Orazul Energy Perú S.A. and Subsidiaries

Independent Auditor's Report

Consolidated Financial Statements
As of December 31, 2018 and 2017

ORAZUL ENERGY PERU S.A. AND SUBSIDIARIES

TABLE OF CONTENTS

	Pages
INDEPENDENT AUDITOR'S REPORT	1- 2
CONSOLIDATED FINANCIAL STATEMENT AS OF DECEMBER 31, 2018 AND 2017	
Consolidated Statements of Financial Position	3
Consolidated Statements of Profit or Loss and Other Comprehensive Income	4
Consolidated Statements of Changes in Equity	5
Consolidated Statements of Cash Flows	6
Notes to the Consolidated Financial Statements	7-61

Deloitte.

Gris y Asociados S. Civil de R.L.
Las Begonias 441, Piso 6
San Isidro, Lima 27
Perú

Tel: +51 (1) 211 8585
Fax:+51 (1) 211 8586
www.deloitte.com/pe

INDEPENDENT AUDITOR'S REPORT

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

1. We have audited the accompanying consolidated financial statements of **Orazul Energy Perú S.A. and Subsidiaries**, which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

3. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing, approved for their application in Peru by the Consejo Directivo de la Junta de Decanos de Colegios de Contadores Públicos del Perú (Board of Deans of the Peruvian Associations of Public Accountants). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatements.

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

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

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Deloitte Touche Tohmatsu Limited.

Opinion

6. In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of **Orazul Energy Perú S.A. and Subsidiaries** as of December 31, 2018 and 2017, their consolidated financial performance and consolidated cash flows for the years then ended, in accordance with International Financial Reporting Standards, issued by the International Accounting Stantards Board (IASB).

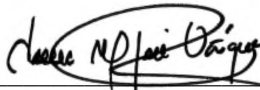
Other matters

7. English translation of the consolidated financial statements

   This report and the consolidated financial statements referred to above have been translated into English for the convenience of English-speaking readers. As further explained in Note 1 (i) to the accompanying consolidated financial statements, the consolidated financial statements are the English translation of those originally prepared by the Company in Spanish.

Gris y Asociados S. Civil de R.L.

Countersigned by:



________________________ (Partner)
Jessica León Vásquez
CPC Registration No. 38675

March 29, 2019

ORAZUL ENERGY PERU S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF DECEMBER 31, 2018 AND 2017
(In thousands of dollars US$000)

	Notes	2018 US$000	2017 US$000
ASSETS			
CURRENT ASSETS:			
Cash	6	50,014	23,429
Trade accounts receivables (net)	7	16,753	27,625
Other accounts receivable	8	2,236	3,236
Accounts receivable from related entities	9	1,299	85,282
Inventories (net)	10	5,870	6,260
Income tax asset	26 (e)	9,676	6,393
Other assets		933	937
Subtotal		86,781	153,162
Assets held for sale	11	-	46,507
Total current assets		86,781	199,669
NON-CURRENT ASSETS:			
Other accounts receivable	8	435	705
Property, plant and equipment - Energy generation and transmission (net)	12	332,815	362,849
Gas investment (net)	13	64,747	68,659
Intangibles assets (net)	14	498,732	490,618
Deferred income tax assets	27	950	2,766
Other assets		8	530
Total non-current assets		897,687	926,127
TOTAL		984,468	1,125,796

	Notes	2018 US$000	2017 US$000
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Trade accounts payable	16	9,050	9,234
Other accounts payable	17	19,462	7,481
Accounts payable to related entities	9	8,893	126,796
Liabilities for employee benefits	18	2,559	2,382
Income tax liabilities	26 (e)	435	3,342
Deferred income		155	640
Total current liabilities		40,554	149,875
NON-CURRENT LIABILITIES:			
Financial obligations	15	540,468	539,609
Accounts payable to related entities	9	150,602	142,925
Deferred income tax liabilities	27	85,844	99,618
Provisions	28	373	1,450
Total non-current liabilities		777,287	783,602
Total liabilities		817,841	933,477
EQUITY:			
Issued capital stock	19 (a)	196,086	213,283
Accumulated losses		(29,500)	(20,967)
Equity attributable to controlling equity holders		166,586	192,316
Non-controlling interests		41	3
Total equity		166,627	192,319
TOTAL		984,468	1,125,796

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

ORAZUL ENERGY PERU S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In thousands of dollars US$000)

	Notes	2018	2017
		US$000	US$000
CONTINUOUS OPERATIONS			
Sale of energy and electrical energy transmission services		132,443	183,845
Sale of hydrocarbons		23,926	18,678
Total of sales	20	156,369	202,523
Costs of sale of energy and electrical energy transmission services		(35,967)	(76,351)
Cost of sales of hydrocarbons		(13,031)	(8,750)
Depreciation and amortization		(46,242)	(38,861)
Total of cost of sales	21	(95,240)	(123,962)
Gross profit		61,129	78,561
Administrative and selling expenses	22	(21,002)	(20,067)
Impairment loss on trade receivables	7	(1,756)	(6,549)
Other income	24	5,372	6,594
Other expenses		(1,526)	(4,152)
Financial income		1,467	4,940
Financial expenses	25	(45,375)	(73,256)
Exchange difference (net)	5 (a) (i)	(681)	618
Net loss before income tax		(2,372)	(13,311)
Income tax income (expense)	26 (b)	5,035	(10,905)
Net profit (loss) for the year from continuous operations		2,663	(24,216)
DISCONTINUED OPERATIONS			
Net (loss) profit for the year from discontinued operations	11 (b) y (c)	(11,287)	1,589
Net loss for the year		(8,624)	(22,627)
Other comprehensive income for the year		-	-
Total other comprehensive income for the year		(8,624)	(22,627)
Loss for the year attributable to:			
Non-controlling interests		38	(1)
Owners of the Company		(8,662)	(22,626)
		(8,624)	(22,627)

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

ORAZUL ENERGY PERU S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARDS ENDED DECEMBER 31, 2018 AND 2017
(In thousands of dollars US$000)

	Issued Capital Stock	Retained Earnings	Total Equity Attributable to owners of the Parent	Non-controlling Interests	Total Equity
	US$000	US$000	US$000	US$000	US$000
	(Note 19 (a))	(Note 19 (b))		(Note 19 (c))	
TOTAL EQUITY AS OF JANUARY 1, 2017	85,300	(3,207)	82,093	125,150	207,243
Reduction of non-controlled interest	-	10,303	10,303	(10,303)	-
Capitalization of debt	127,950	-	127,950	-	127,950
Capital stock issued for the merger	33	-	33	-	33
Foreign currency adjustment of subsidiary merged	-	5,266	5,266	-	5,266
Acquisition of non-controlling interests	-	-	-	(114,843)	(114,843)
Excess of value paid in purchase of shares	-	(10,703)	(10,703)	-	(10,703)
Total comprehensive loss for the year	-	(22,626)	(22,626)	(1)	(22,627)
TOTAL EQUITY AS OF DECEMBER 31, 2017	213,283	(20,967)	192,316	3	192,319
Adoption of IFRS 16 (Note 3.3)	-	129	129	-	129
TOTAL EQUITY AS OF JANUARY 1, 2018	213,283	(20,838)	192,445	3	192,448
Capital stock reduction (Note 19 (a))	(17,197)	-	(17,197)	-	(17,197)
Total comprehensive loss for the year	-	(8,662)	(8,662)	38	(8,624)
TOTAL EQUITY AS OF DECEMBER 31, 2018	196,086	(29,500)	166,586	41	166,627

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

ORAZUL ENERGY PERU S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARDS ENDED DECEMBER 31, 2018 AND 2017
(In thousands of dollars US$000)

	2018 US$000	2017 US$000
OPERATING ACTIVITIES:		
Collection from:		
Sale of energy and electrical energy transmission services	171,478	180,899
Sale of hydrocarbons	28,720	8,339
Recovery of taxes	1,029	530
Interests and returns	-	439
Other operating activities	5,507	809
Payments for/to:		
Royalties	(16,160)	(8,550)
Suppliers of goods and services	(68,137)	(95,678)
Income tax	(13,116)	(14,072)
Employees and social benefits	(23,308)	(22,216)
Fuel prices stabilization fund	-	(950)
Taxes	(111)	(2,576)
Other operating activities	(656)	(6,907)
Net cash provided by operating activities	85,246	40,067
INVESTMENT ACTIVITIES:		
Collection from:		
Dividends	1,049	-
Sale of property, plant and equipment	190	4,072
Payments for:		
Purchase of property, plant and equipment	(5,588)	(2,779)
Purchase of intangibles assets	-	(1,208)
Purchase of gas investments	(6,177)	(9,379)
Net cash used in investment activities	(10,526)	(9,294)
FINANCING ACTIVITIES:		
Collection from:		
Bonds issuance	-	550,000
Payments for:		
Interests	(30,938)	(15,100)
Capital reduction	(17,197)	-
Financial obligations	-	(533,566)
Loans to related entities	-	(82,950)
Financial cost	-	(10,941)
Net cash used by financing activities	(48,135)	(92,557)
NET INCREASE (DECREASE) OF CASH	26,585	(61,784)
CASH AT THE BEGINNING OF THE YEAR	23,429	85,213
CASH AT THE END OF THE YEAR	50,014	23,429
NON-MONETARY TRANSACTIONS:		
Debt compensation (Note 9 (c))	118,782	-
Disposal of assets held for sale (Note 11)	34,171	80,684
Acquisition of shares (Note 9 (c))	-	(126,000)
Capitalization of debt (Note 19)	-	127,950

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

1. INCORPORATION, ECONOMIC ACTIVITY, MERGER BY ABSORPTION, SUBSIDIARIES AND OPERATING REGULATIONS

(a) Incorporation

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

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

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

The significant businesses of Peru are related to hydro and thermal power generation, electricity transmission, natural gas production and processing assets.

Since the acquisition date of OEG, the Group had the plan to sell the operating business located in Chile, Guatemala and El Salvador in the short term, so those assets were classified as assets held for sale as of December 31, 2017. During 2018 and 2017, the plan to dispose these assets was executed (Note 11).

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

- On August 2, 2017, the Company acquired an additional 12.76% of OEG from Orazul Energía (España) Holding S.L. (which previously acquired the interest of Duke Energy Corporation in 2016) for the total amount of US$ 126,000, increasing its interest to 99.99%.

- On August 16, 2017, the Company merged by absorption with Orazul Energy Egenor S. en C. por A., which was one of its main subsidiaries in Peru.

(b) Economic activity

The Company is engaged in (directly or through or in association with third parties) investing in and holding securities, including, but not limited to, shares representing the capital of other companies, whether Peruvian, Equator or foreign under any form, and the generation of electrical energy through its hydroelectric power plants Cañon del Pato and Carhuaquero.

(c) Merger by absorption

Based on the reorganization plan within the Group, by public deed dated October 9, 2017 and Shareholders' Meeting held on August 16, 2017, the merger of the Company, as acquirer with **Orazul Energy Egenor S. en C. por A.,** was approved. The acquire transferred all net assets and extinguished without dissolution or liquidation. The effective date for the merger was August 17, 2017. This merger was performed between two companies under common control and has not resulted in an effective change in the control of subsidiaries within the Group.

The economic activity of **Orazul Energy Egenor S. en C. por A.** was 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 the sale of electrical energy to regulated and non-regulated 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.

(d) Subsidiaries

The Subsidiaries, as of December 31, 2018 and 2017, and the percentages of interest owned by the Company are detailed below:

	Direct equity interest	
	2018	**2017**
	%	**%**
Holding:		
Orazul Energy Group S.A.C.	99.99	99.99

In addition, OEG has the following operating subsidiaries:

OEG subsidiaries:	Indirect equity interest	
	2018	**2017**
	%	**%**
Holding:		
Orazul Energy Hidrocarburos S.A. (a)	99.98	99.98
Orazul Energy Transmisión S.A. (a)	99.98	99.98
Operational:		
Etenorte S.R.L.	99.98	99.98
Aguaytía Energy del Peru S.R.L.	99.98	99.98
Termoselva S.R.L	99.98	99.98
Eteselva S.R.L.	99.98	99.98

(a) These Subsidiaries were incorporated in August 2017, as a result of the reorganization process carried out by the group (Note 1 (c)).

