KPMG

Orazul Energy Perú S.A. and Subsidiaries

Unaudited Condensed Consolidated Interim Financial Statements

March 31, 2019

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

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INDEPENDENT AUDITORS' REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of Orazul Energy Perú S.A and subsidiaries as at March 31, 2019, the condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the three-month period then ended, and notes to the condensed consolidated interim financial statements (the condensed consolidated interim financial statements). Management is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of consolidated interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements as at and for the three-month period ended March 31, 2019 are not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.

Other Matters

- The consolidated financial statements of the Company as at and for the year ended December 31, 2018 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on March 29, 2019.

- We have not reviewed the accompanying condensed consolidated financial of profit or loss and other comprehensive income, changes in equity and cash flow, for the three-month period ended March 31, 2018, or any of the related notes and accordingly, we do not express a conclusion on them.

Lima, Peru

June 10, 2019

Countersigned by:

Caipo y Asociados

Juan José Córdova (Partner)
Peruvian Certified Public Accountant
Registration Number 01 - 18869

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Unaudited Condensed Consolidated Statement of Financial Position

As at March 31, 2019 (Unaudited) and December 31, 2018

In thousands of U.S. dollars	***Note***	**March 31, 2019**	**December 31, 2018**
Assets			
Current assets			
Cash and cash equivalents	*3*	65,551	50,014
Trade receivables	*4*	21,485	16,753
Other receivables	*5*	11,386	11,912
Intercompany receivables	*17*	1,499	1,299
Inventories	*6*	5,956	5,870
Prepaid expenses		1,176	203
Total current assets		**107,053**	**86,051**
Non-current assets			
Property, plant and equipment - energy generation and transmission	*7*	326,650	332,815
Gas investment	*8*	68,749	64,747
Intangible assets and goodwill	*9*	498,439	498,732
Deferred income tax assets		1,454	950
Prepaid expenses		659	730
Other receivables	*5*	449	443
Total non-current assets		**896,400**	**898,417**
Total assets		**1,003,453**	**984,468**

In thousands of U.S. dollars	***Note***	**March 31, 2019**	**December 31, 2018**
Liabilities			
Current liabilities			
Trade payables	*10*	7,192	9,050
Other payables	*11*	24,368	21,551
Lease liabilities under operating contracts		736	905
Intercompany payables	*17*	9,602	8,893
Deferred income		514	155
Total current liabilities		**42,412**	**40,554**
Non-current liabilities			
Debentures	*12*	540,691	540,468
Intercompany payables	*17*	104,108	150,602
Deferred income tax liabilities		104,906	85,844
Other liabilities		6,421	373
Total non-current liabilities		**756,126**	**777,287**
Total liabilities		**798,538**	**817,841**
Equity	*14*		
Share capital		196,086	196,086
Other reserves		33,957	-
Retained earnings		(25,168)	(29,500)
Equity attributable to owners of the Company		**204,875**	**166,586**
Non-controlling interests		40	41
Total equity		**204,915**	**166,627**
Total liabilities and equity		**1,003,453**	**984,468**

The notes on pages 5 to 21 are an integral part of these unaudited condensed consolidated interim financial statements.

Orazul Energy Perú S.A. and Subsidiaries
Unaudited Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the three-month periods ended March 31, 2019 and 2018

		Three-month period ended March 31	
In thousands of U.S. dollars	***Note***	**2019**	**2018**
Revenues of energy generation and transmission	*15*	34,777	35,878
Revenues of hydrocarbons	*15*	4,279	5,919
Costs of sales of energy generation and transmission		(6,724)	(7,749)
Costs of sales of hydrocarbons		(1,925)	(3,321)
Depreciation		(8,521)	(11,955)
Gross profit		**21,886**	**18,772**
Administrative expenses		(2,845)	(4,762)
Other income		1,218	692
Impairment loss on trade receivables		-	(156)
Other expenses		(323)	(572)
Operating profit		**19,936**	**13,974**
Finance income		17	916
Finance costs		(9,600)	(11,846)
Net foreign exchange difference		272	(89)
Finance cost, net		**(9,311)**	**(11,019)**
Profit before income tax		**10,625**	**2,955**
Income tax expense	*16*	(6,294)	(825)
Profit from continuing operations		**4,331**	**2,130**
Discontinued operations			
Profit for the period from discontinued operations, net of tax		-	524
Profit for the period		**4,331**	**2,654**
Other comprehensive income for the period		-	-
Attributable to			
Controlling shareholders		4,332	2,654
Non-controlling interest		(1)	-
Total comprehensive income for the period		**4,331**	**2,654**

