# Orazul Energy Peru S.A. and Subsidiaries

## Unaudited Condensed Consolidated Interim Financial Statements

As of September 30, 2018

# ORAZUL ENERGY PERU S.A. AND SUBSIDIARIES

**Unaudited Condensed Consolidated Interim Financial Statements**

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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

**REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

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

**Introduction**

1. We have reviewed the condensed consolidated interim financial statements of **Orazul Energy Peru S.A. and Subsidiaries**, which comprise the condensed consolidated interim statement of financial position as of September 30, 2018, and the condensed consolidated interim statements of profit or loss and other comprehensive income, changes in equity and cash flows for nine-months period ended as of September 30, 2018, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of these condensed consolidated interim financial statements in accordance with IAS 34 - "Intermediate Financial Information", and with respect to that internal control that Management determines is necessary to allow the preparation of condensed consolidated interim financial statements that are free from material misstatement, whether due to fraud or error. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

**Scope of our review**

2. We conduted our review in accordance with the generally accepted auditing standard applicable in Peru to review engagements NIA 2410: "Review of Interim Financial Information performed by the Independent Auditor of the Entity". A review of Consolidated interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standard applicable in Peru and, consequently, does not enable us to obtain assurance that we would become aware of all the significant matters that might be identified in an audit. Accordinglly, we do not express an audit opinion.

**Conclusion**

3. Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial information does not present fairly, in all material respects, the consolidated financial position of **Orazul Energy Peru S.A. and Subsidiaries**, as of September 30, 2018, and of its consolidated financial performance and its consolidated cash flows for the nine-months period then ended as of September 30, 2018, in accordance with IAS 34- "Intermediate Financial Information".

**Other matters**

4. The consolidated statement of financial position of **Orazul Energy Peru S.A. and Subsidiaries**, as of December 31, 2017, which is presented for comparative purposes, were audited by us, on which in our opinion dated April 30, 2018 we issued an unqualified opinion.

5. Condensed consolidated interim Statements of Profit or Loss and Other Comprehensive Income, changes in equity and cash flow for the nine-month period ended as of September 30, 2017 of **Orazul Energy Peru S.A. and Subsidiaries**, have not been audited or reviewed by an independent auditor and are presented only for comparative purposes.

Gris y Asociados S. Civil de R.L.

Countersigned by:

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

November 30, 2018

## ORAZUL ENERGY PERU S.A. AND SUBSIDIARIES

**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION**
**AS OF SEPTEMBER 30, 2018 (UNAUDITED) AND AS OF DECEMBER 31, 2017 (AUDITED)**
**(In thousands of U.S. dollars US$000)**

| | Notes | 09/30/2018 (Unaudited) | 12/31/2017 (Audited) |
|---|---|---|---|
| **ASSETS** | | | |
| CURRENT ASSETS: | | | |
| Cash and cash equivalents | 4 | 52,046 | 23,429 |
| Trade accounts receivable (net) | 5 | 18,413 | 27,625 |
| Other accounts receivable | | 2,594 | 3,236 |
| Accounts receivable from related entities | 6 | 6,049 | 85,282 |
| Inventories (net) | | 5,874 | 6,260 |
| Income tax asset | 17 (d) | 9,015 | 6,393 |
| Other assets | | 1,140 | 937 |
| Subtotal | | 95,131 | 153,162 |
| Assets held for sale | 7 | 44,918 | 46,507 |
| Total current assets | | 140,049 | 199,669 |
| NON-CURRENT ASSETS: | | | |
| Other accounts receivable | | 447 | 705 |
| Property, plant and equipment (net) - Energy generation and transmission | 8 | 339,475 | 362,849 |
| Gas investment (net) | 9 | 66,634 | 68,659 |
| Intangibles assets (net) | 10 | 488,889 | 490,618 |
| Deferred income tax assets | 18 | 1,455 | 2,766 |
| Other assets | | 459 | 530 |
| Total non-current assets | | 897,359 | 926,127 |
| TOTAL | | 1,037,408 | 1,125,796 |

| | Notes | 09/30/2018 (Unaudited) | 12/31/2017 (Audited) |
|---|---|---|---|
| **LIABILITIES AND EQUITY** | | | |
| CURRENT LIABILITIES: | | | |
| Trade accounts payable | | 8,723 | 9,234 |
| Other accounts payable | | 15,347 | 7,481 |
| Accounts payable to related entities | 6 | 46,750 | 126,796 |
| Liabilities for employee benefits | | 2,408 | 2,382 |
| Income tax liabilities | 17 (d) | 255 | 3,342 |
| Deferred income | | 326 | 640 |
| Total current liabilities | | 73,809 | 149,875 |
| NON-CURRENT LIABILITIES: | | | |
| Financial obligations | 11 | 540,247 | 539,609 |
| Accounts payable to related entities | 6 | 148,667 | 142,925 |
| Deferred income tax liabilities | 18 | 94,218 | 99,618 |
| Provisions | 19 | 985 | 1,450 |
| Total non-current liabilities | | 784,117 | 783,602 |
| Total liabilities | | 857,926 | 933,477 |
| EQUITY: | | | |
| Issued capital stock | 12 (a) | 196,086 | 213,283 |
| Accumulated losses | | (16,653) | (20,967) |
| Equity attributable to controlling equity holders | | 179,433 | 192,316 |
| Non-controlling interests | | 49 | 3 |
| Total equity | | 179,482 | 192,319 |
| TOTAL | | 1,037,408 | 1,125,796 |