Orazul Energy Group S.A.C.

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

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

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

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

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

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

This subsidiary provides electrical transmission services in accordance with Peruvian regulations, through the concession of certain transmission lines in northern Peru. The Company is its main client, which represents approximately 62% of its operating income (78% in 2017).

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

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

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

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

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

This subsidiary provides electrical transmission services, in accordance with Peruvian regulations, through the concession of certain transmission lines in eastern Peru. Termoselva is its main client, which represents approximately 17% of its operating income (25% in 2017).

Amounts of the financial statements of consolidated Subsidiaries

Certain amounts of the financial statements of the Subsidiaries as of December 31, 2018 and 2017, prepared under International Financial Reporting Standards (IFRS), before elimination for consolidation purposes, are presented below:

	2018	**2017**
	US$000	**US$000**
Subsidiaries		
Etenorte S.R.L.		
Total assets	10,136	13,276
Total liabilities	1,192	1,385
Equity	8,944	11,891
Net profit	2,053	2,165
Aguaytía del Peru S.R.L.		
Total assets	137,841	182,117
Total liabilities	5,464	4,844
Equity	132,377	177,273
Net profit	11,764	17,531

	2018 US$000	2017 US$000
Termoselva S.R.L.		
Total assets	68,338	72,983
Total liabilities	9,255	10,830
Equity	59,083	62,153
Net profit	8,430	20,773
Eteselva S.R.L.		
Total assets	32,771	35,834
Total liabilities	491	1,134
Equity	32,280	34,700
Net profit	1,280	2,657
Orazul Energy Group S.A.C.		
Total assets	176,478	237,336
Total liabilities	250	1,584
Equity	176,228	235,752
Net profit	15,278	(316,753)
Orazul Energy Hidrocarburos S.A.		
Total assets	133,505	141,504
Total liabilities	3	1
Equity	133,502	141,503
Net profit	10,902	11,901
Orazul Energy Transmisión S.A.		
Total assets	41,592	47,661
Total liabilities	2	1
Equity	41,590	47,660
Net profit	3,330	4,641

(e) Changes in the Company’s ownership interests in existing subsidiaries

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

When the Company loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any

non-controlling interests. All amounts previously recognized in other comprehensive income in relation to such subsidiary are accounted for as if the Company had directly disposed of the related assets or liabilities of the subsidiary. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as fair value on initial recognition for subsequent accounting, when applicable, and cost on initial recognition of an investment in an associate or a joint venture

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

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

(i) The term of the License Agreement is for 30 years counted from the subscription date of the agreement (March 30, 1994), which can be extended up to 40 years upon agreement of Aguaytía and Perupetro on behalf of the Peruvian government.

(ii) Aguaytía agreed to comply with a minimum work schedule, which was entirely completed in 1998. This schedule included, among others, drilling and operation of wells, gas extraction and injection, construction of a gas processing plant and facilities for fractioning natural gas liquids and energy generation.

(iii) Pursuant to the Organic Hydrocarbons Law and the Regulations for the Application of Royalties and Compensations, Aguaytía pays a royalty on a biweekly basis and applies a percentage on the valuation of production of supervised hydrocarbons (natural gas and natural gas liquids), as defined in the License Agreement.

The expense for royalties in 2018 was US$16,053 (US$8,550 in 2017) (Note 21) and is presented as cost of sales of the consolidated statement of profit or loss and other comprehensive income, and US$116 (US$893 in 2017) is part of the inventory balance.

In July 2013, Aguaytía initiated an arbitration process against Perupetro requesting a readjustment of the royalties that Aguaytía paid for the exploitation of resources produced from Block 31-C.

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

(iv) Taxes

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

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

(v) Other rights

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

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

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

- Organic Hydrocarbons Law – Law No. 26221.

- Supervising Entity of Investment in Energy and Mining (OSINERGMIN, for its acronym in Spanish), by virtue of Law No. 26734, amended by Law No. 28964.

- Fund for the stabilization of fuel prices – Emergency Decree No. 010-2004 and its Regulation, Supreme Decree No. 142-2004-EF.

- Law that creates the Energy Security System in Hydrocarbons and the Energy Social Inclusion Fund (FISE, for its acronym in Spanish) - Law No. 29583.

- Law that guarantees energy security and promotes the development of the petrochemical pole southern Peru - Law No. 29970.

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

The COES is a private entity, made up of all the System Agents (Generators, Transmitters, Distributors and Free Users). Its purpose is to coordinate the short, medium and long term operation of the Interconnected Electric Power System at minimum cost, preserving the security of the system, the best use of energy resources, as well as planning the development of the transmission of the SEIN and administer the Short Term Market

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

- Electrical Concessions Law - Law 25844, and its Regulations, Supreme Decree No. 009-93-EM

- Law 28832 - Law to ensure the efficient development of electrical generation.

- Technical Quality Standard for Electrical Services - (Supreme Decree No. 020-97-EM)

- Law 26876 - Anti-Monopoly Law in the Electrical Sector.

- Supervisory Entity of Investment in Energy and Mining (OSINERGMIN, for its acronym in Spanish), by virtue of Law No. 26734

- Law No. 29179: Law establishing mechanism to ensure the supply of electricity for the regulated market.

- Regulations for Environmental Protection during Electrical Activities (Supreme Decree No. 29-94-EM).

- Legislative Decree No. 1002 for the 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. 026-2017-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.

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

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

(i) Additional explanation for translation into English of the original consolidated financial statements issued in Spanish

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

2. SIGNIFICANT ACCOUNTING POLICIES

Main accounting policies used by the Group for the preparation and presentation of these consolidated financial statements are presented below:

(a) Compliance with IFRS

The accompanying consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") effective as of December 31, 2018 and 2017, 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.

(b) Basis of measurement

The consolidated financial statements have been prepared based on the historical cost basis. Historical cost is generally based on fair value of the consideration given by asset exchange.

(c) **Use of judgments and estimates**

The preparation of accounting estimates used in the preparation of the consolidated financial statements requires Management makes assumptions regarding circumstances and events that involve considerable uncertainty that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses.

Management prepares the estimates on the basis of past experience, various facts, external circumstances, and reasonable assumptions according to the pertinent circumstances of each estimate. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recorded prospectively.

The most important estimates considered for the preparation of the consolidated financial statements of the Group refer to:

- Determination of functional currency and record of foreign currency transactions.
- Estimate for energy and power revenues delivered and not billed.
- Provision for energy and power purchases not billed.
- Estimate for electric energy transmission revenues.
- Useful life of property, plant and equipment - Gas investments.
- Useful life of property, plant and equipment - Energy generation and transmission.
- Impairment losses of specific assets.
- Fair value in business combination.
- Impairment of goodwill.
- Current and deferred income tax determination.
- Probability of contingencies.

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.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires Management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. The cash flow is obtained from the budget approved by the Board of Directors. On this basis, as approved by Corporate Management, the Group's Management prepared the cash flow for the following five years and terminal growth rate. These cash flows do not include restructuring costs that the Group is not committed to perform or that imply future investments that will increase the capacity of assets that belong to the cash-generating unit under evaluation.

Proven reserves – Aguaytia

Depreciation of certain assets is calculated using the units-of-production method on proved developed producing gas reserves. When determining the rates under the units-of-production method, the quantities of recoverable natural gas are established based on estimates prepared by our geologists and engineers. We regularly review our proved reserve estimates and makes changes to depreciation expenses as needed.

<u>Estimation for energy transmission services</u>

In each monthly closing period, Etenorte and Eteselva records the amount of accrued income not invoiced for the power transmission service.

(d) Basis of consolidation

(i) Subsidiaries

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

(ii) Non-Controlling Interest (NCI)

NCI are measured at their proportionate share of the acquire identifiable net assets at the acquisition date.

Changes in the Companies' interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(iii) Loss of Control

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

(iv) Reorganizations under Common Control Transactions

Common control transactions that involve the setup of a new group company and the combination of entities under common control are recorded using the book values.

(v) Transactions Eliminated on Consolidation

Intra-group balances and transactions, and any unrealized gain and loss arising from intra-group transactions, are eliminated. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Company' interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(e) Foreign Currency Translation

(i) Functional Currency

Items included in the financial statements of the Group are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in U.S. Dollars, which is the Group' functional and presentation currency.

(ii) Transactions and balances

Transactions in foreign currencies are translated to the respective functional currencies of Companies entities at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are

translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognized in profit and loss.

(f) Revenue

IFRS 15 Revenue from Contracts with Customers

IFRS 15 Revenue from contracts with customers establishes a comprehensive framework for determining whether, how much and when revenue is recognized. Under IFRS 15, revenue is recognized when a customer obtains control of goods or services. Determining the timing of transfer of control at a point in time or over time requires judgment.

Accounting policies for revenue recognition

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognize revenue when it transfers control over a product or service to a customer, net of value-added-tax, rebates and discounts and after eliminating sales within the Group companies.

The revenue recognition model applied to contracts with customers considers a transaction analysis based on five steps to determine whether, how much and when revenue is recognized:

1. Identify the contract with a customer.
2. Identify the performance obligations in the contract.
3. Determine the transaction price.
4. Allocate the transaction price to the performance obligations in the contract.
5. Recognize revenue when (or as) the entity satisfies a performance obligation.

<u>Identify the contract with a customer and performance obligations in the Contract</u>

In the case of the Company and Termoselva, revenues from the generation business are recorded based upon energy output delivered and capacity provided at rates specified pursuant to our Power Purchase Agreements (PPAs), or at marginal costs determined on the spot market, if the sales are made on the spot market.

In the case of transmission services, the Subsidiaries Etenorte and Eteselva do not have contracts with customers, since these services are provided within the SPOT market and the performance obligation related to said transmission services is related to the use made by customers of the transmission lines of the Subsidiaries.

In the case of the sale of hydrocarbons, the Subsidiary Aguaytía holds contracts for the sale of Natural Gasoline, in which it specifies that the performance obligation is related to the delivery of natural gasoline at an agreed point.

<u>Determine the transaction price and allocation to the performance obligations</u>

Performance obligation in the business 'Group are the sale of electrical energy, sale of capacity, transmission services and sale of hydrocarbons.

Revenues and costs related to main and secondary toll services are recognized net since the Group' merely pay for the use of the transmission lines, but there is no separate performance obligation.

The Revenue from generation business is determined substantially by long-term, U.S. dollar-linked PPAs. PPAs are usually entered into at prices that are equivalent to, or higher than, the prevailing spot market rates, the majority of which are indexed to the underlying fuel cost of the related long-term supply agreements. Under the terms of the majority of our PPAs, the power purchaser is contractually obligated to purchase its energy requirements, and sometimes capacity and/or ancillary services, from the power

generator based upon a base price (denominated either in U.S. Dollars or in the local currency) that is generally adjusted for a combination of some of the following:

(1) fluctuations in exchange rates, (2) the U.S. inflation index, (3) a local inflation index, (4) fluctuations in the cost of operating fuel, (5) supply costs of natural gas, and (6) transmission costs. Additionally, in Peru, PPAs include provisions that change the contractual unitary energy prices in the case of an interruption of the supply or transportation of natural gas through the use of a methodology based on spot prices during on the dates in which the interruption event occurred.

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

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

Recognition of revenue

The Company and Termoselva consider, based on all relevant facts and circumstances, that the obligation to deliver energy and capacity is viewed as services that are transferred consecutively over the contract term, which are simultaneously provided and consumed. That means, that the customer immediately consumes each unit of energy (kWh) and capacity.

Subsidiaries Etenorte and Eteselva consider, based on all relevant facts and circumstances, that the obligation to provide the transmission services are considered as services that are transferred consecutively during the term of the contract, which are provided and consumed simultaneously. This means that the customer immediately consumes the services provided by the Subsidiaries.

Income from the sale of LPG and natural gasoline of Aguyatia is recognized in full in the period in which the goods are delivered, the risks and benefits inherent to the property have been transferred to the buyer, and it is likely that the economic benefits related to the transaction will flow to the Subsidiary.