The notes on pages 5 to 21 are an integral part of these unaudited condensed consolidated interim financial statements.

Orazul Energy Perú S.A. and Subsidiaries
Unaudited Condensed Consolidated Statement of Changes in Equity
For the three-month periods ended March 31, 2019 and 2018

	Attributable to Owners of the Company						
In thousands of U.S. dollars	**Number of shares (note 14)**	**Share capital (note 14)**	**Retained earnings**	**Other reserves (note 17.C)**	**Total equity attributable to owners of the Company**	**Non-controlling Interests**	**Total equity**
Balance as of December 31, 2017	706,436,289	213,283	(20,967)	-	192,316	3	192,319
Adjustments on initial application of IFRS 16	-	-	129	-	129	-	129
Balance as of January 1, 2018	706,436,289	213,283	(20,838)	-	192,445	3	192,448
Comprehensive income for the period							
Profit for the period	-	-	2,653	-	2,653	1	2,654
Other comprehensive income	-	-	-	-	-	-	-
Total comprehensive income for the period	**-**	**-**	**2,653**	**-**	**2,653**	**1**	**2,654**
Share capital reduction	(55,212,000)	(17,197)	-	-	(17,197)	-	(17,197)
Total transactions with owners of the Company	**(55,212,000)**	**(17,197)**	**2,653**	**-**	**(14,544)**	**1**	**(14,543)**
Balance as of March 31, 2018	**651,224,289**	**196,086**	**(18,185)**	**-**	**177,901**	**4**	**177,905**
Balance as of January 1, 2019	651,224,289	196,086	(29,500)	-	166,586	41	166,627
Comprehensive income for the period							
Profit for the period	-	-	4,332	-	4,332	(1)	4,331
Total comprehensive income for the period	**-**	**-**	**4,332**	**-**	**4,332**	**(1)**	**4,331**
Other reserves	-	-	-	33,957	33,957	-	33,957
Total transactions with owners of the Company	**-**	**-**	**-**	**33,957**	**33,957**	**-**	**33,957**
Balance as of March 31, 2019	**651,224,289**	**196,086**	**(25,168)**	**33,957**	**204,875**	**40**	**204,915**

The notes on pages 5 to 21 are an integral part of these unaudited condensed consolidated interim financial statements.

Orazul Energy Perú S.A. and Subsidiaries
Unaudited Condensed Consolidated Statement of Cash Flows
For the three-month periods ended March 31, 2019 and 2018

	Three-month period ended March 31	
In thousands of U.S. dollars	**2019**	**2018**
Cash flows from operating activities		
Collections of energy generation and transmission	29,967	31,216
Collections of hydrocarbons	3,576	7,281
Payment to suppliers	(5,888)	(9,741)
Payment of royalties	(2,638)	(3,428)
Payment to employees	(2,442)	(5,950)
Cash generated from operating activities	**22,575**	**19,378**
Income tax paid	(1,219)	(3,832)
Net cash provided by operating activities	**21,356**	**15,546**
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	30	190
Dividends received	-	1,049
Acquisition of property, plant, and equipment	(1,531)	(621)
Acquisition of intangibles	(3,751)	-
Net cash used in (provided by) investing activities	**(5,252)**	**618**
Cash flows from financing activities		
Capital reduction	-	(17,197)
Payment of lease liabilities	(117)	(170)
Net cash used in financing activities	**(117)**	**(17,367)**
Net increase (decrease) in cash and cash equivalents	**15,987**	**(1,203)**
Cash and cash equivalents as of January 1	50,014	23,429
Effects of variations on exchange difference on held cash	(450)	(123)
Cash and cash equivalents as of March 31	**65,551**	**22,103**

The notes on pages 5 to 21 are an integral part of these unaudited condensed consolidated interim financial statements.