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

## ORAZUL ENERGY PERU S.A. AND SUBSIDIARIES

### CONDENSED CONSOLIDATED INTERIM STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE NINE-MONTHS PERIOD ENDED SEPTEMBER 30, 2018 AND 2017 (UNAUDITED)
### (In thousands of U.S. dollars US$000)

| | Notes | 09/30/2018 (Unaudited) | 09/30/2017 (Unaudited) |
|---|---|---|---|
| **CONTINUOUS OPERATIONS** | | | |
| Sale of energy and electrical energy transmission services | | 100,913 | 137,695 |
| Sale of hydrocarbons | | 19,802 | 11,363 |
| Total of sales | 13 | 120,715 | 149,058 |
| Costs of sale of energy and electrical energy transmission services | | (52,463) | (83,353) |
| Cost of sales of hydrocarbons | | (17,548) | (8,264) |
| Total of cost of sales | 14 | (70,011) | (91,617) |
| **Gross profit** | | 50,704 | 57,441 |
| Administrative and selling expenses | 15 | (14,361) | (21,116) |
| Other income (net) | | 2,025 | 1,790 |
| Financial income | | 1,269 | 2,973 |
| Financial expenses | 16 | (34,304) | (61,696) |
| Exchange difference (net) | | (306) | 917 |
| **Profit (loss) before income tax** | | 5,027 | (19,691) |
| Income tax expense | 17 (a) | (127) | (6,904) |
| **Net profit (loss) for the period from continuous operations** | | 4,900 | (26,595) |
| **DISCONTINUED OPERATIONS** | | | |
| Net loss for the period from discontinued operations | 7 | (540) | - |
| **Net profit (loss) for the period** | | 4,360 | (26,595) |
| Other comprehensive income for the period | | - | - |
| **Total other comprehensive income (loss) for the period** | | 4,360 | (26,595) |
| **Profit (loss) for the period attributable to:** | | | |
| Non-controlling interests | | 46 | (1) |
| Owners of the Company | | 4,314 | (26,594) |
| **Total other comprehensive income for the period** | | 4,360 | (26,595) |

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

## ORAZUL ENERGY PERU S.A. AND SUBSIDIARIES

**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY**
**FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2018 AND 2017 (UNAUDITED)**
**(In thousands of dollars US$000)**

| | Issued Capital Stock (Note 12 (a)) | Accumulated losses | Total Equity Attributable to owners of the Parent | Non-controlling Interests | Total Equity |
|---|---|---|---|---|---|
| TOTAL EQUITY AS OF DECEMBER 31, 2016 (Audited) | 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 period | - | (26,594) | (26,594) | (1) | (26,595) |
| TOTAL EQUITY AS OF SEPTEMBER 30, 2017 (Unaudited) | 213,283 | (24,935) | 188,348 | 3 | 188,351 |
| TOTAL EQUITY AS OF DECEMBER 31, 2017 (Audited) | 213,283 | (20,967) | 192,316 | 3 | 192,319 |
| Capital stock reduction (Note 12 (a)) | (17,197) | - | (17,197) | - | (17,197) |
| Total comprehensive profit for the period | - | 4,314 | 4,314 | 46 | 4,360 |
| TOTAL EQUITY AS OF SEPTEMBER 30, 2018 (Unaudited) | 196,086 | (16,653) | 179,433 | 49 | 179,482 |

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

## ORAZUL ENERGY PERU S.A. AND SUBSIDIARIES

**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS**
**FOR THE NINE-MONTHS PERIOD ENDED SEPTEMBER 30, 2018 AND 2017 (UNAUDITED)**
**(In thousands of U.S. dollars US$000)**

| | 09/30/2018 (Unaudited) | 09/30/2017 (Unaudited) |
|---|---|---|
| OPERATING ACTIVITIES: | | |
| Collection from: | | |
| Sale of energy and electrical energy transmission services | 133,482 | 136,789 |
| Sale of hydrocarbons | 22,598 | 5,604 |
| Interests and returns | 339 | 38 |
| Other operating activities | 4,150 | 2,191 |
| Payments to: | | |
| Suppliers of goods and services | (54,830) | (69,664) |
| Employees and social benefits | (14,627) | (21,671) |
| Royalties | (13,017) | (6,164) |
| Income tax | (9,921) | (12,223) |
| Other taxes | (801) | (3,784) |
| Other operating activities | (435) | (2,019) |
| Fuel prices stabilization fund | (182) | (616) |
| Net cash and cash equivalents provided by operating activities | 66,756 | 28,481 |
| INVESTMENT ACTIVITIES: | | |
| Collection from: | | |
| Dividends | 1,049 | - |
| Sale of property, plant and equipment | 190 | 4,064 |
| Payments to: | | |
| Purchase of property, plant and equipment | (3,554) | (1,170) |
| Purchase of gas investments | (3,159) | (7,808) |
| Net cash and cash equivalents used in investment activities | (5,474) | (4,914) |
| FINANCING ACTIVITIES: | | |
| Collection from: | | |
| Bonds issue | - | 550,000 |
| Payments to: | | |
| Capital reduction | (17,197) | - |
| Interests | (15,468) | (9,943) |
| Financial obligations | - | (533,566) |
| Loans to related entities | - | (82,950) |
| Financial cost | - | (10,941) |
| Net cash and cash equivalents used in financing activities | (32,665) | (87,400) |
| NET INCREASE (DECREASE) OF CASH AND CASH EQUIVALENTS | 28,617 | (63,833) |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD | 23,429 | 85,213 |
| CASH AND CASH EQUIVALENT AT THE END OF THE PERIOD | 52,046 | 21,380 |
| NON-MONETARY TRANSACTIONS: | | |
| Debt compensation | 80,684 | |
| Disposal of assets held for sale (Note 7) | | 80,684 |

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

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

### *(a) Incorporation*

**Orazul Energy Peru 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.

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) was acquired by the Company from Duke Energy Corporation, which owned a group of companies in Peru, Chile, Guatemala and El Salvador, mainly engaged in the generation of electrical energy.

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 Orazul Energy Group S.A.C., the Company had the plan to sell the operating business located in Chile, Guatemala and El Salvador in the short term, so those assets have been classified as assets held for sale (Note 7).

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

- On August 2, 2017, the Company acquired an additional 12.76% of Orazul Energy Group S.A.C. (hereinafter 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.

Based on the reorganization plan within Orazul Group, by public deed dated October 9, 2017 and General 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 acquiree 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.

### *(b) Economic activity*

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

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

### *(c) Approval of the condensed interim consolidated financial statements*

The condensed interim consolidated financial statements are prepared and presented with those of its subsidiaries, whose relationship, economic activity, domicile, ownership interest in the Subsidiary and consolidation principles are described in Note 1 (d) and Note 2 (d) of the audited annual consolidated financial statements for the year ended December 31, 2017.

The condensed interim consolidated financial statements as of September 30, 2018 and for the nine-months period ended as of September 30, 2018, were authorized for issuance by the Company's Management on November 7, 2018.

The consolidated financial statements for the year ended December 31, 2017, were authorized for issuance by the Company's Management on April 30, 2018.

The consolidated financial statements are not subject to the approval of the General Shareholders' Meeting or the Board of Directors of the Company.

