than the estimate previously recognized in the records for the impairment of property, plant and equipment.
- (c) As of March 31, 2017 and December, 2016, the Company and Subsidiary do not have commitments for the acquisition of property, plant and equipment.
- (d) According to the policies established by Management, as of March 31, 2017 and December, 2016, the Company and Subsidiary have hired insurance policies to cover the potential risks to which certain items of their property, plant and equipment are subject, as well as possible claims that may be filed due to the performance of their operations. The Company and Subsidiary understand that those insurance policies sufficiently cover the risks they are exposed to.

11. FINANCIAL OBLIGATIONS

Financial obligations comprise the following:

| Creditors | Type of obligation | Maturity | Authorized and used amount US\$000 | Outstanding balance | | | | | |
|---|--------------------|---------------|---------------------------------------|---------------------|----------------|----------------|----------------|----------------|----------------|
| | | | | Total | | Current | | Non Current | |
| | | | | 2017 S/.000 | 2016 S/.000 | 2017 S/.000 | 2016 S/.000 | 2017 S/.000 | 2016 S/.000 |
| Bonds - 1st Serial - Second issuance (b.1) | Corporate bond | November 2026 | 35,000 | 114,637 | 120,703 | 1,027 | 3,103 | 113,610 | 117,600 |
| Bonds - 2nd Serial - Second issuance (b.2) | Corporate bond | February 2024 | 40,000 | 132,657 | 135,441 | 2,817 | 1,041 | 129,840 | 134,400 |
| Total | | | | 247,294 | 256,144 | 3,844 | 4,144 | 243,450 | 252,000 |

The maturity of financial obligations, including interests, is presented below:

| | <u>2017</u> | <u>2016</u> |
|----------------|----------------|----------------|
| | <u>S/.000</u> | <u>S/.000</u> |
| 2017 | 11,016 | 15,309 |
| 2018 | 14,790 | 15,309 |
| De 2019 a 2026 | <u>342,899</u> | <u>354,942</u> |
| Total | <u>368,705</u> | <u>385,560</u> |

(a) Corporate bonds:

- (b.1) The second issuance of the first series of 35,000 bonds with a price of US\$1,000 per bond was performed in November 2011. These resources were used for working capital. These bonds accrue annual interests of 6.375%, those interests have a semiannual maturity and the principal will be paid in November 2026 and is secured by the equity of the Company.
- (b.2) The second issuance of the second series of 40,000 bonds with a price of US\$1,000 per bond was performed in February 2012. These resources were used for working capital. These bonds accrue annual interests of 5.8125%, those interests have a semiannual maturity and the principal will be paid in February 2024 and is secured by the equity of the Company.

During the effective term of corporate bonds, the Company will be subject to the following restrictions and responsibilities:

- In case one or more events of default occur and if such default is not corrected, the Company will not be able to apply profits for dividend allocation. Also, the Company will not be able to settle the payment of dividends either in cash or kind (except those arising from the capitalization of profit or reserves) or to pay any amount for those concepts.
- The Company agrees not to make substantial changes to the main line and nature of its business. Also, the Company may not carry out mergers, split/offers or acquisition of companies or businesses or corporate reorganizations that may reasonably cause a substantially adverse effect or change in its financial or economic situation.
- The Company agrees not to incur any debt if the division of its debt by net equity is higher than 1.5 as a result of such debt.
- The Company agrees to maintain insurance policies effective that cover its generation and transmission assets and that have coverage, deductibles and insured amounts that result reasonable and usual for private companies engaged in the generation and distribution of electrical energy.

Management considers that these restrictions and responsibilities required from the Company are being complied with appropriately as of March 31, 2017 and as of December 2016.

12. TRADE ACCOUNTS PAYABLE

Trade accounts payable comprise the following:

| | <u>2017</u> | <u>2016</u> |
|--|---------------|---------------|
| | <u>S/.000</u> | <u>S/.000</u> |
| Invoices | 4,368 | 9,922 |
| Goods and services received but not billed | 11,880 | 10,382 |
| Related entity | 33 | - |
| Total | <u>16,281</u> | <u>20,304</u> |

Trade accounts payable are mainly denominated in Peruvian soles, 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>2016</u> |
|-----------------------------------|---------------|---------------|
| | <u>S/.000</u> | <u>S/.000</u> |
| Financial liabilities: | | |
| Guarantee deposits | 544 | 555 |
| Sundry items | 94 | 16 |
| Sub-total | <u>638</u> | <u>571</u> |
| Non-financial liabilities: | | |
| Rural electricity contribution | 212 | 421 |
| Value-Added Tax | 4,439 | 2,710 |
| Other taxes | 459 | 496 |
| Sub-total | <u>5,110</u> | <u>3,627</u> |
| Total | <u>5,748</u> | <u>4,198</u> |