1. Background and Business Activity

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 was Calle Dionisio Derteano 144, Floor 19, San Isidro, Lima, Peru. At the beginning of 2019, the Company changed its legal address to Calle Las Palmeras 435, San Isidro, Lima, Peru, where its administrative offices are located.

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

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

- In August 2, 2017, the Company acquired an additional 12.76% of OEG from Orazul Energía (España) Holding S.L. (which previously acquired the interest of Duke Energy Corporation in 2016) for the total amount of US$ 126,000 thousand, increasing its ownership to 99.99%.
- In August 16, 2017, the Company merged by absorption with Orazul Energy Egenor S. en C. por A., which was one of its main subsidiaries in Peru.
- During 2017 and 2018, the Group executed its plan to sell the operating businesses located in Central America (Guatemala and El Salvador) and Chile respectively.

The businesses in Peru are related to hydropower and thermal power generation, energy transmission, natural gas production and processing assets through diverse companies (subsidiaries). These condensed consolidated financial statements comprise the Company and its subsidiaries in Peru (hereinafter the Group).

The Group business main activity is the generation and commercialization of electrical energy. It has a total installed capacity of 544MW as follows:

Plant	Company	Source used to operate power station	Installed capacity (MW)	Location
Central Termica Aguaytia	Termoselva	Natural gas	192	Aguaytia, Ucayali
Cañon del Pato	Orazul Energy Peru	Hydropower	247	Huallanca, Ancash
Carhuaquero	Orazul Energy Peru	Hydropower	105	LLacma, Cajamarca
			544	

As of March 31, 2019 and December 31, 2018, the subsidiaries and the percentages of interest owned by the Company are detailed below:

	Direct equity interest	
	March 31, 2019	**December 31, 2018**
Holding		
OEG	99.99	99.99

In addition, OEG has the following subsidiaries:

	Direct equity interest	
Percentage	**March 31, 2019**	**December 31, 2018**
OEG subsidiaries		
Holding		
Orazul Energy Hidrocarburos S.A.	99.98	99.98
Orazul Energy Transmisión S.A.	99.98	99.98
Operational		
Etenorte S.R.L.	99.98	99.98
Aguaytía Energy del Perú S.R.L.	99.98	99.98
Termoselva S.R.L.	99.98	99.98
Eteselva S.R.L.	99.98	99.98

Orazul Energy Group S.A.C.
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 power transmission in accordance with Peruvian regulation, through the concession of certain transmission lines in northern Peru. The Company is its main client, which represents approximately 67% of its operating income (62% in 2018).

Aguaytía Energy del Peru S.R.L. (hereinafter, Aguaytía)
Aguaytía owns a natural gas field located in central rainforest of Peru (Block 31-C), from which it obtains dry natural gas and natural gas liquids; those gas liquids are then processed 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)
This subsidiary main activity is power generation and commercialization. Termoselva operates its thermoelectric power plant in Ucayali exclusively with dry natural gas provided by Aguaytía, and sell power to regulated and free customers in the Peruvian territory that are part of the National Interconnected Electrical System (SEIN, for its acronym in Spanish) which Termoselva participates in.

Eteselva S.R.L. (hereinafter, Eteselva)
This subsidiary provides power transmission, in accordance with Peruvian regulation, through the concession of certain transmission lines in eastern Peru. Termoselva is one of its main client, which represents approximately 16% of its operating income (17% in 2018).