Management evaluates the impact of the measures of progress over time. The purpose of measuring progress toward satisfaction of a performance obligation is to recognize revenue is a pattern that reflects the transfer of control of the promised good or services to the customer. Based on the contract terms, the amount that will be billed is based on the units of energy transferred to the client. Invoices are usually collected within 30 days.

(g) Employee Benefits

(i) Short-term Employee Benefits

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

The employee benefits are classified, for measurement purposes, as short-term benefits or as other long-term benefits depending on when the Company' expect the benefits to be wholly settled.

(h) Finance Income and Costs

The Group' finance income and costs include:

- Interest income;
- Interest expense;
- The foreign currency gain or loss on financial assets and financial liabilities;

- Impairment losses recognized on financial assets (other than trade receivables);

Interest income or expense is recognized using the effective interest method.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- The gross carrying amount of the financial assets; or
- The amortized cost of the financial liability.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortized cost of the liability.

(i) Income Tax

Income tax expense comprises current and deferred tax.

(i) Current Tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount to be paid or received that reflects uncertainty related to income taxes. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax liability arising from dividends.

Current tax assets and liabilities are offset only if certain criteria are met.

(ii) Deferred Tax

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

- Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;

- Temporary differences related to investments in subsidiaries to the extent that the Companies are able to control the timing of the reversal of the temporary differences and it is not probable that they will reverse in the foreseeable future; and

- Taxable temporary differences arising on the initial recognition of goodwill.

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

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

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

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

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

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

The Group believe its tax positions are in compliance with applicable tax laws and regulations. Tax benefits are recognized only for tax positions that are more likely than not to be sustained upon examination by tax authorities. The Group believe that its liabilities for unrecognized tax benefits, including related interest, are adequate in relation to the potential for additional tax assessments. There is a risk, however, that the amounts ultimately paid upon resolution of audits could be different from the amounts previously included in our income tax expense and, therefore, could have an impact on our tax provision, net income and cash flows.

(iii) Uncertain tax provision

A provision for uncertain tax positions, including additional tax and interest expenses, is accounted for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

(j) Inventories

Inventories consist of spare parts, materials and supplies and are valued at the lower of cost or net realizable value. Cost is determined by using the average cost method.

The estimate for obsolescence is recognized for inventories in poor conditions and with charge to profit or loss for the year when obsolescence is identified.

(k) Trade Receivables

Trade receivables are amounts due from customers for the energy, capacity, transmission services and sale of hydrocarbons in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

(l) Cash and Cash Equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdraft are shown within Loans from banks and other current liabilities in the consolidated statement of financial position.

(m) Property, Plant and Equipment – energy generation and transmission and gas investment

(i) Recognition and Measurement

Items of property, plant and equipment comprise mainly power station structures, transmission lines, gas investment and related offices. These items are measured at historical cost less accumulated depreciation and accumulated impairment losses.

Historical cost includes expenditure that is directly attributable to the acquisition of the items:

- the cost of materials and direct labor;
- any other costs directly attributable to bringing the assets to a working condition for their intended use;
- when the Group' have an obligation to remove the assets or restore the site, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located; and
- capitalized borrowing costs.

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognized in profit or loss in the year the asset is derecognized.

(ii) Subsequent Costs

Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Group, and its cost can be measured reliably.

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

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

Works in progress are presented at cost. The cost of these assets in process includes professional fees and other costs, and 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.

(iii) Depreciation

Energy generation and transmission

Depreciation of the Company and its Subsidiaries Termoselva, Eteselva y Etenorte

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:

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

Gas investments

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

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

	2018	**2017**
	%	**%**
Gas and fractionation plant	5.35 and 10.21	2.18, 2.36 and 9.83

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

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

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

(n) Intangible Assets

(i) Recognition and Measurement

Goodwill	Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment; and any impairment loss is allocated to the carrying amount of the equity investee as a whole.
Research and development	Expenditure on research activities is recognized in profit and loss as incurred. Development activities involve expenditures incurred in connection with the design and evaluation of future power plant projects before the technical feasibility and commercial viability is fully completed, however the Group intends to and has sufficient resources to complete the development and to use or sell the asset. At each reporting date, the Group performs an evaluation of each project in order to identify facts and circumstances that suggest that the carrying amount of the assets may exceed their recoverable amount.

Concessions	The electric and hydrocarbon concessions correspond to intangible assets identified at the acquisition date on December 20, 2016. The useful life of electric concessions is indefinite and a useful life of 18 years has been determined for hydrocarbon concession.
Other intangible assets	Other intangible assets, including licenses, software licenses, patents and trademarks, which are acquired by the Group and have finite useful lives, are measured at cost less accumulated amortization and any accumulated impairment losses.

(ii) Subsequent Costs

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill is recognized in profit or loss as incurred.

(iii) Amortization

Amortization is calculated to write-off the cost of intangible assets less their estimated residual values using the straight-line method over their useful lives, and is generally recognized in profit or loss. Goodwill is not amortized.

The estimated useful lives for current and comparative period are as follows:

Concession licenses	18 years

Amortization methods and useful lives are reviewed at each reporting date and adjusted if appropriate.

(o) Financial Instruments

(i) Recognition and initial measurement

The Group initially recognize trade receivables and debt securities issued on the date that they are originated. All other financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provision of an instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus transaction costs, for an item not at FVTPL, that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

Financial assets are classified as measured at: amortized cost, fair value through profit and loss (FVTPL) and fair value through other comprehensive income (FVTOCI). Classification are driven by the business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

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

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

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

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

(iii) Derecognition

Financial assets

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

Financial liabilities

The Group derecognize a financial liability when its contractual obligations are discharged, cancelled or expire. The Group also derecognize a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

On de-recognition a financial liability, the difference between the carrying amount extinguished and the consideration paid is recognized in profit or loss.

(iv) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

(p) Share Capital -Ordinary Shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares, net of any tax effects, are recognized as a deduction from equity.

(q) Impairment

(i) Non-derivative Financial Assets

The Group shall recognize a loss allowance for expected credit losses (ECL) on a financial asset subsequently measured at amortized cost or fair value through other comprehensive income, a contract asset or a loan commitment and a financial guarantee contract to which the impairment requirements apply.

The Group measure the loss allowance for a financial instrument, at each reporting date, at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group consider reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Group´ historical experience and informed credit assessment including forward-looking information.

The Group in the generation, transmission services and hydrocarbon business assume that have no significant credit risk due to collections are made within 30 days.

The Group consider a financial asset to be in a default when:

- The borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held); or

- The financial asset is more than 90 days past due.

Credit-impaired financial assets

At each reporting date, the Group assess whether financial assets carried at amortized cost are credit impaired. A financial asset is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that financial asset is credit-impaired includes:

- Default or delinquency by a debtor;

- Restructuring of an amount due to the Group on terms that the Group would not consider otherwise;

- Indications that a debtor or issuer will enter bankruptcy;

- Adverse changes in the payment status of borrowers or issuers;

- The disappearance of an active market for a security because of financial difficulties; or

- Observable data indicating that there is measurable decrease in expected cash flows from a group of financial assets.

Presentation of allowances for ECL in the consolidated statement of financial position

Los allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determine that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group´ procedures for recovery of amounts due.

(ii) Non-financial assets

At each reporting date, the Group review the carrying amounts of its non-financial assets (other than inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment or whenever impairment indicators exist.

The recoverable amount of an asset or cash generating unit (hereinafter "CGU") is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognized in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an assessment is performed at each reporting date for any indications that these losses have decreased or no longer exist. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(r) Energy Purchase

Costs from energy purchases acquired in the spot market recorded on an accrual basis according to the energy actually delivered. Purchases of electric energy, including those which have not yet been billed as of the reporting date, are recorded based on estimates of the energy supplied at the prices prevailing in the spot market as the case may be.

(s) Costs and expenses

The cost of generating electricity is recorded in the profits or losses of the year when the service is provided, simultaneously with the recognition of income. Expenses are recorded in the periods to which they are related and are recognized in the year's profits or losses when accrued, regardless of when they are paid.

Other costs and expenses are recognized when they are incurred.

(t) Provisions

A provision is recognized, if as a result of a past event, the Group have a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

(u) Assets and contingent liabilities

The contingent liabilities, which are not recognized in the consolidated financial statements, are only disclosed in a note to the consolidated financial statements, unless the possibility of an outflow of resources is remote, in which case such disclosure is not required.

Contingent assets are not recognized in the consolidated financial statements; they are only disclosed in a note to the consolidated financial statements when it is probable that it will produce an income of resources.

The items previously treated as contingent liabilities will be recognized in the consolidated financial statements of the period in which the change in probabilities occurs, that is, when it is determined that an outflow of resources is likely to occur to cover said liability. Items treated as contingent assets will be recognized in the consolidated financial statements in the period in which it is determined that it is virtually certain that an income of resources will occur.

(v) Leases

Leases that transfer to the Group substantially all of the risks and rewards of ownership of the underlying asset are recorded as a right-of-of use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset.

Leases less than one year are not recognized in the consolidated statement of financial position.

(w) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group have access at that date. The fair value of a liability reflects its non-performance risk.

A number of the Group’ accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When one is available, the Group measure the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group use valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

(x) Reclassification

Certain amounts in the consolidated financial statements for 2017 have been reclassified to make them comparative with the period 2018. These reclassifications have been made in order to align the structure of the consolidated financial statements to the criteria established by the Group.

The nature of reclassification, the amounts reclassified and affected accounts are:

	Debit	Credit
	US$000	**US$000**
Compensation between accounts receivable and payable		
Other accounts receivable	49	-
Accounts receivable from related entities	24	-
Other assets	-	25
Trade accounts payable	-	128
Other accounts payable	77	-
Accounts payable to related entities	3	-
Reclassification of credits with the tax administration of the subsidiaries (a)		
Income tax asset	3,342	-
Income tax liabilities	-	3,342

	Debit US$000	Credit US$000
Reclassification of the Group's software from other assets to intangibles		
Intangibles assets	1,548	-
Other assets	-	1,548
Reclassification from other assets short term to other assets long term		
Other assets long term	506	
Other assets short term		506
Reclassification from selling expenses to administrative and selling expenses	-	1,406
Reclassification from selling expenses		
To cost of sales		1,084
To impairment loss on trade receivables		6,549
To other income		(554)

(a) The subsidiaries of the Company individually present debit and credit balances with the tax administration, for that reason, and given that as a group the Company does not have the legal right to compensate such balances because they are separate companies, they have been presented according to their nature.

3. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

The Group has initially adopted IFRS 15 Revenue from Contracts with Customers, IFRS 9 Financial Instruments and IFRS 16 Leases from January 1, 2018. A few other new standards are effective from January 1, 2018 but there is no material effect on the consolidated financial statements.

The effect of initially applying these standards is mainly:

- Net presentation of revenues and cost of tolls,
- Changes in the classification of financial assets
- Recognition of right-of-use asset and a lease liability.

3.1. IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidelines, including IAS 18 Revenue from ordinary activities.

The Company and its subsidiary Termoselva have adopted IFRS 15 using the cumulative effect method (without practical expedients), with the effect of initially applying this standard recognized at the date of initial application (January 1, 2018). Accordingly, the information presented for 2017 has not been restated, it is presented, as previously reported, under IAS 18.

To businesses associated with hydrocarbon sales and transmission services, the application of IFRS 15 has not generated any impact.

The following table summarize the impacts of adopting IFRS 15 on the Group´s consolidated statement of profit or loss and other comprehensive income for the year ended December 31, 2018, due to the effect that the application of this standard had on the business of generation and sale of energy and capacity. There was no impact on the Group´s consolidated statement of cash flows for the year ended December 31, 2018.