### *(d) Subsidiaries*

Certain amounts of the financial statements of the subsidiaries, prepared under IFRS, before elimination for consolidation purposes, are presented below:

| **Etenorte S.R.L.** | **09/30/2018**<br>**US$000**<br>**(Unaudited)** | **12/31/2017**<br>**US$000**<br>**(Audited)** |
|---|---|---|
| **Statements of financial position** | | |
| Total assets | 14,556 | 13,276 |
| Total liabilities | 1,017 | 1,385 |
| Equity | 13,539 | 11,891 |

| | **09/30/2018**<br>**US$000**<br>**(Unaudited)** | **09/30/2017**<br>**US$000**<br>**(Unaudited)** |
|---|---|---|
| **Statements of profit or loss and other comprehensive income** | | |
| Net profit for the period | 1,647 | 1,612 |

| **Aguaytia del Peru S.R.L.** | **09/30/2018**<br>**US$000**<br>**(Unaudited)** | **12/31/2017**<br>**US$000**<br>**(Audited)** |
|---|---|---|
| **Statements of financial position** | | |
| Total assets | 196,109 | 182,096 |
| Total liabilities | 6,798 | 4,844 |
| Equity | 189,311 | 177,252 |

| | **09/30/2018**<br>**US$000**<br>**(Unaudited)** | **09/30/2017**<br>**US$000**<br>**(Unaudited)** |
|---|---|---|
| **Statements of profit or loss and other comprehensive income** | | |
| Net profit for the period | 12,038 | 9,990 |

| **Termoselva S.R.L.** | **09/30/2018**<br>**US$000**<br>**(Unaudited)** | **12/31/2017**<br>**US$000**<br>**(Audited)** |
|---|---|---|
| **Statements of financial position** | | |
| Total Assets | 68,113 | 72,983 |
| Total Liabilities | 6,848 | 10,830 |
| Equity | 61,265 | 62,153 |

| | 09/30/2018<br>US$000<br>(Unaudited) | 09/30/2017<br>US$000<br>(Unaudited) |
|---|---|---|
| **Statements of profit or loss and other comprehensive income** | | |
| Net profit for the period | 6,613 | 14,185 |

| **Eteselva S.R.L.** | 09/30/2018<br>US$000<br>(Unaudited) | 12/31/2017<br>US$000<br>(Audited) |
|---|---|---|
| **Statements of financial position** | | |
| Total Assets | 32,667 | 35,834 |
| Total Liabilities | 253 | 1,134 |
| Equity | 32,414 | 34,700 |

| | 09/30/2018<br>US$000<br>(Unaudited) | 09/30/2017<br>US$000<br>(Unaudited) |
|---|---|---|
| **Statements of profit or loss and other comprehensive income** | | |
| Net profit for the period | 714 | 1,389 |

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

No changes have been made in the license Agreement for the production of hydrocarbons (Block 31-C). The license agreement, the terms, other rigths and taxes are described in Note 1 (f) of the audited annual consolidated financial statements of December 31, 2017.

The expense for royalties as of September 30, 2018 was US$13,613 (US$5,856 as of September 30, 2017) (Note 14) and is presented as cost of sales of the condensed consolidated interim statement of profit or loss and other comprehensive income, and US$140 (US$455 as of December 31, 2017) is part of the inventory balance.

***(f) Changes in operating regulations and legal standards that affect the hydrocarbons and electrical sector***

No changes have been made in the legal standards and operating regulations of the hydrocarbon and electrical sector as of September 30, 2018. The current regulations are described in Note 1 (g) and (h) of the audited annual consolidated financial statements of December 31, 2017.

## 2. BASIS OF PREPARATION OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The condensed consolidated interim financial statements as of September 30, 2018 and for the nine-months periods ended September 30, 2018 and 2017 have been prepared in accordance with IAS 34 - "Intermediate Financial Information" and should be read in conjunction with the Company and Subsidiaries ´s last annual consolidated financial statements as of and for the year ended December 31, 2017. In accordance with IAS 34, the interim financial information is intended only to provide updated information on the content of the latest annual financial statements authorized for issuance, focusing on new activities, events and circumstances occurring during the nine-months period, and it does not duplicate information previously published in the last annual financial statements authorized for its issuance.

Accordingly, these condensed consolidated interim financial statements do not include all the required information of the complete financial statements prepared in accordance with IFRS adopted by the International Accounting Standards Board (IASB)

The condensed Consolidated Interim financial statements as of September 30, 2018 were approved for issuance by the Company´s management on November 7, 2018.

***Comparative information***

The condensed consolidated interim financial statements of profit or loss and other comprehensive income, changes in the equity and cash flow for the nine-months period ended as of September 30, 2017, have not been audited or reviewed by an independent auditor and are presented only for comparative purposes. The consolidated financial statements for the year ended as of December 31, 2017 presented for comparative purposes is derived from our consolidated financial statements as of December 31, 2017 issued on April 30, 2018.

***Seasonality***

Due to the business activities in which the Company and Subsidiaries operate, their operations are not of a cyclical or seasonal nature. Therefore, no specific disclosures are included in these selected explanatory notes to the condensed consolidated interim financial statements for the nine-months period ended September 30, 2018.

***Significant accounting policies***

Except as explained below, the accounting policies applied by the Company and Subsidiaries in these condensed consolidated interim financial statements are consistent with those followed in the preparation of the annual consolidated financial statements as of December 31, 2017 issued on April 30, 2018.

The changes in accounting policies are also expected to be reflected in the annual consolidated financial statements as at and for the year ending December 31, 2018.

The Company and Subsidiaries has initially adopted IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts* from January 1, 2018.

The effect of initially applying these standards is mainly:

Changes in the classification of financial assets, and
Net presentation of revenues and cost of tolls.

- ***IFRS 9 Financial Instruments***

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

  *Classification and measurement of financial assets and financial liabilities*

  IFRS 9 largerly retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eleiminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

  The adoption of IFRS 9 has no had significant effect on the Company and Subsidiaries´s accounting policies related to financial liabilities. The impact of IFRS 9 on the classification 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 |
| Trade accounts receivables | Loans and receivables | Amortized cost |
| Other accounts receivables | Loans and receivables | Amortized cost |
| Accounts receivable from related entities | Loans and receivables | Amortized Cost |

*Impairment of financial assets*

IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" (ECL) model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI but not to investment in equity instruments. Under IFRS 9 credit losses are recognized earlier than IAS 39.