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

14. LIABILITIES FOR EMPLOYEE BENEFITS

The liabilities for employee benefits comprise the following:

| | <u>2017</u> | <u>2016</u> |
|--------------------------------|---------------|---------------|
| | <u>S/000</u> | <u>S/000</u> |
| Employee profit-sharing | 1,912 | 8,531 |
| Vacations | 6,107 | 6,034 |
| Bonuses to employees | 1,304 | 9,399 |
| Employee severance indemnities | 1,275 | 497 |
| Pension Fund Administration | 354 | 338 |
| ESSALUD | 197 | 189 |
| Sundry items | 36 | 21 |
| Total | <u>11,185</u> | <u>25,009</u> |

The liabilities for employee benefits are mainly denominated in Peruvian soles and have current maturity.

15. PROVISIONS

The Company is subject to legal proceedings and claims which arise in the ordinary course of its business. The Company has recorded a provision for labor and administrative claims where the risk of loss is considered probable. The final resolution of these potential claims is not likely to have a material effect on the results of operations, cash flow or the financial position of the Company.

The movement of provisions comprises the following:

| | <u>Balance at the</u> | | | <u>Balance at the</u> |
|---------------------------|------------------------------|-----------------|------------------|------------------------|
| | <u>beginning of the year</u> | <u>Addition</u> | <u>Deduction</u> | <u>end of the year</u> |
| | <u>S/000</u> | <u>S/000</u> | <u>S/000</u> | <u>S/000</u> |
| Labor | 2,400 | 630 | (118) | 2,912 |
| Administrative | 355 | - | - | 355 |
| Provision for dismantling | <u>2,386</u> | <u>-</u> | <u>-</u> | <u>2,386</u> |
| Total | <u>5,141</u> | <u>630</u> | <u>(118)</u> | <u>5,653</u> |

- (a) The Company is party to a sanctioning proceeding started by OSINERGMIN for the alleged non-compliance of its obligation to keep and maintain its facilities in suitable conditions for their operation, in connection with which OSINERGMIN imposed a fine of 187 UIT. The Company has questioned the amount of the fine and has recorded a provision for this contingency for S/355.
- (b) The Company is party to certain labor proceedings in connection with which they could be subject to claims that amount to approximately S/4.3 million, for which the Company has provisioned the aggregate amount of S/2.9 million. These proceedings include claims related to vacations, arbitrary dismissals, payment of profit sharing, altered nature of labor intermediation agreements, among others.

16. EQUITY

(a) Issued capital stock

As of March 31, 2017 and as of December 2016, issued capital stock is represented by 353,518,444 common shares with a face value of S/1.00 per share, duly authorized, issued and paid.

The Partners' Meeting, held on June 2, 2003, agreed to modify the corporate regime of the Company, from a corporation into a partnership limited by shares, which is composed by general partners who have a joint and several liabilities for social obligations and limited partners who only respond for the part of capital they have committed to contribute with. Additionally, it was agreed that Orazul Energy Peru Holdings S.R.L. will participate as a general partner and assume the administration of the Company, while other partners will participate as limited partners.

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

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(b) Legal reserve

According to the General Business Law, legal reserve is established by transferring a minimum of 10% of net profit from each period, after deducting accumulated losses, until it achieves an amount equivalent to the fifth part of capital. In the absence of undistributed profit or freely available reserves, the legal reserve shall be applied to offset losses, and must be replaced. The legal reserve can be capitalized but shall also be replaced.

The Annual Mandatory Partners' Meeting held on March 27, 2015 agreed to transfer from the legal reserve to retained earning the amount of S/24,974, which corresponds to the part in excess to reach the fifth part of issued capital stock.

As of March 31, 2017 and December, 2016 it is no necessary to establish new increases on legal reserve, as the Company has accomplished the fifth part of its issued capital stock.

(c) 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 24 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.

(d) Dividend distribution

The Annual Mandatory Partners' Meeting held on April 12, 2017 agreed not to distribute dividends.

17. SALE OF ENERGY AND ELECTRICAL ENERGY TRANSMISSION SERVICES

For the years ended March 31, the sale of energy and electrical energy transmission services include the following credit balances:

| | <u>2017</u> | <u>2016</u> |
|--------------------------------|---------------|----------------|
| | <u>S/.000</u> | <u>S/.000</u> |
| Sale of energy | 53,121 | 71,683 |
| Sale of power | 28,347 | 34,012 |
| COES compensation | 13,214 | 12,091 |
| Electrical energy transmission | <u>751</u> | <u>707</u> |
| Total | <u>95,433</u> | <u>118,493</u> |