In thousands of U.S. dollars	As reported	Adjustments	Amounts without adoption of IFRS 15
Revenue	156,369	33,946	190,315
Cost of sales	(93,492)	(33,946)	(127,438)

In the application of IAS 18, the Company and its subsidiary Termoselva presented the payments for the main and secondary transmission toll as service costs and as income from services. However, transmission services are provided by a transmission entity and it is not a promise made by the Company and its Subsidiary Termoselva to provide a service to their customers. The Company and its subsidiary Termoselva pay transmission companies such as the use of transmission lines and this amount is immediately charged to customers who use transmission lines, this is because the Company and its Subsidiary Termoselva acts as a collector, therefore, income and cost of service of tolls are presented net. Invoices that include the reimbursement of transmission tolls are generally charged within 30 days.

3.2. IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognizing and measuring financial assets and financial liabilities. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

As a result of the adoption of IFRS 9, the Group have adopted consequential amendments to IAS 1 Presentation of Financial Statements, which require impairment of financial assets to be presented in a separate line item in the consolidated statement of profit or loss. Previously the Group approach was to include the impairment of trade receivables in administrative and selling expenses. Consequently, the Group reclassified impairment losses amounting to US$6,549, recognized under IAS 39 from "administrative and selling expenses" to "impairment of trade receivables" for the year ended December 31, 2017.

Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, FVTOCI and FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories held to maturity, loans and receivables and available for sale.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

The adoption of IFRS 9 has no had significant effect on the Group´s accounting policies related to financial liabilities. The impact of IFRS 9 on the classification and measurement of financial assets is explained in the following table:

	Original classification under IAS 39	New classification under IFRS 9
Financial assets		
Cash and cash equivalents	Loans and receivables	Amortized cost
Short term deposits and restricted cash	Loans and receivables	Amortized cost
Trade accounts receivables	Loans and receivables	Amortized cost
Other accounts receivables	Loans and receivables	Amortized cost
Deposits and other receivables	Loans and receivables	Amortized cost
Financial liabilities		
Debentures	Other financial liabilities	Amortized cost

	Original classification under IAS 39	New classification under IFRS 9
Trade accounts payables	Other financial liabilities	Amortized cost
Other accounts payables	Other financial liabilities	Amortized cost

3.3. IFRS 16 Leases

The Group have early adopted IFRS 16 Leases from January 1, 2018. The Group have assessed the estimated impact that initial application of IFRS 16 had on its consolidated statements, as described below.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

(i) Leases in which the Group are a lease

In thousands of U.S. dollars	Amounts from adoption of IFRS 16
Right-of-use asset	1,755
Lease liability	1,626
Retained earnings	129

4. NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS INTERNATIONALLY ISSUED

- ***New IFRSs, interpretations and amendments 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 consolidated financial statements:

- ***IFRS 17 Insurance Contracts.*** Effective for annual periods beginning on or after January 1, 2021.

  IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 will replace IFRS 4 "Insurance Contracts".

  Management considers that this standard will not have a material impact on the consolidated financial statements since the Group does not perform this type of operations.

- ***IFRIC 23 Uncertainty over Income Tax Treatments.*** Effective for annual periods beginning on or after January 1, 2019.

  This interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It considers specifically:

- Whether tax treatments should be considered collectively.
- Assumptions for taxation authorities' examinations.
- Determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates.
- Effect of changes in facts and circumstances.

Management believes that the application of this interpretation, in the future, would not have a material impact on reported amounts and disclosures of the consolidated financial statements of the Group. However, it is not feasible to provide a reasonable estimate of the impact of this interpretation until the Group conduct a detailed review.

- ***Amendments to IFRS 9 Prepayment Features with Negative Compensation.*** Effective for annual periods beginning on or after January 1, 2019.

  This standard amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortized cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments. Under the amendments, the sign of the prepayment amount is not relevant; i. e. depending on the interest rate prevailing at the time of termination, a payment may also be made in favor of the contracting party effecting the early repayment. The calculation of this compensation payment must be the same for both the case of an early repayment penalty and the case of an early repayment gain.

  Management believes that these amendments are not applicable to the Group since they do not perform this type of operations.

- ***Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures.*** Effective for annual periods beginning on or after January 1, 2019.

  These amendments clarify that an entity applies IFRS 9, including its impairment requirements, to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture.

  Management believes that these amendments are not applicable to the Group since they do not perform this type of operations.

- ***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 these amendments are not applicable to the Group since they do not perform this type of operations.

- ***Annual Improvements to IFRSs 2015 – 2017 Cycle.***

  The annual improvements to IFRSs 2015 – 2017 cycle include a number of amendments to various IFRSs, which are summarized below, and are effective for annual periods beginning on or after January 1, 2019.

  - IAS 12 Income tax – the amendments clarify that an entity should recognize the income tax consequences of dividends in other comprehensive income or equity where the transactions that generated distributable profits were originally recognized by the entity. This is the case, regardless of the fact that different tax rates are applied for distributed and undistributed profits.

  - IAS 23 Borrowing costs – the amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.

  - IFRS 3 Business combinations – the amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business.

  - IFRS 11 Joint arrangements – the amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

  Management believes that the application of these amendments, in the future, would not have an impact on reported amounts and disclosures of the consolidated financial statements of the Group. However, it is not feasible to provide a reasonable estimate of the impact of these amendments until the Group conduct a detailed review.

- ***Amendments to IAS 19: Plan Amendment, Curtailment or Settlement***. Effective for annual periods beginning on or after January 1, 2019.

  If a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement. In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.

  Management believes that these amendments are not applicable to the Group since they do not perform this type of operations.

- ***Amendments to IFRS 3 Definition of a business***. Effective for annual periods beginning on or after January 1, 2020.

  The amendments in definition of a business are changes to Appendix A Defined terms, the application guidance, and the illustrative examples of IFRS 3. They:

  - clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs;

  - narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs;

  - add guidance and illustrative examples to help entities assess whether a substantive process has been acquired.

  Management believes that the application of these amendments, in the future, would not have an impact on reported amounts and disclosures of the consolidated financial statements of the Group. However, it is not feasible to provide a reasonable estimate of the impact of these amendments until the Group conducts a detailed review.

- ***Changes in Definition of Material (Amendments to IAS 1 and IAS 8)***. Effective for annual periods beginning on or after January 1, 2020.

  Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

  The changes in Definition of Material (Amendments to IAS 1 and IAS 8) clarify the definition of "material" and align the definition used in the Conceptual Framework and the standards themselves.

- ***Amendments to the Conceptual Framework***. Effective for annual periods beginning on or after January 1, 2020.

  These amendments contain the definitions of concepts related to the following:

  - Measurement: including factors considered when measurement bases are selected.
  - Presentation and disclosure: including when to classify a revenue or expense in other comprehensive income.
  - Derecognition: including the guidance when assets or liabilities should be deleted from the financial statements.

  In addition, these amendments update the definitions of asset and liability and the criteria to include them in the consolidated financial statements. They also clarify the meaning of some concepts.

5. FINANCIAL INSTRUMENTS AND RISKS

Categories of financial instruments

The financial assets and liabilities of the Group comprise the following:

	2018 US$000	2017 US$000
Assets:		
Amortized cost:		
Cash	50,014	23,429
Trade receivables	16,753	27,625
Accounts receivables from related entities	1,299	85,282
Other accounts receivables	2,227	1,620
Total	70,293	137,956
Liabilities:		
Amortized cost:		
Financial Obligations	540,468	539,609
Trade payables	9,050	9,234
Accounts payable to related entities	159,495	269,721
Other accounts payables	16,536	5,497
Total	725,549	824,061

Financial risks

The Group is constantly exposed to credit, liquidity and market risks, which arise from the variation of exchange, interest rates and prices. 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 Termoselva, Eteselva y Etenorte mainly bill in Peruvian soles, the Subsidiary Aguaytía mainly billes in US dollars. The exchange rate risk in the Group mainly arises from trade accounts receivable and payable held in foreign currency. The Group do not use derivative financial instruments to cover its exposure to exchange rate risk.

The carrying amount of financial assets and liabilities in foreign currency as of December 31, 2018 and 2017, reflected according to the basis of accounting described in Note 2 (e) to the consolidated financial statements, is presented below:

	2018	**2017**
	S/000	**S/000**
Assets:		
Cash	45,927	7,765
Trade accounts receivable	56,543	65,579
Other accounts receivable	1,464	-
Total	103,934	73,344
Liabilities:		
Trade accounts payable	15,897	24,373
Other accounts payable	367	-
Total	16,264	24,373
Asset position (net)	87,670	48,971

As of December 31, 2018 and 2017, the balances of financial assets and liabilities in foreign currency correspond to balances in Peruvian soles and are expressed in U.S. dollars at the offer and demand exchange rates published by Superintendencia de Banca, Seguros y AFP – SBS (Superintendence of Banking, Insurance and Private Pension Fund Administrators), effective at that date, which were US$0.2968 for selling and US$0.2959 for buying (US$0.3082 for selling and US$0.3088 for buying as of December 31, 2017) per US$1.00.

As of December 31, 2018, the Group recorded net exchange loss for US$681 (net exchange profit for US$618 in 2017), 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 Peruvian Soles (S/), equivalent at the aforementioned rates, exclusively on balances of monetary assets and liabilities reflected above, is detailed in the following table:

	Increase (decrease in): Exchange rate	**Effect of (loss) profit before income tax**
	%	**US$000**
2018:		
US$ / Soles	+10%	2,595
US$ / Soles	-10%	(2,595)
2017:		
US$ / Soles	+10%	1,510
US$ / Soles	-10%	(1,510)

(ii) Price risk

The Group is not exposed to commercial risks arising from changes in energy sale prices since they are not expected to fluctuate significantly because main revenues come from purchase price agreement with customers. Regarding the spot market, ratios are managed that allow having predictability in prices.

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

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

Regarding the selling price of natural gasoline, Aguaytía is exposed to commercial risks arising from changes in selling prices since they are determined in international markets. A sensitivity analysis of Management is presented below, assuming an increase and decrease of 6% of average selling prices of natural gasoline and the impact on its gross income.

	Increase (decrease) in international price	**Effect on gross profit before income tax**
	%	**US$000**
2018:		
Selling price of natural gasoline	+6%	829
Selling price of natural gasoline	-6%	(829)
2017:		
Selling price of natural gasoline	+6%	620
Selling price of natural gasoline	-6%	(620)

(iii) Interest rate risk

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

The policy of the Group as of 2018 and 2017 is maintain borrowings at fixed interest rates. In this regard, short and long-term debts at fixed rates represent all total

financial debt as of December 31, 2018 and 2017; therefore, any change in interest rates would not adversely affect profit or loss of the Group.

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

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

Regarding deposits in banks, the Group 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 Group 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 Group manage liquidity risk by monitoring their cash flows and the maturities of their financial assets and liabilities.

The analysis of financial liabilities, including interest payable of the Group, 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 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total	Carrying amount
	US$000	US$000	US$000	US$000		US$000	US$000
2018:							
Financial obligations	-	-	-	-	550,000	550,000	540,468
Trade accounts payable	9,050	-	-	-	-	9,050	9,050
Other accounts payable	-	-	41,974	154,688	77,344	274,006	16,536
Accounts payable to related entities	-	-	8,893	-	211,829	220,722	159,495
Total	9,050	-	50,867	154,688	839,173	1,053,778	725,549

	Less than 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	More than 5 years	Total	Carrying amount
	US$000	US$000	US$000	US$000	US$000	US$000	US$000
2017:							
Financial obligations	-	-	-	-	550,000	550,000	539,609
Trade accounts payable	9,234	-	-	-	-	9,234	9,234
Other accounts payable	169	-	30,938	123,750	139,219	294,076	5,497
Accounts payable to related entities	-	-	128,520	-	209,846	338,366	269,721
Total	9,403	-	159,458	123,750	899,065	1,191,676	824,061

Management addresses 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 pay its working capital with cash flows provided by its operations.

As of December 31, 2018 and 2017, the Group have access to financial facilities for US$25,000. As of December 31, 2018 and 2017, the Group has not used these credit facilities.

(d) Fair value of financial instrument

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 December 31, 2018 and 2017, Management of the Group 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 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 payable to related entity, in less than one year, so it has been considered that their fair value is not significantly different from their carrying amount. The Group's Management considers that the carrying amount of the non-current account payable to related entity is similar to its fair value, since the account receivable accrued an interest rate that is similar to market interest.