Under IFRS 9, loss allowances are measured on either of the following bases:

- 12-month ECLs: These are ECLs that result from possible default events withing the 12 months after reporting date; and
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Company and Subsidiaries has elected to measure loss allowances for trade receivables at an amount equal to lifetime ECLs.

Lifetime ECLs are the ECL that results from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Company and Subsidiaries is exposed to credit risk. The Company and Subsidiaries determined that the change of impairment model to expected credit losses has no had quantitative impact in these consdensed consolidated interim financials statements.

- ***IFRS 15 – Revenue from Contracts With Customers***

IFRS 15 stablishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaced to IAS 18 Revenue.

The Company and subsidiaries has adopted IFRS 15 using the cumulative effect method with the effect of initially applying this standar recognized at the date of initial application on January 1, 2018. Accordingly, the information presented for 2017 has not been restated, it is presented, as previously reported, under IAS 18.

The following table summarize the impacts of adopting IFRS 15 on the Company´s condensed interim statement of profit or loss and other comprehensive income. There was no impact on the Company´s condensed interim statement of cash flows for the nine-month periods ended September 30, 2018.

***For the nine months ended September 30, 2018***

| *In thousands of U.S. dollars* | **As reported** | **Adjustments** | **Amounts without adoption of IFRS 15** |
|---|---|---|---|
| Revenue | 120,715 | 26,241 | 146,956 |
| Cost of sales | (70,011) | (26,241) | (96,252) |

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

The Company will apply this change consistently to its annual consolidated financial statements as of December 31, 2018.

***Judgement and estimates***

The estimates and their sources of uncertainty considered most important for the preparation of the condensed consolidated interim financial statements of the Company and Subsidiaries have not had significant changes with those described in Note 2 of the annual consolidated financial statements of December 31, 2017 issued on April 30, 2018.

***New accounting pronouncements***

During the nine-months period ended September 30, 2018, there were no new accounting pronouncements applicable to the Company and Subsidiaries, besides the new and revised IFRS 16 that have been issued but are not yet mandatorily effective.

***IFRS 16: Leases***

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

The standard is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes 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. Therefore, the main impact on entities with operates leases is an increase in assets and the financial debt. In addition, the nature of expenses related to those leases will now change as IFRS 16 replaces the straight line operating lease expense with a depreciation charge for right of use and interest expense on lease liabilities.

The larger the entity's lease portfolio, the greater the impact on its reporting metrics.

The Company and Subsidiaries is in procces of conducting its assessment in order to determine the qualitative impacts of the implementation of the new lease standard. As of September 30, 2018, the Company and Subsidiaries is not able to determine the quantitative impact. The Company and Subsidiaries considers that the overall impact of the implementation of IFRS 16 will be low due to the volume of operating lease contracts of the Company is not significant. The Company intends to apply recognition exemptions to exclude short- term leases and leases of low-value items.

***Reclassification***

Certain amounts in the consolidaded financial statements for 2017 have been reclassified to make them comparative with the period 2018. 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** | | |
| Income tax asset | 3,342 | - |
| Income tax liabilities | - | 3,342 |
| **Reclassification of the Company's software from other assets to intangibles** | | |
| Intangibles assets | 1,548 | - |
| Other assets | - | 1,548 |

| | Debit US$000 | Credit US$000 |
|---|---|---|
| **Reclassification from other assets short term to other assets long term** | | |
| Other assets long term | 506 | |
| Other assets short term | | 506 |

(a) These reclassifications have been made in order to align the structure of the financial statements to the criteria established by the Group.

(b) 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. ADMINISTRATION OF FINANCIAL RISK

The exposure of the Company and Subsidiaries to risks inherent to its financial instruments include: market risk, exchange rate risk, credit risk, liquidity risk and capital risk management. A detailed explanation of the risks of the Company and Subsidiaries and the approach to their identification, evaluation and mitigation is disclosed in Note 5 to the annual consolidated financial statements as of December 31, 2017. There have been no changes in the exposure and principles and risk management processes of the Company and Subsidiaries from December 31, 2017.

***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 September 30, 2018 and December 31, 2017, Management of the Company and Subsidiaries considers that the accounting values of their financial instruments are similar to their fair values estimated in the market, based on methodologies and assumptions indicated below:

- The item cash and cash equivalents does not represent a significant credit or interest rate risk, so it has been assumed that the carrying amount is similar to fair value.

- Accounts receivable and payable mature, except for the non-current account payable to related entity, in less than one year, so it has been considered that their fair value is not significantly different than their carrying amount. The Company’s Management considers that the carrying amount of the non-current account 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 Company, as of September 30, 2018, the fair value of long-term financial obligations is US$538,450 (US$541,200 in December 31, 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.

## 4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the following:

| | 09/30/2018<br>US$000<br>(Unaudited) | 12/31/2017<br>US$000<br>(Audited) |
|---|---|---|
| Cash on hands and banks (a) | 7,797 | 23,429 |
| Time deposits (b) | 44,249 | - |
| Total | 52,046 | 23,429 |

(a) Cash on hands and banks mainly comprise checking accounts and correspond to balances held in local and foreign banks, in Peruvian soles and U.S. dollars, and are freely available.

(b) It corresponds to funds held by the Company and Subsidiaries in local banks, in U.S. dollars and soles, which matured in 8 and 7 days and earn interests at an annual rate of 1.54% and 2.82% respectly.

## 5. TRADE ACCOUNTS RECEIVABLE (NET)

Trade accounts receivable (net) comprise the following:

| | 09/30/2018<br>US$000<br>(Unaudited) | 12/31/2017<br>US$000<br>(Audited) |
|---|---|---|
| Energy, power and transmission services delivered but not billed | 14,061 | 15,641 |
| Invoices | 22,718 | 30,229 |
| Total | 36,779 | 45,870 |
| Impairment estimate | (18,366) | (18,245) |
| Total | 18,413 | 27,625 |

The average credit period granted to customers of the Company and Subsidiaries 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 September 30, 2018, the annual average rate for the Company and Subsidiaries are 8.45% and 3.96% for Soles and US Dollar, respectively (9.13% and 3.62% as of December 31, 2017 for soles and US Dollar, respectively).