Amounts of the financial statements of consolidated Subsidiaries

Certain amounts of the financial statements of the Subsidiaries as of March 31, 2019 and December 31, 2018, prepared under International Financial Reporting Standards (IFRS), before elimination for consolidation purposes, are presented below:

In thousand of U.S. dollars	**March 31, 2019**	**December 31, 2018**
Subsidiaries		
Etenorte S.R.L.		
Total assets	10,967	10,136
Total liabilities	(1,219)	(1,192)
Equity	**9,748**	**8,944**
Profit from the period	**804**	**2,053**
Aguaytía del Perú S.R.L.		
Total assets	145,044	137,841
Total liabilities	(8,165)	(5,464)
Equity	**136,879**	**132,377**
Profit from the period	**4,502**	**11,764**
Termoselva S.R.L.		
Total assets	71,581	68,338
Total liabilities	(9,929)	(9,255)
Equity	**61,652**	**59,083**
Profit from the period	**2,568**	**8,430**
Eteselva S.R.L.		
Total assets	33,468	32,771
Total liabilities	(556)	(491)
Equity	**32,912**	**32,280**
Profit from the period	**633**	**1,280**
Orazul Energy Group S.A.C.		
Total assets	183,302	176,478
Total liabilities	(778)	(250)
Equity	**182,524**	**176,228**
Profit from the period	**6,296**	**15,278**
Orazul Energy Hidrocarburos S.A.		
Total assets	138,017	133,505
Total liabilities	-	(3)
Equity	**138,017**	**133,502**
Profit from the period	**4,513**	**10,902**
Orazul Energy Transmisión S.A.		
Total assets	43,029	41,592
Total liabilities	-	(2)
Equity	**43,029**	**41,590**
Net profit	**1,438**	**3,330**

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

When the Company loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognized in other comprehensive income in relation to such subsidiary are accounted for as if the Company had directly disposed of the related assets or liabilities of the subsidiary. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as fair value on initial recognition for subsequent accounting, when applicable, and cost on initial recognition of an investment in an associate or a joint venture.

2. Basis for the Preparation of Financial Statements

A. Basis of accounting

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* and should be read in conjunction with the Group's last annual financial statements as at and for the year ended December 31, 2018 (last annual financial statements). The condensed consolidated statement of financial position as of December 31, 2018 has been derived from the Group's last annual audited financial statements. These condensed consolidated interim financial statements do not include all of the information required for a complete set of financial statements prepared in accordance with International Financial Reporting Standards (IFRS). However, selected explanatory notes have been included to explain events and transactions that are significant to an understanding of the changes in the financial position and the performance of the Group since the last annual financial statements.

These condensed consolidated interim financial statements were approved by the Group Management on May 7, 2019.

Comparative information

The condensed consolidated interim financial statements of profit or loss and other comprehensive income, changes in the equity and cash flow for the three-month period ended as of March 31, 2018, have not been audited or reviewed by an independent auditor and are presented only for comparative purposes. The consolidated financial statements for the year ended as of December 31, 2018 presented for comparative purposes are derived from our consolidated financial statements as of December 31, 2018 issued on March 29, 2019.

B. Use of estimates and judgements

The preparation of these condensed consolidated interim financial statements requires Management to make judgments, estimates and assumptions that affect the application of Group´s accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgments made by Management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended December 31, 2018.

C. Measurement of fair values

Some of the Group's accounting policies and disclosures require the measurement of fair value of financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of their fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the measurement.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values included in note 13 – Financial Instruments.

D. Change in significant accounting policies

The accounting policies applied in these condensed consolidated financial statements are the same as those applied in the financial statements as and for the year ending December 31, 2018.

3. Cash and Cash Equivalents

Comprises the following:

In thousands of U.S. dollars	**March 31, 2019**	**December 31, 2018**
Petty cash	12	17
Checking accounts	65,539	49,997
	65,551	**50,014**

Petty cash and banks mainly comprise checking accounts and correspond to balances held in local and foreign banks, in soles and U.S. dollars, and are freely available.

The credit quality that safeguards the Company´s bank deposits has the same evaluation as compared to December 31, 2018.