- In case of long-term financial obligations of the Group, as of December 31, 2018, the fair value of long-term financial obligations is US$509,135 (US$541,200 in 2017). For the calculation of such fair value, Management has obtained quotations according to the terms and conditions established at the contracting date from credit-rating agencies. 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, except for financial obligations (Note 15) and accounts payable to related entities (Note 9).

6. CASH

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.

7. TRADE ACCOUNTS RECEIVABLE (NET)

Trade accounts receivable (net) comprise the following:

	2018 **US$000**	**2017** **US$000**
Energy and power delivered but not billed	13,571	15,641
Invoices	22,523	30,229
Sub total	36,094	45,870
Impairment estimate	(19,341)	(18,245)
Total	16,753	27,625

The average credit period granted to customers of the Group ranges between 7 and 30 days.

Once the terms indicated above expire, overdue balances accrue interests. The interest is determined by the annual average of the lending and borrowing rates of the dollar and sol currency. As of December 31, 2018, the annual average rate for the Group are 8.41% and 4.05% for local and foreign currency, respectively (9.13% and 3.62% as of December 31, 2017 for local and foreign currency, respectively).

The aging of these balances is summarized as follows:

	2018 US$000	2017 US$000
Unexpired	14,819	19,524
Overdue for up to 30 days	1,839	5,844
Overdue between 31 and 90 days	3	503
Overdue between 91 and 180 days	-	63
Overdue between 181 and 360 days	66	1,691
More than 361 days	19,367	18,245
Total	36,094	45,870

Energy and power delivered but not billed

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

Energy and power delivered but not billed as of December 31, 2018 and 2017 were billed and collected substantially in January 2019 and 2018 respectively, except the impaired estimate amount, with no significant changes.

Impairment estimate of accounts receivable

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

	2018 US$000	2017 US$000
Opening balance	18,245	12,211
Additions	1,756	6,549
Collections	(613)	(554)
Exchange difference	(47)	39
Closing balance	19,341	18,245

The estimation policy is described in Note 2 (q); estimated amount is recognized with charge to the results of the year. Subsequent collections are recognized with credit to the results of the year.

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 December 31, 2018 and 2017.

During 2018, the higher credit risk that Aguaytía addressed is the non-collectability of the invoices issued to Maple for natural gasoline sales. The impairment estimate for this customer was US$1,600 recognized in 2018 (US$5,815 in 2017).

8. OTHER ACCOUNTS RECEIVABLE

Other accounts receivable comprises the following:

	Current		Non-current	
	2018	2017	2018	2017
	US$000	US$000	US$000	US$000
Financial assets:				
Fund for the stabilization of fuel prices (a)	1,719	1,170	-	-
Claims to COES	248	139		
Sundry ítems	260	360	-	-
Sub total	2,227	1,669	-	-
Non-financial assets:				
Credits on Value-Added tax (b)	9	1,567	-	-
Credit on Temporary Taxes on net assets - ITAN	-	-	435	442
Claims to SUNAT	-	-	-	263
Sub total	9	1,567	435	705
Total	2,236	3,236	435	705

(a) This item corresponds to an account receivable to the Peruvian government in relation to the Fund for the stabilization of fuel prices (Note 1(g)). The collection term of such fund unilaterally depends on the Peruvian government; however, Management considers that there is no impairment risk of accounts receivable since there is a fund held by the government that is intended exclusively for the pertinent payment.

(b) As of December 31, 2018 and 2017, the balance corresponds to credit on value-added tax (VAT) which will be offset in future periods.

9. BALANCES AND TRANSACTIONS WITH RELATED ENTITIES

The Company's main shareholder is Orazul Energía (UK) Holdings Ltd, which belongs to the group of subsidiaries owned by ISQ Global Infrastructure Fund I & II (Delaware and Cayman exempted limited partnership), ultimate parent of the group. In 2018 and 2017, the Group performed the following significant transactions with related parties, during the normal course of operations:

2018	Financial interest income	Financial interest expenses	Sales	Purchases	Other services	Capital reduction	Selling investments
	US$000	US$000 (Note 17)	US$000	US$000	US$000	US$000 (Note 12)	(Note 11)
Goldwat BD, S.L. -Spain (2)	862	-	-	-	-	-	-
Orazul Energía (España) Holding S.L. (2)	-	1,244	-	-	-	-	34,171
Orazul Energia Management LLC -Delaware (2)	-	-	-	-	163	-	-
Orazul Energía (UK) Holdings Ltd. - UK (1)	-	-	-	-	-	17,197	-
Orazul Energía Partners LLC (2)	-	7,677	-	-	-	-	-
OE Nehuen Generacion, SPA (2)	-	-	-	-	1,800	-	-
El Salvador, S en C de CV (2)	-	-	-	-	65	-	-
Orazul Energy Cerros Colorados, S.A. (2)	-	-	-	-	63	-	-
Orazul Energy Guatemala y CIA, S.C.A (2)	-	-	-	-	61	-	-
OE Chile Holding II B.V. SCPA (2)	-	-	-	-	81	-	-
Samay I S.A.(2)	-	-	18	2,062	-	-	-
Kallpa Generación S.A. (2)	-	-	3,963	130	-	-	-
Total	862	8,921	3,981	2,192	2,233	17,197	34,171

2017	Financial interest Income US$000	Financial interest Expenses US$000	Others Selling investments US$000 (Note 11)	Others Buying investments US$000 (Note 11)	Others Other service US$000
Goldwat BD, S.L. -Spain (2)	3,967	-	80,684	-	-
Orazul Energía (España) Holding S.L. (2)	-	1,039	-	126,000	-
Orazul Energia Management LLC -Delaware (2)	-	-	-	-	176
Orazul Energy Nehuen Generacion, SPA (2)	-	-	-	-	169
Orazul Energía Partners LLC (2)	-	14,050	-	-	-
Total	3,967	15,089	80,684	126,000	345

1. Parent Company
2. Other related entity

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

	Relationship	2018 US$000	2017 US$000
Non-trade accounts receivable:			
Goldwat BD, S.L. -Spain (b)	(2)	-	84,651
Orazul Energy Duqueco SPA (a)	(2)	-	532
Orazul Energia Management LLC –Delaware (a)	(2)	1,141	34
Other related entities (a)	(2)	158	65
Total		1,299	85,282
Non-trade payable accounts:			
Orazul Energía (España) Holding S.L. (c)	(2)	8,803	126,718
Orazul Energy Duqueco SPA	(2)	-	78
Other related entities	(2)	90	-
Total		8,893	126,796
Loans - non-current portion			
Orazul Energia Partners LLC (d)	(2)	150,602	142,925

1. Parent Company
2. Other related entity

(a) Receivables are expected to be collected in the short term, and do not accrue interests.

(b) On January 4, 2017, the subsidiary OEG transferred in favor of Goldwat BD, S.L.-Spain its investment in Duke Energy Guatemala Ltd. and Duke Energy International El Salvador Investments N°.1 S.a r.l. (Central America) for US$80,684, with an unsecured promissory note. The note was expected to mature in January 2027 and accrues interests at a rate of 5% per year.

(c) On August 2, 2017, the Company acquired from Orazul Energía (España) Holding S.L. 12.76% of its interest in OEG. The parties agreed a price of US$126,000 to be paid by an unsecure promissory note. Such note accrues interests at a rate of 2% per year.

On March 20, 2018, through the document "Assignment of account receivable", the Company assigned and transferred to Orazul Energia (España) Holding S.L. the right and title on the account receivable held with Goldwat BD, S.L. for a total amount of US$80,684. As a result, the parties agreed that this account receivable partially compensate the account payable of US$126,000 held by the Company with Orazul Energia (España) Holding S.L. Therefore, the account payable held by the Company with Orazul Energia (España) Holding S.L. amounted to US$45,316.

On December 13, 2018, the Company assigned and transferred to Orazul Energia (España) Holding S.L. the right and title on the account receivable held with Goldwat BD, S.L. correspond to interest related to the note regarding the sale of Central America investment, for a total amount of US$3,930. The parties agreed that this account receivable partially compensate the account payable of US$45,316. Therefore, as of December 13,2018, the account payable held by the Company with Orazul Energia (España) Holding S.L. amounted to US$41,386.

On December 19, 2018, through the document "Assignment and Transfer Agreement" the Subsidiary OEG transferred in favor of Orazul Energia (España) Holding S.L., its investment in Orazul Energy Group B.V. (former Orazul Energy Group Cooperative U.A.), which owns Chilean assets, in exchange for the partial cancellation of the debt held by the Company with Orazul Energia (España) Holding S.L. for the amount of US$34,171. Therefore, as of December 31, 2018, the account payable held by the Company with of Orazul Energia (España) Holding S.L. amounted to US$7,215, plus its interest of US$1,588.

(d) On December 20, 2016, Orazul Energía Partners LLC, granted a loan in favor of the Company for an aggregate amount of $255,950 to fund the acquisition of Orazul Energy Group Shares. The first loan annual interest rate of 6% until final maturity on December 20, 2026.

On July 4, 2017, Orazul Energía Partners LLC assigned a portion of the loan in the amount of $127,950 to Orazul Energia (UK) Holdings Ltd. On the same date, Orazul Energia (UK) Holdings Ltd. approved the capitalization of said debt and increase the capital stock issued by the Company (Note 19).

During 2018 and 2017, the Company recorded accrued interest by $7,677 and $14,050 respectively as interest expense associated to these loans.

Subsequent event

In January 2019, Orazul Energy Partners LLC modified the loan rate from 6% to 0%, without modifying the terms of maturity and payment. These changes will take effect on January 1, 2019.

Remunerations to key personnel

Remunerations paid to key personnel who have the authority and responsibility of planning, managing and controlling the activities of the Group, whether directly or indirectly, amounted to US$1,748 and US$1,777 in 2018 and 2017, respectively.

10. INVENTORIES (NET)

Inventories comprise the following:

	2018 US$000	2017 US$000
Supplies and spare parts	6,315	6,246
Fuel to sale	121	699
Fuel and lubricants	64	89
Sub total	6,500	7,034
Obsolescence estimate	(630)	(774)
Total	5,870	6,260

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

	2018 US$000	2017 US$000
Opening balance	774	1,333
Increase (Note 21)	-	110
Recovery (Note 21)	(144)	(179)
Write-off	-	(500)
Closing balance	630	774

The obsolescence estimate of inventories was determined based on internal technical reports. Management believes that this estimate covers the obsolescence risk appropriately as of December 31, 2018 and 2017.

11. ASSETS HELD FOR SALE

As of December 2018 and 2017, correspond to investment in:

	Orazul Energy Group B.V. US$000	Orazul Energy Guatemala and El Salvador (Central America) US$000	Total US$000
As of January 1, 2017	44,918	80,684	125,602
Profit of the year	1,589	-	1,589
Disposal (a)	-	(80,684)	(80,684)
As of December 31, 2017	46,507	-	46,507
Impairment (b)	(12,336)	-	(12,336)
Disposal (a)	(34,171)	-	(34,171)
As of December 31, 2018	-	-	-

(a) In December 2016, Management announced a plan to dispose the operation in Guatemala, El Salvador and Chile. The disposal plan is consistent with the Group’s perspective to focus its activities on operations in Peru. On January 4, 2017, OEG transferred in favor of Goldwat BD, S.L.-Spain (related party) its operating business in Guatemala and El Salvador with a carrying amount and price value of US$80,684 (Note 9(b)). On December 19, 2018, OEG transferred in favor of Orazul Energia (España) Holding S.L. (related entity) its operating business in Chile with a carrying amount and price value of US$34,171 (Note 9).

(b) Corresponds to the impairment recorded by the Company in order to reflect future cash flows that it expects to receive from the sale of this investment. This amount is reflected in the condensed consolidated interim statement of profit or loss and other comprehensive income of the Company as discontinued operations.

(c) On February 28, 2018, the Subsidiary in Chile Orazul Energy Group B.V. approved the distribution of dividends in favor of Orazul Energy Group S.A.C., for US$1,049.