As of September 30, 2018, the Company and Subsidiaries hold accounts receivable within their maturity terms for US$15,462 (US$19,524 as of December 31, 2017).

As of September 30, 2018, the Company and Subsidiaries hold trade accounts receivable overdue but not impaired for US$2,951 (US$8,101 as of December 31, 2017), for which no impairment estimate of accounts receivable has been determined since their credit quality has not varied significantly, and Management of the Company and Subsidiaries considers that those amounts are still recoverable.

The aging of these balances is summarized as follows:

| | 09/30/2018<br>US$000<br>(Unaudited) | 12/31/2017<br>US$000<br>(Audited) |
|---|---|---|
| Overdue for up to 30 days | 1,120 | 5,844 |
| Overdue between 31 and 90 days | 195 | 503 |
| Overdue between 91 and 180 days | 88 | 63 |
| Overdue between 181 and 360 days | - | 1,691 |
| Overdue than 360 days | 1,548 | - |
| Total | 2,951 | 8,101 |

***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 September.

Energy and power delivered but not billed as of September 30, 2018 and December 31, 2017 were billed and collected substantially in October 2018 and January 2018 respectively, with no significant changes.

***Impairment estimate of accounts receivable***

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

| | 09/30/2018<br>US$000<br>(Unaudited) | 12/31/2017<br>US$000<br>(Audited) |
|---|---|---|
| Opening balance | 18,245 | 12,211 |
| Additions | 156 | 6,549 |
| Collections | - | (554) |
| Exchange difference | (35) | 39 |
| Closing balance | 18,366 | 18,245 |

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 September 30, 2018 and December 31, 2017.

Since 2016, the higher credit risk that Aguaytia addressed is the non-collectability of the invoices issued to Maple for natural gasoline sales. The impairment estimate for this customer accumulated as of September 30, 2018 and December 31, 2017 was US$17,196.

## 6. BALANCES AND TRANSACTIONS WITH RELATED ENTITIES

The parent of the Company and Subsidiaries is Orazul Energía (UK) Holdings Ltd.

The Company and Subsidiaries performed the following significant transactions with related entities in the normal course of operations durint the periods ended September 30, 2018 and 2017:

| September 30, 2018 (Unaudited) | Financial income | Financial expenses | Sale of energy | Purchase of energy | Other service | Capital redution |
|---|---|---|---|---|---|---|
| | US$000 | US$000 (Note 16) | US$000 | US$000 | US$000 | US$000 (Note 12) |
| Goldwat BD, S.L. -Spain (2) | 862 | - | - | - | - | - |
| Orazul Energía (España) Holding S.L. (2) | - | 1,023 | - | - | - | - |
| Orazul Energia Management LLC -Delaware (2) | - | - | - | - | 127 | |
| Orazul Energía (UK) Holdings Ltd. - UK (1) | - | - | - | - | - | 17,197 |
| Orazul Energía Partners LLC (2) | - | 5,742 | - | - | - | - |
| Samay I S.A.(2) | - | - | 11 | 1,011 | 2 | - |
| Kallpa Generación S.A. (2) | - | - | 1,490 | 40 | 396 | - |
| Total | 862 | 6,765 | 1,501 | 1,051 | 525 | 17,197 |

| September 30, 2017 (Unaudited) | Financial expenses | Selling investments | Buying investments | Other service |
|---|---|---|---|---|
| | US$000 (Note 16) | US$000 (Note 7) | US$000 (Note 7) | US$000 |
| Goldwat BD, S.L. -Spain (2) | - | 80,684 | - | - |
| Orazul Energía (España) Holding S.L. (2) | 426 | - | 126,000 | - |
| Orazul Energia Management LLC -Delaware (2) | - | - | - | 166 |
| Orazul Energy Nehuen Generacion, SPA (2) | - | - | - | 287 |
| Orazul Energía Partners LLC (2) | 11,704 | - | - | - |
| Total | 12,130 | 80,684 | 126,000 | 453 |

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

| | Relationship | 09/30/2018 US$000 (Unaudited) | 12/31/2017 US$000 (Audited) |
|---|---|---|---|
| **Non-trade accounts receivable:** | | | |
| Goldwat BD, S.L. -Spain (b) | (2) | 4,852 | 84,651 |
| Orazul Energia Management LLC -Delaware (a) | (2) | 1,031 | 34 |
| Orazul Energy Duqueco SPA (a) | (2) | 114 | 532 |
| Other related entities (a) | (2) | 52 | 65 |
| Total | | 6,049 | 85,282 |
| **Non-trade payable accounts:** | | | |
| Orazul Energía (España) Holding S.R.L. (c) | (2) | 46,750 | 126,718 |
| Orazul Energy Duqueco SPA | (2) | - | 78 |
| Total | | 46,750 | 126,796 |
| **Loans - non-current portion** | | | |
| Orazul Energia Partners LLC (d) | (2) | 148,667 | 142,925 |

1. Parent Company
2. Other related entity

(a) This items corresponds to accounts receivable, that are expected to be collected it in the short term, and do not accrue interests.

(b) On January 4, 2017, the subsidiary Orazul Energy Group S.A.C. transferred in favor of Goldwat BD, S.L.-Spain its investment in Duke Energy Guatemala Ltd. and Duke Energy International El Salvador Investements N°.1 S.á r.l. for US$80,684, with an unsecured promissory note. As indicated in paragraph (c), during 2018, the Company assigned and transferred the part corresponding to the capital related to this debt to Orazul Energy Spain and the interest pending collection will be compensated in the short term.

(c) On August 2, 2017, the Company acquired from Orazul Energía (España) Holding S.L. 12.76% of its interest in Orazul Energy Group S.A.C. 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", Orazul Energy Peru S.A. assigns and transfers to Orazul Energia (España) Holding S.L. the right and title on the account receivable held with Goldwat BD, S.L. (see paragraph (b)) as of that date for a total amount of US$80,684. As a result, the parties agreed that the account receivable transferred to Orazul Energia (España) Holding S.L. partially compensated the debt of US$126,000 (only capital) held by Orazul Energy Peru S.A. with Orazul Energia (España) Holding S.L.. Therefore, as of that date, the debt held by Orazul Energy Peru S.A. with Orazul Energia (España) Holding S.L. amounts to US$45,316.

(d) On December 20, 2016, Orazul Energía Partners LLC, granted a loan in favor of the Company for US$255,900, this amount was related to the acquisition of Orazul Energy Group shares. The initial rate was 12% per year with maturity in 2026, which changed to 6% in March 2017.