4. Trade Receivables

Comprises the following:

In thousands of U.S. dollars	**March 31, 2019**	**December 31, 2018**
Energy and capacity delivered but not billed	14,729	13,571
Invoices	26,110	22,523
Subtotal (a)	**40,839**	**36,094**
Less-allowance for doubtful accounts (b)	(19,354)	(19,341)
	21,485	**16,753**

Trade receivables are denominated in U.S. dollars (non-regulated customers) and soles (COES and regulated customers). They have current maturity and do not generate interest, except in the case of payment delays. Balance of trade receivables as of March 31, 2019, correspond to 3 non-regulated , 8 regulated customers and 2 hydrocarbons clients (3 non-regulated, 5 regulated customers and 1 hydrocarbons client as of December 31, 2018).

The average credit period granted to customers of the Group ranges between 7 and 30 days. Once the terms indicated above expire, overdue balances accrue interests. The interest is determined by the annual average of the lending and borrowing rates of the foreign and local currency. As of March 31, 2019, the annual average rates for the Group are 8.41% and 4.48% for local and foreign currency, respectively (8.41% and 4.05% as of December 31, 2018 for local and foreign currency, respectively).

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

In thousands of U.S. dollars	**March 31, 2019**	**December 31, 2018**
Unexpired	20,466	14,819
Less than 30 days	956	1,839
31 to 90 days	1	3
181 to 360 days	62	66
More than 361 days (b)	19,354	19,367
	40,839	**36,094**

(b) The main amount corresponds to the non-collectability of the invoices issued to Maple for natural gasoline sales.

The aging of account receivables and the status of customers are constantly monitored to ensure the appropriateness of the estimate in the consolidated financial statements. As a result, Management considers that the impairment estimate of accounts receivables covers sufficiently the risk of loss of doubtful accounts as of March 31, 2019 and December 31, 2018.

5. Other Receivables

Comprises the following:

In thousands of U.S. dollars	**March 31, 2019**	**December 31, 2018**
Current portion		
Income tax	9,274	9,676
Fund for the stabilization of fuel prices (a)	1,668	1,719
Other receivables	444	517
	11,386	**11,912**
Non-current portion		
Credit on temporary taxes on net assets - ITAN	441	435
Other receivables	8	8
	449	**443**
	11,835	**12,355**

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

6. Inventories

Comprises the following:

In thousands of U.S. dollars	**March 31, 2019**	**December 31, 2018**
Supplies and spare parts	6,284	6,315
Fuel to sale	196	121
Fuel and lubricants	106	64
	6,586	**6,500**
Obsolescence estimate (a)	(630)	(630)
	5,956	**5,870**

(a) The obsolescence estimate of inventories was determined based on internal technical reports. Management believes that this estimate covers the obsolescence risk appropriately as of March 31, 2019 and December 31, 2018.

7. Property, Plant and Equipment

Comprises the following:

In thousands of U.S. dollars	**March 31, 2019**	**December 31, 2018**
Cost		
Beginning balance	831,346	870,235
Additions		
Building and constructions	11	1,326
Vehicles	-	297
Sundry equipment	7	132
Work in process	614	5,588
Total additions	**632**	**7,343**
Transfers		
Building and constructions	-	203
Vehicles	-	27
Machinery and equipment	-	1,008
Sundry equipment	-	233
Work in progress	-	(1,638)
Total transfers	**-**	**(167)**
Disposals		
Building and constructions	-	(1,949)
Vehicles	(125)	(292)
Machinery and equipment	-	(41,780)
Sundry equipment	-	(1,687)
Furniture	-	(357)
Total disposals	**(125)**	**(46,065)**
Ending balance	**831,853**	**831,346**
Accumulated depreciation		
Beginning balance	(497,988)	(501,088)
Additions		
Building and constructions	(1,954)	(8,769)
Vehicles	(76)	(627)
Machinery and equipment	(4,393)	(25,303)
Sundry equipment	(363)	(1,630)
Furniture	(11)	(212)
Total additions	**(6,797)**	**(36,541)**
Disposals		
Building and constructions	-	1,949
Vehicles	125	270
Machinery and equipment	-	35,394
Sundry equipment	-	1,705
Furniture	-	323
Total disposals	**125**	**39,641**
Ending balance	**(504,660)**	**(497,988)**
Net cost at the beginning of the period	**333,358**	**369,147**
Net cost of the end of the period	**327,193**	**333,358**
Impairment	(543)	(543)
Net cost of the end of the period	**326,650**	**332,815**