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

The movement in the cost, accumulated depreciation and impairment loss during 2018 and 2017 was as follows:

	Land	Buildings and other constructions	Machinery and equipment	Vehicles	Furniture and fixtures	Sundry equipment	Cost for disposal of assets	Constructions in process	Total
	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000
COST:									
As of January 1, 2017	8,907	348,752	464,028	4,040	1,789	21,172	40	2,777	851,505
Additions	-	-	-	-	-	-	-	2,779	2,779
Sales	(184)	(3,581)	(13)	(120)	(321)	(866)	-	-	(5,085)
Transfers	-	108	1,879	119	1	640	-	(2,772)	(25)
Exchange difference	100	12,101	8,019	115	38	618	2	68	21,061
As of December 31, 2017	8,823	357,380	473,913	4,154	1,507	21,564	42	2,852	870,235
Adoption IFRS 16	-	1,326	-	297	-	132	-	-	1,755
Additions	-	-	-	-	-	-	-	5,588	5,588
Sales	-	(1,949)	(41,780)	(292)	(357)	(1,687)	-	-	(46,065)
Transfers	-	203	1,008	27	-	233	-	(1,638)	(167)
As of December 31, 2018	8,823	356,960	433,141	4,186	1,150	20,242	42	6,802	831,346
ACCUMULATED DEPRECIATION:									
As of January 1, 2017	-	172,554	267,578	2,401	1,226	13,183	40	-	456,982
Additions	-	9,041	21,722	849	261	2,792	-	-	34,665
Sales and disposals	-	(1,859)	(5)	(108)	(296)	(844)	-	-	(3,112)
Exchange difference	-	6,063	5,930	84	28	446	2	-	12,553
As of December 31, 2017	-	185,799	295,225	3,226	1,219	15,577	42	-	501,088
Transfers	-	448	-	-	-	-	-	-	448
Additions	-	8,321	25,303	627	212	1,630	-	-	36,093
Sales	-	(1,949)	(35,394)	(270)	(323)	(1,705)	-	-	(39,641)
As of December 31, 2018	-	192,619	285,134	3,583	1,108	15,502	42	-	497,988
IMPAIRMENT LOSS:									
As of January 1, 2017	-	829	5,332	1	1	34	-	-	6,197
Sales and disposals	-	(22)	(75)	-	-	-	-	-	(97)
Exchange difference	-	30	166	-	1	1	-	-	198
As of December 31, 2017	-	837	5,423	1	2	35	-	-	6,298
Transfers	-	(448)		-	-	-	-	-	(448)
Additions	-	-	(76)	-	-	-	-	-	(76)
Sales	-	-	(5,271)	-	-	-	-	-	(5,271)
As of December, 2018	-	389	116	1	2	35	-	-	543
NET COST:									
Total As of December 31, 2018	8,823	163,238	147,891	410	40	4,652	-	6,802	332,815
Total as of December 31, 2017	8,823	170,744	173,265	927	286	5,952	-	2,852	362,849

(a) The expense for depreciation of property, plant and equipment for the year ended December 31, 2018 and 2017 has been recorded in the following items in the consolidated statement of profit or loss and other comprehensive income:

	2018 US$000	2017 US$000
Cost of sale of electrical energy (Note 21)	34,731	33,800
Administrative and selling expenses (Note 22)	1,362	865
Total	36,093	34,665

(b) Significant sales of property, plant and equipment correspond to the following:

- In 2017, the Group entered into a purchase agreement for US$4,000 with Protecta S.A. Compañia de Seguros for the sale of buildings and equipment related to offices located in Pardo & Aliaga (San Isidro – Lima), whose carrying amount was US$1,813 and gave rise to a net profit of US$2,188.

- In April 2018, the Group sold certain assets of the thermal plants, which carrying amount was US$41. The sale value was US$191.

(c) Accumulated impairment loss as of December 31, 2018 and 2017 mainly corresponds to the impairment of thermoelectric power plants for US$543 and US$6,298 respectively, since their carrying amounts exceeded their recoverable values. Management of the Group considers that, as of December 31, 2018 and 2017, additional provisions are no required, other than the estimate previously recognized in the records for the impairment of property, plant and equipment.

(d) As of December 31, 2018 and 2017, the Group do not have commitments for the acquisition of property, plant and equipment.

(e) According to the policies established by Management, as of December 31, 2018 and 2017, the Group 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 Group understand that those insurance policies sufficiently cover the risks they are exposed to.

13. PROPERTY, PLANT AND EQUIPMENT - GAS INVESTMENTS

The movement in the cost and accumulated depreciation of property, plant and equipment - gas investments during 2018 and 2017 was as follows:

	Gas and fractionation plant US$000	Vehicles US$000	Furniture and fixture US$000	Sundry equipment US$000	Works in progress US$000	Total US$000
COST:						
As of January 1, 2017	133,179	231	411	979	8,013	142,813
Additions	-	-	-	-	9,379	9,379
Disposals	(3)	(20)	-	(2)	-	(25)
Transfers and others	11,049	144	11	4,488	(15,692)	-
As of December 31, 2017	144,225	355	422	5,465	1,700	152,167
Additions	-	-	-	-	5,762	5,762
Transfers and other	5,993	-	-	(4,280)	(1,713)	-
As of December 31, 2018	150,218	355	422	1,185	5,749	157,929
ACCUMULATED DEPRECIATION:						
As of January 1, 2017	77,528	151	276	515	-	78,470
Additions	4,605	9	32	415	-	5,061
Disposals	-	(21)	-	(2)	-	(23)
As of December 31, 2017	82,133	139	308	928	-	83,508
Additions	9,764	20	31	(141)	-	9,674
As of December 31, 2018	91,897	159	339	787	-	93,182
NET COST:						
As of December 31, 2018	58,321	196	83	398	5,749	64,747
As of December 31, 2017	62,092	216	114	4,537	1,700	68,659

(a) The expense for depreciation of property, plant and equipment - gas investments in 2018 is US$9,674 (US$5,061 in 2017). This expense is presented in item cost of sales in the consolidated statement of profit or loss and other comprehensive income (Note 21).

(b) As of December 31, 2018 and 2017, the Group's Management considers that there are situations that could indicate that the value of property, plant and equipment - gas investments may be impaired such as the impairment of the accounts receivable from Maple and the reduction of the hydrocarbons sales; however, the Group's Management concluded that there is not an impairment that should be recorded in the financial statements, based on the impairment test performed.

(c) As of December 31, 2018 and 2017, the Group do not have commitments for the acquisition of property, plant and equipment – Gas Investment.

(d) According to the policies established by Management, as of December 31, 2018 and 2017, the Group 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 Group understand that those insurance policies sufficiently cover the risks they are exposed to.

14. INTANGIBLE ASSETS (NET)

	Goodwill	Electric and hydrocarbon concessions	Software	Other Rights	Total
	US$000 (a)	US$000 (b)	US$000	US$000 (c)	US$000
As of January 1, 2017	395,456	93,614	1,717	-	490,787
Amortization	-	-	(144)	-	(144)
Exchange difference	-	-	(25)	-	(25)
As of December 31, 2017	395,456	93,614	1,548	-	490,618
Transfer	-	-	165	-	165
Addition	-	-	-	9,965	9,965
Amortization	-	(1,837)	(179)	-	(2,016)
As of December 31, 2018	395,456	91,777	1,534	9,965	498,732

(a) Goodwill:

As of December 31, 2018 and 2017, goodwill corresponds to (i) the excess of the consideration given on the net fair value of assets and liabilities identified during the acquisition of the Peruvian operating business on December 20, 2016 for US$344,924, net of the deferred income tax liabilities arising from intangible assets acquired, (ii) and the adjustment of fair value of fixed assets for US$50,532.

Impairment test for goodwill is based on the value in use of the cash-generating unit to which is related, by using a discounted cash flow model using a discount tax of 7.9% and 7.85% in 2018 and 2017, respectively. Cash flow is obtained from the budget approved by the Board of Directors. On this basis, as approved by Corporate Management, the Group's Management prepared the cash flow for the following five years and terminal growth rate. These cash flows do not include restructuring costs that the Group is not committed to perform or that imply future investments that will increase the capacity of assets that belong to the cash-generating unit under evaluation. As a result of such estimate, the recoverable value of goodwill exceeds its carrying amount, and for that reason, it not necessary to recognize an impairment loss as of December 31, 2018 and 2017.

(b) Electric and hydrocarbon concessions

As of December 31, 2018 and 2017, electric and hydrocarbon concessions correspond to intangible assets identified at the acquisition date on December 20, 2017. The useful life of electric concessions is indefinite and a useful life of 15 years has been determined for hydrocarbons concessions. As of December 31, 2018, the Group's Management estimates that it will not be required to establish reserves for the possible impairment of its intangible assets with an indefinite life.

The expense for amortization of hydrocarbon concessions in 2018 is US$1,837. This expense is presented as part of cost of sales in the consolidated statement of profit or loss and other comprehensive income (Note 21).

(c) Other rights

Correspond to the agreement signed between the Company and its subsidiary Termoselva, and regulated costumers, by which regulated costumers grant an option to sign addendums to the original public tender PPAs, extending the contract term, modifying the contracted capacity and associated energy and maintaining the current fixed prices with framework of the Supreme Decree 022-2018 EM (Note 17).

15. FINANCIAL OBLIGATIONS

Creditors	Maturity	Authorised and used amount	Total	
			2018	2017
		US$000	US$000	US$000
Bonds - Orazul Energy Perú (a)	April 2027	550,000	540,468	539,609
Interest (Note 17)			5,500	5,328

Bonds - Orazul Energy Perú:

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

As of December 31, 2018, the amount for the bonds issued for US$540,468 (US$539,609 in December 31, 2017), consists of the principal of US$550,000, this amount is offset by the amortized cost of US$9,532 (US$10,391 in December 31, 2017).

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

- The Company agrees to some restrictions for the payments outside its usual operations, new investments and in the sale of assets.

- The Company and its guarantors agree to keep their accounting records under IFRS, and report their financial statements within the periods established in the agreement.

- The Company agrees to comply with certain restrictions for new indebtedness.

- The Company agrees to maintain effective insurance policies that cover its generation and transmission assets and that have coverage, deductibles and insured amounts that are reasonable and usual for private companies engaged in the generation and distribution of electrical energy.

Management considers that these restrictions and responsibilities required for the Company were compiled appropriately as of December 31, 2018 and 2017.

16. TRADE ACCOUNTS PAYABLE

Trade accounts payable comprise the following:

	2018	2017
	US$000	US$000
Invoices	4,463	2,869
Goods and services received but not billed	4,587	6,365
Total	9,050	9,234

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

17. OTHER ACCOUNTS PAYABLE

Other accounts payable comprise the following:

	2018	2017
	US$000	US$000
Financial liabilities:		
Interest (Note 15)	5,500	5,328
Option contract (Note 14)	9,965	-
Lease liability	905	-
Guarantee deposits	12	99
Sundry ítems	154	70
Sub-total	16,536	5,497
Non-financial liabilities:		
Value-Added Tax	1,047	1,247
Rural electricity contribution	68	121
Other taxes	1,933	616
Sub-total	3,048	1,984
Total	19,584	7,481

18. LIABILITIES FOR EMPLOYEE BENEFITS

The liabilities for employee benefits comprise the following:

	2018 US$000	2017 US$000
Employee severance indemnities	1,776	330
Bonusses to employees	97	1,053
Employee profit-sharing	-	574
Vacations	398	241
Pension Fund Administration	119	102
ESSALUD	92	81
Other	77	1
Total	2,559	2,382

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

19. EQUITY

(a) Issued capital stock

As of December 31, 2018, issued capital stock is represented by 651,224,289 (706,436,289 as of December 31, 2017) common shares with a face value of S/1.00 per share, duly authorized, issued and paid.

- The General Shareholders' Meeting held on January 26, 2018, agreed to reduce the Company's capital stock by (in thousands) S/55,212 (equivalent to US$17,197), this reduction was made, without modifying the interest structure.