On July 4, 2017, Orazul Energía Partners LLC, transferred to Orazul Energia (UK) Holdings Ltd 50% of the rights of debt equivalent to US$127,950. On the same date, Orazul Energia (UK) Holdings Ltd. approved the capitalization of said debt and increase the capital stock issued by the Company.

***Remunerations to key personnel***

Remunerations paid to key personnel who have the authority and responsibility of planning, managing and controlling the activities of the Company, whether directly or indirectly, amounted to US$1,297 y US$1,317 as of September 2018 and 2017, respectively.

## 7. ASSETS HELD FOR SALE

Assets held for sale correspond to the net investment in Chile.

| | Group Cooperatie U.A. (Chile) | Orazul Energy Guatemala and El Salvador (Central America) | Total |
|---|---|---|---|
| | US$000 | US$000 | US$000 |
| As of January 1, 2017 (Audited) | 44,918 | 80,684 | 125,602 |
| Profit of the year | 1,589 | - | 1,589 |
| Disposal | - | (80,684) | (80,684) |
| As of December 31, 2017 (Audited) | 46,507 | - | 46,507 |
| Impairment (a) | (1,589) | - | (1,589) |
| As of September 30, 2018 (Unaudited) | 44,918 | - | 44,918 |

(a) 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.

(b) 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.

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

The movement in the cost, accumulated depreciation and impairment loss of property, plant and equipment (net) – energy generation and transmission during September 30, 2018 and December 31, 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 |
| As of December 31, 2017 (Audited) | 8,823 | 357,380 | 473,913 | 4,154 | 1,507 | 21,564 | 42 | 2,852 | 870,235 |
| Additions | - | - | - | - | - | - | - | 3,554 | 3,554 |
| Sales | - | - | (35,324) | - | - | (760) | - | - | (36,084) |
| Transfers | - | - | 86 | - | - | - | - | (86) | - |
| As of September 30, 2018 (Unaudited) | 8,823 | 357,380 | 438,675 | 4,154 | 1,507 | 20,804 | 42 | 6,320 | 837,705 |
| **ACCUMULATED DEPRECIATION:** | | | | | | | | | |
| As of December 31, 2017 (Audited) | - | 185,799 | 295,225 | 3,226 | 1,219 | 15,577 | 42 | - | 501,088 |
| Additions | - | 5,871 | 19,067 | 505 | 106 | 1,427 | - | - | 26,976 |
| Sales | - | - | (30,103) | - | - | (746) | - | - | (30,849) |
| As of September 30, 2018 (Unaudited) | - | 191,670 | 284,189 | 3,731 | 1,325 | 16,258 | 42 | - | 497,215 |
| **IMPAIRMENT LOSS:** | | | | | | | | | |
| As of December 31, 2017 (Audited) | - | 837 | 5,423 | 1 | 2 | 35 | - | - | 6,298 |
| Sales | - | - | (5,283) | - | - | - | - | - | (5,283) |
| As of September 30, 2018 (Unaudited) | - | 837 | 140 | 1 | 2 | 35 | - | - | 1,015 |
| **NET COST:** | | | | | | | | | |
| Total As of September 30, 2018 (Unaudited) | 8,823 | 164,873 | 154,346 | 422 | 180 | 4,511 | - | 6,320 | 339,475 |
| Total as of December 31, 2017 (Audited) | 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 period ended September 30, 2018 and 2017 has been recorded in the following items in the condensed consolidated interim statement of profit or loss and other comprehensive income:

| | 09/30/2018<br>US$000<br>(Unaudited) | 09/30/2017<br>US$000<br>(Unaudited) |
|---|---|---|
| Costs of sale (Note 14) | 26,529 | 25,230 |
| Administrative and selling expenses (Note 15) | 447 | 637 |
| Total | 26,976 | 25,867 |

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

- As of September 30, 2017, the Company 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.

- As of September 30, 2018, the Company made the sale of certain fixed assets related its thermoelectric localed in the northern part of Peru, for an amount of US$191, whose book value was US$62.

## 9. GAS INVESTMENTS (NET)

The movement in the cost and accumulated depreciation of gas investments during September 30, 2018 and December 31, 2017 was as follows:

| | Gas and fractionation plant<br>US$000 | Vehicles<br>US$000 | Furniture and fixture<br>US$000 | Sundry equipment<br>US$000 | Works in progress<br>US$000 | Total<br>US$000 |
|---|---|---|---|---|---|---|
| **COST:** | | | | | | |
| As of December 31, 2017 (Audited) | 144,225 | 355 | 422 | 5,465 | 1,700 | 152,167 |
| Additions | - | - | - | - | 3,159 | 3,159 |
| Transfers and others | 4,463 | - | - | (4,280) | (183) | - |
| As of September 30, 2018 (Unaudited) | 148,688 | 355 | 422 | 1,185 | 4,676 | 155,326 |
| **ACCUMULATED DEPRECIATION:** | | | | | | |
| As of December 31, 2017 (Audited) | 82,133 | 139 | 308 | 928 | - | 83,508 |
| Additions | 5,045 | 16 | 24 | 99 | - | 5,184 |
| As of September 30, 2018 (Unaudited) | 87,178 | 155 | 332 | 1,027 | - | 88,692 |
| **NET COST:** | | | | | | |
| As of September 30, 2018 (Unaudited) | 61,510 | 200 | 90 | 158 | 4,676 | 66,634 |
| As of December 31, 2017 (Audited) | 62,092 | 216 | 114 | 4,537 | 1,700 | 68,659 |

(a) The expense for depreciation of gas investments for the period ended September 30, 2018 and 2017 is US$5,184 and US$3,248, respectively. This expense is presented in item cost of sales of energy and electrical energy transmission services and hydrocarbons in the condensed consolidated interim statement of profit or loss and other comprehensive income (Note 14).