18. COSTS OF SALE OF ENERGY AND ELECTRICAL ENERGY TRANSMISSION SERVICES

For the years ended March 31, the costs of sale of energy and electrical energy transmission services include the following debit balances:

| | <u>2017</u> | <u>2016</u> |
|--|---------------|---------------|
| | <u>S/.000</u> | <u>S/.000</u> |
| Supplies, spare parts and fuel | 614 | 722 |
| Purchase of energy and Transmission charges | 19,493 | 23,547 |
| Personnel charges | 8,117 | 8,846 |
| Services provided by third parties | 3,828 | 4,058 |
| Taxes | 1,448 | 1,091 |
| Sundry management charges | 416 | 316 |
| Estimates of the period: | | |
| Depreciation (Nota 10) | 10,752 | 10,347 |
| (Recovery) loss for obsolescence of Property, plant and equipment | (1) | (107) |
| Employee severance indemnities | <u>446</u> | <u>497</u> |
| Total | <u>45,113</u> | <u>49,317</u> |

19. ADMINISTRATIVE EXPENSES

For the years ended March 31, administrative expenses include the following debit balances:

| | <u>2017</u> | <u>2016</u> |
|------------------------------------|---------------|---------------|
| | <u>S/.000</u> | <u>S/.000</u> |
| Personnel charges | 6,038 | 6,543 |
| Services provided by third parties | 2,609 | 2,670 |
| Taxes | 1,527 | 2,039 |
| Sundry management charges | 974 | 1,052 |
| Estimates of the period: | | |
| Depreciation (Note 10) | 300 | 287 |
| Amortization | 121 | 135 |
| Employee severance indemnities | <u>357</u> | <u>306</u> |
| Total | <u>11,926</u> | <u>13,032</u> |

20. SELLING EXPENSES

For the years ended March 31, selling expenses include the following debit balances:

| | <u>2017</u> | <u>2016</u> |
|------------------------------------|---------------|---------------|
| | <u>S/.000</u> | <u>S/.000</u> |
| Personnel charges | 941 | 1,026 |
| Services provided by third parties | 18 | 210 |
| Sundry management charges | 4 | 8 |
| Estimates of the period: | | |
| Employee severance indemnities | 57 | 44 |
| Total | <u>1,020</u> | <u>1,288</u> |

21. OTHER INCOME

For the years ended March 31, other income includes the following credit balances:

| | <u>2017</u> | <u>2016</u> |
|--|---------------|---------------|
| | <u>S/.000</u> | <u>S/.000</u> |
| Operation and maintenance services income (Note 8) | 5,514 | 6,373 |
| Management and administration services income (Note 8) | 4,361 | 4,605 |
| Lease with third parties | 504 | 538 |
| Income from sale of assets | - | 17 |
| Others | 218 | 608 |
| Total | <u>10,597</u> | <u>12,141</u> |

22. FINANCIAL EXPENSES

For the years ended March 31, financial expenses include the following debit balances:

| | <u>2017</u> | <u>2016</u> |
|--|---------------|---------------|
| | <u>S/.000</u> | <u>S/.000</u> |
| Interests on obligations - corporate bonds | 3,630 | 3,898 |
| Default interests | 19 | 71 |
| Other financial expenses | 78 | 59 |
| Total | <u>3,727</u> | <u>4,028</u> |

23. INCOME TAX

(a) Income tax regime

(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:

| Taxable periods | Rates |
|---------------------------|--------------|
| 2014 | 30% |
| 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.

| Taxable periods | Rates |
|---------------------------|--------------|
| 2014 | 4.1% |
| 2015 -2016 | 6.8% |
| 2017 and subsequent years | 5% |

(ii) *Transfer pricing*

In order to determine income tax and value-added tax (VAT) in Peru, legal entities engaged in transactions with related entities or with companies resident in territories with low or no taxation shall: (a) submit an annual tax return of their transactions with such companies if the amount of these transactions is greater than S/200, and (b) prepare a Transfer Pricing Technical Study, as well as supporting documentation for this study, if the amount of earned income exceeds S/6,000 and if transactions engaged with related entities exceed S/1,000.

Both obligations are mandatory in the event that at least one transaction to, from or through countries with low or no taxation has been made.

Transactions performed by taxpayers domiciled in the country with domiciled related entities should be included in the pertinent Transfer Pricing Technical Study.

The Company and Subsidiary have prepared the corresponding Transfer Pricing Technical Study for 2015 and 2014 and they are now preparing the corresponding study for 2016.

Management believes that no significant liabilities will arise for the consolidated financial statements as of March 31, 2017 and 2016, with regard to transfer pricing.

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

After March 2017 and December, 2016, no significant changes have been made to the income tax regime in Peru which may impact these consolidated financial statements. The standards and interpretations effective as of March 31, 2017 and December 2016 have been considered by Management when preparing these consolidated financial statements.