- As a result of the Group's reorganization plan, the General Shareholders' Meeting held on August 16, 2017 agreed to issue 109,139 common shares, equivalent to (in thousands) S/109 (equivalent to US$33), to reflect the interest of minority shareholders in the Company, as a result of the merger of Orazul Energy Egenor S. en C. por A.

- The General Shareholders' Meeting held on July 4, 2017, agreed to capitalize a loan with Orazul Energia (UK) Holding Ltd. (Note 9(d)), which amounted to (in thousands) S/416,221 (equivalent to US$127,950), and issued 416,221,350 common shares with a value of S/1.00 per share.

The movement of outstanding common shares was as follows:

	Outstanding common shares
As of January 1,2017	290,105,800
Issued for:	
Capitalization of debt (Note 9(d))	416,221,350
Capital stock issued for the merger (Note 1 (c))	109,139
As of December 31, 2017	706,436,289
Capital stock reduction	(55,212,000)
As of December 31, 2018	651,224,289

As of December 31, 2018 and 2017, the equity interest structure of the Company was as follows:

Shareholders	12/31/2018		12/31/2017	
	Shares	Ownership	Shares	Ownership
	N°			%
Orazul Energía (UK) Holdings Ltd.	651,132,301	99.99	706,336,502	99.99
Others	91,988	0.01	99,787	0.01
Total	651,224,289	100.00	706,436,289	100.00

(b) Retained earnings

Domiciled legal entities that agree to distribute dividends or any other form of profit distribution will retain the rate applicable described in Note 27 on the amount to be distributed, except when such distribution is made in favor of legal entities domiciled in Peru.

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

(c) Non-controlling Interest

As result of determination of purchase price allocation from the acquisition of the investment in OEG at December 20, 2016, the Group has recognized a non-controlling interest for amount for amount of US$125,150.

On January 4, 2017, OEG transferred in favor of Goldwat BD, S.L.-Spain its controlling interest of operating business in Guatemala and El Salvador. As a result, the Company reduced in its consolidated financial statements the non-controlling interest for those operating business for an amount of US$10,303 (equivalent to 12.76% of interest).

As a result of the acquisition of 12.76% of interest in OEG on August 2, 2017, the Company has reduced the non-controlling interest balance for amount of US$114,843.

(d) Excess of value paid in purchase of shares

As part of the reorganization within Orazul Group, on August 2, 2017, the Company acquired from Orazul Energía (España) Holding S.L. (hereinafter Orazul Spain), a related party, 12.76% of its interest in OEG, and as a result, the interest of the Company in OEG increased to 99.99%. The related party agreed to set a price of US$126,000 by an unsecured promissory note (Note 9(c)). However, the nominal value of this 12.76% interest was US$115,297, so the Company recognized the excess of the value paid as a decrease in its equity for US$10,703.

20. SALE OF ENERGY AND ELECTRICAL ENERGY TRANSMISSION SERVICES AND HYDROCARBONS

For the years ended December 31, the sale of energy, electrical energy transmission services and sale of hydrocarbons include the following:

	2018 US$000	2017 US$000
Sale of electrical energy:		
Sale of electrical energy and power		
Energy	80.669	104,513
Power	23,987	25,100
Electrical energy transmission	-	35,299
COES Compensations		
Energy	10,617	5,185
Power	8,470	3,956
Other	1,131	803
Electrical energy transmission	7,569	8,989
Sub-total	132,443	183,845
Sale of hydrocarbons:		
Natural gasoline	7,679	8,351
LPG	16,247	10,327
Sub-total	23,926	18,678
Total of sales	156,369	202,523

21. COSTS OF SALE OF ENERGY AND ELECTRICAL ENERGY TRANSMISSION SERVICES AND HYDROCARBONS

For the years ended December 31, the cost of sale of energy and electrical energy transmission services and hydrocarbons include the following:

	2018	2017
	US$000	US$000
Personnel expenses	10,342	9,925
Royalties from sales of hydrocarbons:		
Natural gasoline	6,156	3,622
LPG	2,446	2,313
Royalties from electrical energy sales (Note 1)	7,451	2,615
Services provided by third parties	6,872	7,081
Transport, storage and other costs of natural gas	3,356	1,521
Purchase of energy		
Energy	3,133	7,142
Power	-	7,535
Other cost	1,811	1,766
Purchase of transmission charges	2,265	36,327
Taxes	3,240	3,038
Supplies, spare parts and fuel	1,166	831
Sundry management charges	418	958
Estimates of the period:		
Depreciation (Note 12, 13 y 14)	46,242	38,861
(Recovery) loss for obsolescence of inventories (Note 10)	(144)	(69)
Employee severance indemnities	486	496
Total	95,240	123,962

22. ADMINISTRATIVE AND SELLING EXPENSES

For the years ended December 31, administrative and selling expenses include the following:

	2018	2017
	US$000	US$000
Personnel expenses	11,608	8,739
Services provided by third parties	4,058	6,923
Taxes	771	737
Sundry management charges	2,578	2,161
Estimates of the period:		
Depreciation (Note 12)	1,362	865
Amortization (Note 14)	179	169
Employee severance indemnities	446	473
Total	21,002	20,067

23. PERSONNEL EXPENSES

For the years ended December 31, personnel expenses include the following:

	2018	2017
	US$000	US$000
Salary	10,740	10,609
Bonusses	3,998	4,037
Severance package	5,541	1,717
Vacations	817	856
Profit-sharing	126	707
Others	1,660	1,707
Total (Notes 21 and 22)	22,882	19,633

24. OTHER INCOME

For the years ended December 31, other income includes the following:

	2018	2017
	US$000	US$000
Intercompany Service	2,236	667
Equipment rentals	554	957
Net profit from the sale of fixed assets	322	2,293
Others	2, 260	2,677
Total	5,372	6,594

25. FINANCIAL EXPENSES

For the years ended December 31, financial expenses include the following:

	2018	2017
	US$000	US$000
Interests expenses - bonds	31,109	21,010
Interests expenses - related parties	8,921	14,681
Withholding tax on interests - related parties	4,305	5,373
Financial cost - Corporate bonds	864	10,075
Financial cost - Syndicated loan	-	20,632
Other financial expenses	176	1,485
Total	45,375	73,256

26. 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 rate of 29.5% on their net income.

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

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

(ii) Transfer pricing

The following new standards have been established:

- Comparable uncontrolled price (CUP) for commodities: It is confirmed that, for import or export of commodities, the market value will be provided by quotation (it was established before for operations with intermediaries or from, through or to tax havens). The detail of this standard is included in the regulations.

- New formal obligations: The Transfer Pricing Technical Study is no longer be submitted and new tax returns are included:

Tax return	Minimum annual income	Assumption	Details	Effective from
Local report	S/9,300 (US$2,700)	Operations with related entities	Transactions that give rise to taxable income or deductible expense	2018
Master report	S/81,000 (US$23,800)	Taxpayers that are part of a Group	Organizational structure, description of the business, transfer pricing policies, financial and tax position	2018
Report per country	Not applicable	Taxpayers that are part of a Multinational Group	Global revenue distribution, paid taxes and activities of each entity of the multinational group	2018

The Group prepared the local and master reports for 2017, which were submitted to the Tax Administration in November 2018 and February 2019. The Group is now preparing the local report for the year ended December 31, 2018. Management believes that no significant liabilities will arise for the consolidated financial statements as of December 31, 2018 and 2017, with regard to transfer pricing.

(i) Significant changes to Income Tax regime in Peru

After December 31, 2017, no significant changes have been made to the income tax regime in Peru, which may affect these consolidated financial statements. The standards and interpretations effective as of December 31, 2018 have been considered by Management when preparing these consolidated financial statements.

Deductibility of interests

Pursuant to Legislative Decree No. 1424, from 2019, the deductibility of interests for loans with third parties should comply with an additional requirement, which establishes that interests will only be deductible for the portion of the loan that is not higher than 3 times the net equity of the Peruvian entity at the closing of the previous year (undercapitalization).

Deductibility of expenses for payments made to non-domiciled beneficiaries

Pursuant to Legislative Decree No. 1369, from 2019, royalties and contributions for services, technical assistance, assignment in use and others with a similar nature in favor of non-domiciled beneficiaries can be deducted as cost or expense in the corresponding taxable period when paid, even when oduly provisioned in a previous year.

Permanent establishment

Pursuant to Legislative Decree No. 1424, two additional assumptions that indicate the concept of permanent establishment became effective from 2019:

Construction, installation or assembly works or projects, as well as supervisory activities related to them, if they last more than one hundred and eighty-three (183) calendar days within any period of twelve (12) months, unless a less term has been established in the Agreements to avoid Double Taxation, in which case, it will be the applicable term.

The provision of services, when provided in the country for the same project, service or other related activity, for a period o periods that in total exceed one hundred and eighty three (183) calendar days within any period of twelve (12) months, unless a less term has been established in the Agreements to avoid Double Taxation, in which case, it will be the applicable term.

Indirect credit

Pursuant to Legislative Decree No. 1424, from 2019, when a domiciled taxpayer receives dividends from abroad has the possibility to use as credit the income tax paid by the non-domiciled company that allocates dividends to the Peruvian domiciled taxpayer (first-level entity) for a business or company, in the proportional part that corresponds to dividends allocated to the Peruvian taxpayer.

In addition, the income tax amount paid by a second-level entity can also be deducted. For this effect, a second-level non-domiciled entity is understood as the non-domiciled company that allocates dividends or profits to a first-level entity for a business or company, in the proportional part that corresponds to dividends allocated to the first-level entity.

Transactions between related entities – DFI operations

Pursuant to Legislative Decree No. 1425, from 2019, regarding derivative financial instruments (DFI) used outside of recognized markets, the market value will be such value that corresponds to the underlying element when some of the following events occur (acording to the amendment of article 57 of the Income Tax Law):

(i) DFIs that consider as underlying element exclusively the exchange rate of a foreign currency, income and losses attributed at the closing of each taxable period even when the maturity date of the agreement corresponds to a previous period;

(ii) DFIs used for the purposes of financial intermediation by financial companies, income and losses attributed according to paragraph 2), section d) of article 5-A of the Income Tax Law (the same regulation).

Low value-adding services

Pursuant to Legislative Decree No. 1369, from 2019, the deduction of the cost or expense for low value-adding services received is determined based on the sum of costs and expenses incurred by the service provider, as well as its profit mark-up, which cannot exceed 5% of those costs and expenses.

(iii) Tax situation

Orazul Energy Perú

Income tax returns from the period from October 10, 2016 to December 31, 2016, for the year 2017 and the return that will be submitted for 2018 have not been reviewed by the Tax Administration yet, which is empowered to conduct those reviews within four years immediately after the submission date of pertinent tax returns.

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

Orazul Energy Egenor S. en C. por A. (entity absorbed in the merger (Note 1 (c)))

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

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

Temporary tax on net assets return from 2013 was reviewed by the Tax Administration in 2014, which issued determination and fine resolutions for US$264 plus interests in May 2015. In July 2015, the Company filed a claim against the Tax Administration; and in April 2016, the Tax Administration declared the claim filed by the Company as groundless. In May 2016, the Company filed an appeal against the SUNAT decision before the Tax Court, which has not been resolved to date. The updated contingency is US$426.

Etenorte

Income tax returns from 2014 to 2017 and the return that will be submitted for 2018 have not been reviewed by the Tax Administration yet, which is empowered to conduct those reviews within four years immediately after the submission date of pertinent tax returns.

Aguaytía

Income tax returns from 2014 to 2017 and the return that will be submitted for 2018 have not been reviewed by the Tax Administration yet, which is empowered to conduct those reviews within four years immediately after the submission date of pertinent tax returns.

Termoselva

Income tax returns from 2014 to 2017 and the return that will be submitted for 2018 have not been reviewed by the Tax Administration yet, which is empowered to conduct those reviews within four years immediately after the submission date of pertinent tax returns.

Eteselva

Income tax returns from 2014 to 2017 and the return that will be submitted for 2018 have not been reviewed by the Tax Administration yet, which is empowered to conduct those reviews within four years immediately after the submission date of pertinent tax returns.