## 10. INTANGIBLE ASSETS (NET)

The movement in the intangibles assets (net) during September 30, 2018 and December 31, 2017 was as follows:

| | Goodwill | Electric and hydrocarbon concessions | Software | Total |
|---|---|---|---|---|
| | US$000 | US$000 | US$000 | US$000 |
| As of January 1, 2017 (Audited) | 395,456 | 93,614 | 1,717 | 490,787 |
| Amortization | - | - | (144) | (144) |
| Exchange difference | - | - | (25) | (25) |
| As of December 31, 2017 (Audited) | 395,456 | 93,614 | 1,548 | 490,618 |
| Amortization | - | (1,606) | (123) | (1,729) |
| As of September 30, 2018 (Unaudited) | 395,456 | 92,008 | 1,425 | 488,889 |

### *Electric and hydrocarbon concessions*

As of September 30, 2018 and December 31, 2017, electric and hydrocarbon concessions correspond to intangible assets identified at the acquisition date on December 20, 2016. The useful life of electric concessions is indefinite and a useful life of 15 years has been determined for hydrocarbons concessions, which are aligned with the end of the concession.

As of September 30, 2018 and December 31, 2017, the Company'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 electric and hydrocarbon concessions as of September 2018 is US$1,606. This expense is presented as part of cost of sales in the condensed consolidated interim statement of profit or loss and other comprehensive income (Note 14).

## 11. FINANCIAL OBLIGATIONS

Financial obligations comprise the following:

| Creditors | Maturity | Authorized and used amount | Total 09/30/2018 | Total 12/31/2017 |
|---|---|---|---|---|
| | | US$000 | US$000 (Unaudited) | US$000 (Audited) |
| Bonds - Orazul Energy Peru | April 2027 | 550,000 | 540,247 | 539,609 |

As of September 30, 2018, the amount for the bonds issued for US$540,247 (US$539,609 in December 31, 2017), includes the principal of US$550,000, offset by the amortized cost of US$9,753 (US$10,391 in December 31, 2017).

## 12. EQUITY

### *(a) Issued capital stock*

As of September 30, 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 S/55,212 (equivalent to US$17,197), this reduction was made, without modifying the interest structure.

The movement of outstanding common shares was as follows:

| | Outstanding common shares |
|---|---|
| As of December 31, 2017 (Audited) | 706,436,289 |
| Decrease for: | |
| Capital stock reduction | (55,212,000) |
| As of September 30, 2018 (Unaudited) | 651,224,289 |

As of September 30, 2018 and December 30,2018, the equity interest structure of the Company was as follows:

| | 09/30/2018 | | 12/31/2017 | |
|---|---|---|---|---|
| **Shareholders** | **Shares** | **Interest** | **Shares** | **Interest** |
| | **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 |

## 13. SALE OF ENERGY AND ELECTRICAL ENERGY TRANSMISSION SERVICES AND HYDROCARBONS

For the nine-month period ended September 30, 2018 and 2017, the sale of energy, electrical energy transmission services and sale of hydrocarbons include the following credit balances:

| | 09/30/2018<br>US$000<br>(Unaudited) | 09/30/2017<br>US$000<br>(Unaudited) |
|---|---|---|
| Sale of electrical energy: | | |
| Sale of electrical energy and power | | |
| Energy | 58,567 | 74,979 |
| Power | 16,332 | 15,646 |
| Electrical energy transmission | - | 26,485 |
| COES Compensations | | |
| Energy | 11,024 | 7,341 |
| Power | 8,414 | 6,022 |
| Other | 952 | 3 |
| Electrical energy transmission | 5,624 | 7,219 |
| Sub-total | 100,913 | 137,695 |
| Sale of hydrocarbons: | | |
| Natural gasolina | 13,320 | 4,928 |
| LPG | 6,482 | 6,435 |
| Sub-total | 19,802 | 11,363 |
| Total of sales | 120,715 | 149,058 |

## 14. COSTS OF SALE OF ENERGY AND ELECTRICAL ENERGY TRANSMISSION SERVICES AND HYDROCARBONS

For the nine-month period ended September 30, 2018 and 2017, the cost of sale of energy and electrical energy transmission and hydrocarbons services include the following:

| | 09/30/2018<br>US$000<br>(Unaudited) | 09/30/2017<br>US$000<br>(Unaudited) |
|---|---|---|
| Personnel expenses | 7,787 | 7,949 |
| Royalties from sales of hydrocarbons (Note 1) | 6,962 | 3,911 |
| Royalties from electrical energy sales (Note 1) | 6,651 | 1,945 |
| Services provided by third parties | 4,600 | 4,862 |
| Transport, storage and other costs of natural gas | 2,955 | 64 |
| Purchase of energy | | |
| Energy | 2,194 | 6,118 |
| Power | - | 7,076 |
| Purchase of transmission charges | 1,473 | 27,075 |
| Other cost | 1,396 | 1,569 |
| Taxes | 989 | 1,070 |
| Supplies, spare parts and fuel | 843 | 776 |
| Sundry management charges | 440 | 331 |
| Estimates of the period: | | |
| Depreciation and amortization (Note 8, 9 and 10) | 33,319 | 28,478 |
| Employee severance indemnities | 377 | 395 |
| Loss (recovery) for obsolescence of inventories | 25 | (2) |
| Total | 70,011 | 91,617 |

## 15. ADMINISTRATIVE AND SELLING EXPENSES

For the nine-month period ended September 30, 2018 and 2017, administrative and selleing expenses include the following:

| | 09/30/2018<br>US$000<br>(Unaudited) | 09/30/2017<br>US$000<br>(Unaudited) |
|---|---|---|
| Personnel expenses | 5,740 | 6,533 |
| Services provided by third parties | 3,793 | 3,656 |
| Taxes | 1,908 | 2,035 |
| Sundry management charges | 1,857 | 1,624 |
| Estimates of the period: | | |
| Depreciation (Note 8) | 447 | 637 |
| Amortization (Note 10) | 123 | 144 |
| Employee severance indemnities | 337 | 353 |
| Impairment estimate of accounts receivable, net | 156 | 6,134 |
| Total | 14,361 | 21,116 |

## 16. FINANCIAL EXPENSES

For the nine-month period ended September 30, 2018 and 2017, financial expenses include the following:

| | 09/30/2018<br>US$000<br>(Unaudited) | 09/30/2017<br>US$000<br>(Unaudited) |
|---|---|---|
| Interests expenses - bonds | 23,461 | 13,432 |
| Interests expenses - related entities (Note 6) | 6,765 | 12,130 |
| Withholding tax on interests - related entities | 3,342 | 4,944 |
| Financial cost - Corporate bonds | 643 | 10,417 |
| Financial cost - Syndicate loan | - | 20,632 |
| Other financial expenses | 93 | 141 |
| Total | 34,304 | 61,696 |

## 17. INCOME TAX

### *(i) Significant changes to Income Tax regime in Peru*

The effects of the modifications to the income tax are described in Note 27 (a) (i) to the audited annual consolidated financial statements for the year ended December 31, 2017.