(iv) *Tax situation*

Income tax returns of years 2014 to 2016 of the Company, and the years 2013 to 2016 of ETENORTE, 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.

Certain income tax return and temporary tax on net assets have been reviewed by the Tax Administration in previous years and their possible contingencies are disclosed in Note 25.

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 Subsidiary will arise or not from the reviews to be conducted. Therefore, any high income tax or charge which may result from such tax reviews would be applied to profit or loss for the year when determined. Management believes that any additional tax payment would not be significant for the consolidated financial statements as of March 31, 2017 and December 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. As of March 31, 2017 and December, 2016 the Company and Subsidiary do not have an ITAN balance to be recovered.

(b) Income tax expense of the Company and Subsidiary comprises the following:

Income tax expense of continuous operations:

| | <u>2017</u> | <u>2016</u> |
|---|---------------|---------------|
| | <u>S/.000</u> | <u>S/.000</u> |
| urrent income tax | 13,897 | 16,617 |
| eferred income tax (Note 24) | (127) | (660) |
| djustment of income tax of previous periods | 356 | 1,239 |
| Total | <u>14,126</u> | <u>17,196</u> |

The expense for current income tax corresponds to the tax to be paid, calculated by applying a 29.5% rate on taxable income, after deducting 5% of profit-sharing of employees.

(c) During the years ended March 31, 2017 and December, 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):

25. CONTINGENCIES

The Company and Subsidiary has the following contingencies that are individually significant claims that, in the opinion of the Company and Subsidiary's Management and its legal advisors, have a possible perspective of loss. In this order, and based on the information available to the Company and Subsidiary, 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 Subsidiary can not estimate a loss or range of loss reasonably possible with respect to certain issues described below:

- (a) The review of income tax return of 2011 gave rise to the issuance of determination and fine resolutions for S/1,864. In February 2015, the Company filed a claim against the Tax Administration and in August 2015, the Tax Administration declared the claim filed by the Company as groundless, so in September 2015, the Company appealed against such resolutions before the Tax Court, which has not been resolved to date. The updated contingency is S/2,913.
- (b) Temporary tax on net assets return for the year 2013 was reviewed by the tax administration in 2014, which issued in May 2015 determination and fine resolutions for S/857 plus interests. In July 2015, the Company filed a claim with the Tax Administration; and in April 2016, the Tax Administration declared the claim filed by the Company as groundless. In May 2016, the Company appealed against the SUNAT decision before the Tax Court, which has not been resolved to date. The updated contingency is S/1,334.
- (c) In January 2017, OEFA has initiated a sanction proceeding against the Company regarding an alleged breach of the maximum permissible limits related to suspended solid particles applicable to the water discharged from the turbines at Central Carhuaquero IV, in connection with which the Company could be fined up to 2,500 UIT.

26. COMMITMENTS AND GUARANTEES

Sale of energy

As of March 31, 2017, main commitments of sale of energy of the Company are as follows:

| <u>Cientes</u> | <u>Contracted power Kw</u> | <u>Start date- agreement</u> | <u>Termination date- agreement</u> |
|----------------|--------------------------------|----------------------------------|--|
| Regulated | De 143 a 86,027 | Between 2013 and 2014 | Between 2019 and 2023 |
| Free | De 5,400 a 60,000 | Between 2014 and 2016 | Between 2017 and 2018 |

Guarantees

As of March 31, 2017, the shares issued by the Company and its Subsidiary are guaranteed to Banco de Crédito del Perú, to ensure the payment obligations assumed by its ultimate parent company in Peru, Orazul Energía Peru S.A.C., in relation to loan agreement signed on December 14, 2016 by Orazul Energía Peru S.A.C. and Banco de Crédito del Peru for US\$450,000,000.

27. ENVIRONMENT

Pursuant to the provisions set forth in Supreme Decree No. 029-94-EM, Regulations for the Environmental Protection in Electrical Activities, the Company implemented in previous years its Environmental Management and Adaptation Program (PAMA), which was previously approved by competent authorities. On July 11, 2005, the Company received Official Letter No. 3042-2005-OSINERG-GFE, under which the Safety and Environmental Area of OSINERGMIN concludes that the Company has not have any pending commitment in its PAMA.

28. SUBSEQUENT EVENTS

On April 25, 2017, the Company issued bonds for US\$ 550 million in the international market under Rule 144A / S of the Securities Act, with the following terms:

Rate: 5.625%
Due date: April 28, 2027
Interest payment: April 28 and October 28 of each year. Starting in October 28, 2017.
Risk Clasification: "BB" Standard & Poor's
"BB" Fitch Ratings

The proceeds would be use to: (i) redeem the total of local bonds (ii) make a loan to our related company Orazul Energía Peru S.A.C. and (iii) general corporative purposes.