Due to possible interpretations that tax authorities may have on current applicable regulations every year, it is not possible to determine to date whether liabilities for the Group will arise or not from the reviews to be conducted. Therefore, any income tax or charge that may result from those tax reviews would be applied to profit or loss for the year when determined. Management of the Group believes that any additional tax payment would not be significant for the consolidated financial statements as of December 31, 2018 and December 2017.

Temporary Tax on Net Assets

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

The actually paid amount can be used as credit against payments on account of the general income tax regime or against the regularization payment of income tax of the corresponding taxable period. As of December 31, 2018 with the exception Aguaytia, the Group that have balance to recover for amount US$1,481 (in 2017 the Group do not have an ITAN balance to recover and the Subsidiary Aguaytía is exempted from paying this tax).

(b) Income tax expense of the Group comprises the following:

	2018	**2017**
	US$000	**US$000**
Current income tax	6,809	14,554
Deferred income tax (Note 27)	(11,958)	(3,716)
Adjustment of income tax from previous periods	114	67
Total	(5,035)	10,905

The expense for current income tax corresponds to the tax to be paid, calculated by applying a 29.5% rate for the Group and 30% for Aguaytía on taxable income, after deducting 5% of profit-sharing of employees.

(c) During the year ended December 31, 2018 and 2017, 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):

	2018		**2017**	
	Amount	**Percentage**	**Amount**	**Percentage**
	US$000	**%**	**US$000**	**%**
Loss before income tax	(1,957)	100	(13,311)	100
Income tax caculated as per tax rate	(577)	29.50	(3,927)	29.50
Tax effect on additions and deductions:				
Non-deductible expenses (net)	6,637	(339.14)	6,912	(51.93)
Exchange difference	(11,209)	572.76	7,853	(59.00)
Related to income tax of previous years	114	(5.83)	67	(0.50)
Current and deferred income tax as per effective income tax rate	(5,035)	257.29	10,905	(81.93)

(d) Offsetting tax loss carryforward

The Company and its subsidiary Aguaytía have determined carryforward tax losses in the amount of US$48,825, the distribution of losses, years of generation and expiry, are as follows:

Aguaytía

Period of Aguaytía tax loss	**2018**	**2017**	**Year of expiration term of four years**
	US$000	**US$000**	
2016	4,863	5,191	2020
2017	8,722	8,722	2021
Total	13,568	13,913	

Orazul Energy Perú

Period of the Company tax loss	**2018**	**2017**	**Year of expiration term of four years**
	US$000	**US$000**	
2018	35,257	-	-

According to Legislative Decree No. 774 (applicable for Aguaytía's hydrocarbon operations), it will be possible to offset the tax loss from Peruvian source determined and recorded in a taxable period, assigning this amount every year until its depletion, to net third category income to be obtained in the four immediately subsequent years, calculated as from the following year of its generation. The amount that is not offset once this period of time has passed will not be offset in subsequent years.

In accordance with Article 50 of Legislative Decree No. 774, domiciled legal entities can offset the net loss of Peruvian source that is recorded in a taxable year, adopting any of the following systems: (a) offsetting the net loss by imputing it, year a year until the amount is exhausted, to the net income obtained in the four subsequent fiscal years computed from the year following that of its generation, or (b) to offset the net loss by imputing it year after year, until the amount is exhausted, to 50 % of net income obtained in subsequent immediate exercises.

As of December 31, 2018 and 2017, the Company and its subsidiary Aguaytía has recorded the deferred income tax asset for the carryforward tax loss, due to the fact that it is certain to obtain, within the period established by law, taxable income with which you can reverse the asset for deferred income tax.

(e) As of December 31, 2018, the Group have balances for debits and credits with the tax administration which amount to US$9,676 (US$6,393 as of December 31, 2017) and US$435 (US$3,342 as of December 31, 2017) respectively.

27. DEFERRED INCOME TAX LIABILITY

The movement of net deferred income tax liability during 2018 and 2017, the description of temporary differences that generated them are shown below:

	Balance as of 01/01/2017	Profit/loss for the year	Exchange Difference	Balance as of 12/31/2017	Profit/loss for the period	Balance as of 12/31/2018
	US$000	US$000 (Note 26(b))	US$000	US$000	US$000 (Note 26(b))	US$000
Asset:						
Impairment estimate of accounts receivable	61	102	-	163	(74)	89
Provision for dismantling of assets	20	14	-	34	-	35
Obsolescence estimate of inventory	30	75	-	105	(2)	103
Difference in depreciation basis and rates Of property, plant and equipment	1,352	(1,291)	-	61	(383)	(322)
Effect originated by difference between functional currency and currency for tax purposes in Non-monetary assets	503	1,785	-	2,288	(1,252)	1,036
Other	101	14	-	115	(105)	9
Total Asset	2,067	699	-	2,766	(1,816)	950
Liability:						
Fair value adjustment of long term assets	(50,532)	5,219	-	(45,313)	4,895	(40,418)
Tax loss	1,742	2,068		3,810	10,039	13,849
Impairment loss of property, plant and equipment	3,149	(1,483)	60	1,726	(1,566)	160
Provision for vacations and other provision	530	(478)	19	71	429	500
Impairment estimate of accounts receivable	2,492	(607)	6	1,891	(1,804)	87
Provision for dismantling of assets	184	25	7	215	(200)	16
Obsolescence estimate of inventory	321	(203)	7	125	(41)	84
Difference in depreciation basis and rates of property, plant and equipment	(59,165)	1,563	(1,683)	(59,285)	2,798	(56,487)
Effect originated by difference between functional currency and currency for tax purposes in Non-monetary assets				-	(758)	(758)
Financing cost	-	(3,065)	-	(3,065)	253	(2,812)
Other	219	(22)	9	207	(272)	(65)
Total Liability	(101,060)	3,017	(1,575)	(99,618)	13,774	(85,844)
Net effect	(98,993)			(96,852)		(84,894)

28. CONTINGENCIES

The Group have the following contingencies that are individually significant claims that, in the opinion of Management of the Group and its legal advisors, have a possible perspective of loss. In this regard and based on the information available to the Group, including the estimated remaining time until the completion of these contingencies, the results of the evidence presented in the cases and the evaluation of internal and external advisors, the Group are not able to estimate a reasonably possible loss or range of loss with respect to the issues described below:

As of December 31, 2018 and 2017, the Group has the following contingencies:

Orazul Energy Perú

(a) Labor claims

The Company is involved in several labor claims, mostly related to vacations, job reinstatement and profit sharing, for which, after being evaluated individually, in the opinion of management and its external legal advisors, it has been estimated that the Company could have to pay up to an equivalent amount of (in thousands) S/4,396 (equivalent to US$1,301) for labor claims that are not more likely than not that the Company will pay.

(b) Administrative proceeding

In August 2018, the Environment Supervisory and Audit Organism ("OEFA", by its Spanish acronym) initiated a sanctioning proceeding for not complying with the provisions of the environmental instrument related to the disposition of solid waste retained by our sand removal system in landfills. In connection with that proceeding, the Company could be sanctioned with a fine between 10 and 1000 UIT between (in thousands) S/42 and (in thousands) S/41,500 (between US$13 and US$1,258).

According to the Company’s external legal advisors and considering similar cases, the amount of the fine that OEFA could imposed will not exceed 40 UIT equivalent (in thousands) S/166 (equivalent to US$50).

In the opinion of the Management and the legal advisors of the Company, there are no significant contingencies that could affect the consolidated financial statements as of December 31, 2018 and 2017 that have not been provisioned or disclosed in the consolidated financial statements.

Aguaytía

(a) Judicial challenge filed against the OSINERGMIN

On April 9, 2012, Aguaytía initiated a court proceeding seeking judicial review of the Resolution No. 175-2011-OS/TASTEM-S2 issued by the OSINERGMIN, which determined the administrative responsibility of Aguaytía for having infringed the regulatory framework related to the implementation of the Supervisory Control And Data Acquisition System (“SCADA”) and to pay a fine of US$ 7,082 thousand plus interests.

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

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

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

(b) Land claims

(b.1) On August 23, 2016 Maderas de Exportación y Comercialización S.A.C. ("MAEXCO") filed a land claim against Aguaytía by which it seeks (i) to recover 9,750 m2 of rural property that is currently being occupied by Aguaytía´s gas pipeline, (ii) the removal of the infrastructure and equipment of the gas pipeline and, (iii) US$1.20 compensation for each square meter that is being occupied by the gas pipeline (US$ 5,716 thousand approximately, plus interests).

On January 3, 2017 Aguaytía answered the claim alleging that the gas pipeline does not cross the property of MAEXCO and counterclaimed requesting the recognition of a right of way due to the prescription of the land in favor of Aguaytía.

In the opinion of Aguaytía’s management and its external legal advisors, this case has a remote perspective of loss.

(b.2) On August 22, 2017 Aquamar Investment Inc S.A.C. ("AQUAMAR") filed a land claim against Aguaytía by which it seeks (i) to recover 17,250 m2 of land that is currently being occupied by Aguaytía´s gas pipeline, (ii) the removal of the infrastructure and equipment of the gas pipeline and, (iii) US$ 11,533 thousand compensations, plus interests.

On March 21, 2018 Aguaytía answered the claim alleging that AQUAMAR does not have any property right superposed over the pipeline land, and counterclaimed requesting the recognition of a right of way due to prescription of the land in favor of Aguaytía.

In the opinion of Aguaytía's management and its external legal advisors, this case has a remote perspective of loss.

(c) Arbitration filed against Maple Gas Corporation del Perú S.R.L.

On October 10, 2017 Aguaytía filed a Request for Arbitration against Maple Gas Corporation del Perú S.R.L. ("Maple") for breaching the Natural Gasoline Purchase Agreement ("Agreement") entered into by and between the parties on July 24, 1996. The claim arises from Maple´s failure to pay for Aguaytía´s delivery of certain volumes of natural gasoline under the Agreement. The amount of the claim is more than US$ 23,000 thousand which includes interests and damages.

On December 15, 2017, Maple answered and counterclaimed for US$50,000 thousand alleging that Aguaytía breached its obligation to deliver minimum quantities of product and improperly charged Maple sales tax during the term of the Agreement.

The award was issued on December 21, 2018 (notified in January), ordering that Maple shall pay the Aguaytía an approximate amount of US$22,000 thousand and all of counterclaims were dismissed.

29. COMMITMENTS AND GUARANTEES

Sale of energy

As of December 31, 2018 and 2017, main commitments of sale of energy of the Company and its subsidiary Termoselva are as follows:

Type of customers	Contracted Power Kw	Start date – agreement	Termination date - agreement
Regulated custumers	From 143 to 104,955	Between 2013 and 2014	Between 2023 and 2032
Free custumers	From 2,500 to 39,286	Between 2013 and 2017	Between 2018 and 2030

In June 2018, the Company requested the issuance of a Stand By Letter of credit (US$545), which has as beneficiary Orazul Energia Management LLC in favor of Masaveu Post Oak Houston, Delaware LLC., for the rental of the offices of these entities.

30. ENVIRONMENT

Pursuant to the provisions set forth in Supreme Decree No. 029-94-EM, Regulations for 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 does not have any pending commitment in its PAMA.

The Subsidiaries Aguaytía, Eteselva and Termoselva have an Environmental Impact Assessment for Block 31-C, which was approved by Official Letter No. 248-95-EM/DGH in August 1995. Pursuant to the provisions set forth in Supreme Decree No. 039-2014-EM, Regulations for Environmental Protection in Hydrocarbons Activities and Supreme Decree No. 029-94-EM, Regulations for Environmental Protection in Electrical Activities, the Group submit a report from the previous period every year, signed by an environmental auditor, in which they report their compliance with the current environmental law and include recommendations of the EIA, if any. The Group also

submit a consolidated report on controls performed on waste emissions and/or disposals.

In the opinion of the Management and the legal advisors, there are no significant contingencies related to these concepts that could affect the consolidated financial statements as of December 31, 2018 and 2017.

31. SUBSEQUENT EVENTS

We are not aware of any subsequent event that has occurred between the closing date and issue date of these consolidate financial statements, which may significantly affect them, except or the events described in Note 9 that do not imply any type of adjustment.