After September 30, 2018, no significant changes have been made to the income tax regime in Peru that may impact these consolidated interim financial statements.

### *(ii) Tax situation*

***Orazul Energy Peru S.A.***

Income tax returns from the period from October 10, 2016 to December 31, 2016 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 September 2018, the Tax Administration began the partial audit of expenses for the 2017 fiscal year.Currently the process is in progress.

(a) Income tax expense of the Company and Subsidiaries comprises the following:

| | 09/30/2018<br>US$000<br>(Unaudited) | 09/30/2017<br>US$000<br>(Unaudited) |
|---|---|---|
| Current income tax | 4,216 | 10,452 |
| Deferred income tax | (4,089) | (3,615) |
| Adjustment of income tax of previous periods | - | 67 |
| Total | 127 | 6,904 |

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

(b) During the nine-month period ended September 30, 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):

| | for nine months to September (Unaudited) | | | |
|---|---|---|---|---|
| | 2018 | | 2017 | |
| | Amount US$000 | Percentage % | Amount US$000 | Percentage % |
| Profit (Loss) before income tax | 5,027 | 100 | (19,691) | 100 |
| Income tax caculated as per tax rate | 1,483 | 29.50 | (5,809) | 29.50 |
| Tax effect on additions and deductions: | | | | |
| Non-deductible expenses (net) | 3,157 | 62.80 | 7,226 | (36.70) |
| Exchange difference | (4,230) | (84.14) | 5,420 | (27.53) |
| Related to income tax of previous years | (283) | (5.63) | 67 | (0.34) |
| Current and deferred income tax as per effective income tax rate | 127 | 2.53 | 6,904 | (35.06) |

(c) Offsetting tax loss carryforward - Aguaytia

According to Legislative Decree No. 774 (applicable for Aguaytia'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. The term to offset the tax loss carryforward for future periods is as follows:

| Period | 2018 S/000 (Unaudited) | 2017 S/000 (Audited) | Year of expiration term of four years |
|---|---|---|---|
| 2016 | 4,100 | 5,808 | 2020 |
| 2017 | 8,722 | 7,743 | 2021 |
| Total | 12,822 | 13,551 | |

As of September 30, 2018 and December 31, 2017, the Subsidiary 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.

As of September 30, 2018, the Company has determined carryforward tax loss of US$14,369, 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.

(d) As of September 30, 2018, the Company and its subsidiaries have balances for debits and credits with the tax administration which amount to US$9,015 (US$6,393 as of December 31, 2017) and US$255 (US$3,342 as of December 31, 2017) respectively.

## 18. DEFERRED INCOME TAX LIABILITY AND ASSET

The movement of net deferred income tax liability and asset during September 30, 2018 and December 31, 2017 and 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 09.30.2018 |
|---|---|---|---|---|---|---|
| | US$000 | US$000 | US$000 | US$000 | US$000 | US$000 |
| | (Audited) | | | (Audited) | (Note 17) | (Unaudited) |
| Liability: | | | | | | |
| Fair value adjustment of long term assets | 50,532 | (5,219) | - | 45,313 | (4,219) | 41,094 |
| Difference in depreciation basis and rates of | | | | - | | |
| property, plant and equipment | 57,813 | (2,757) | 1,683 | 56,739 | 240 | 56,979 |
| Financing cost | - | 3,065 | - | 3,065 | (188) | 2,877 |
| Total | 108,345 | (4,911) | 1,683 | 105,117 | (4,167) | 100,950 |
| Asset: | | | | | | |
| Tax loss | (1,742) | (2,323) | - | (4,065) | (4,026) | (8,091) |
| Impairment loss of property, plant and equipment | (3,149) | 1,483 | (60) | (1,726) | 1,556 | (170) |
| Provision for vacations | (530) | 478 | (19) | (71) | (83) | (154) |
| Impairment estimate of accounts receivable | (2,553) | 504 | (6) | (2,055) | 1,711 | (344) |
| Provision for dismantling of assets | (204) | (33) | (7) | (244) | 31 | (213) |
| Obsolescence estimate of inventory | (351) | 126 | (7) | (232) | 2 | (230) |
| Effect originated by difference between functional currency and currency for tax purposes in Non-monetary assets | (503) | 758 | - | 255 | (255) | - |
| Other | (320) | 202 | (9) | (127) | 1,142 | 1,015 |
| Total | (9,352) | 1,195 | (108) | (8,265) | 78 | (8,187) |
| Total deferred (net) | 98,993 | (3,716) | 1,575 | 96,852 | (4,089) | 92,763 |
| Total deferred income tax asset | (2,067) | | | (2,766) | | (1,455) |
| Total deferred income tax liability | 101,060 | | | 99,618 | | 94,218 |

## 19. CONTINGENCIES

As of September 30,2018 the main contingences for the Company and its subsidiaries are described as follows:

***ORAZUL***

(a) Administrative proceeding against Orazul

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, Orazul could be sanctioned with a fine between 10 and 1,000 Tax Unit (UIT by its acronym in Spanish) (between US$ 13 thousand and US$ 1,258 thousand).

According to Orazul´s external legal advisors and considering similar cases, the amount of the fine that OEFA could imposed will not exceed 40 Tax Unit (UIT by its acronym in Spanish) (equivalent to US$ 50).

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

***AGUAYTIA***

(a) Judicial challenge filed against the Organismo Supervisor de la Inversión en Energía y Minas

On April 9, 2012, Aguaytía Energy del Peru S.R.L. (“Aguaytía") initiated a court proceeding seeking judicial review of the Resolution No. 175-2011-OS/TASTEM-S2 issued by the Supervisory Organism of Investment in Energy and Mines (“OSINERGMIN”, by its Spanish acronym), 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 thousands plus interests.

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

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

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

(b) Land claims filed against Aguaytía

(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 Aguaytia'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 compensation, 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 Aguaytia's management and its external legal advisors, this case has a remote perspective of loss.

## 20. SUBSEQUENT EVENTS

We are not aware of any subsequent event that has occurred between the closing date and issue date of these consolidate interim financial statements, which may significantly affect them.