(a) Accumulated impairment loss as of March 31, 2019 and as of December 31, 2018, mainly corresponds to the impairment of thermoelectric power plants for US$ 543 thousand, since their carrying amounts exceeded their recoverable values. Management of the Group considers that, as of March 31, 2019, impairment is not required, other than the estimate previously recognized in the records for the impairment of property, plant and equipment.

(b) Distribution of depreciation was as follows:

In thousands of U.S. dollars	**March 31, 2019**	**March 31, 2018**
Cost of sale of electrical energy	6,090	9,367
Administrative and selling expenses	707	237
	6,797	**9,604**

(c) As of March 31, 2019 and December 31, 2018, the Company has insured all plants' assets for property damage under its Property Damage Business Interruption (PDBI) policy. In Management's opinion, this insurance policy is consistent with the international industry practice and the risk of possible losses for claims considered in the insurance policies is reasonable, taking into consideration the Company's types of assets.

8. Gas Investments

In thousands of U.S. dollars	**March 31, 2019**	**December 31, 2018**
Cost		
Beginning balance	**157,929**	**152,167**
Additions		
Gas and fractionation plant	-	5,993
Asset retirement cost	6,062	-
Work in progress	141	5,762
Total additions	**6,203**	**11,755**
Transfers		
Sundry equipment	-	(4,280)
Work in progress	-	(1,713)
Total transfers	**-**	**(5,993)**
Ending balance	**164,132**	**157,929**
Accumulated depreciation		
Beginning balance	**(93,182)**	**(83,508)**
Additions		
Gas and fractionation plant	(2,164)	(9,764)
Vehicles	(5)	(20)
Furniture and fixtures	(4)	(31)
Sundry equipment	(28)	141
Total additions	**(2,201)**	**(9,674)**
Ending balance	**(95,383)**	**(93,182)**
Net cost at the beginning of the period	**64,747**	**68,659**
Net cost of the end of the period	**68,749**	**64,747**

The expense for depreciation of property, plant and equipment - gas investments for the three-month period ended March 31, 2019 is US$ 2,201 thousand (US$ 1,604 thousand for the three-month period ended March 31, 2018).

9. Intangible Assets and Goodwill

Comprises the following:

In thousands of U.S. dollars	**March 31, 2019**	**December 31, 2018**
Goodwill (a)	395,456	395,456
Electric and hydrocarbon concessions (b)	91,545	91,777
Other rights (c)	9,948	9,965
Software	1,490	1,534
	498,439	**498,732**

(a) The 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 thousand, 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 thousand.

(b) The electric and hydrocarbon concessions correspond to intangible assets identified at the acquisition date on December 20, 2016. The useful life of electric concessions is indefinite and a useful life of 15 years has been determined for hydrocarbons concessions. As of March 31, 2019, 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 for the three-month period ended March 31, 2019 is US$ 230 thousand (US$ 984 thousand for the three-month period ended March 31, 2018).

(c) Other rights correspond to the agreements signed between the Company and its subsidiary Termoselva, and regulated costumers, by which regulated costumers grant and option to sign addendums to the original public tender PPAs, extending the contract term, modifying the contracted capacity and associated energy and maintaining the current fixed prices with framework of the Supreme Decree 022-2018 EM (note 11).

Management analysis indicated there were no impairment indicators on the value of the intangibles as of March 31, 2019 (no impairment indicators as of December 31, 2018).

10. Trade Payables

Comprises the following:

In thousands of U.S. dollars	**March 31, 2019**	**December 31, 2018**
Good and services received but not billed	5,240	4,587
Invoices	1,952	4,463
	7,192	**9,050**

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

11. Other Payables

Comprises the following:

In thousands of U.S. dollars	***Note***	**March 31, 2019**	**December 31, 2018**
Interest payables-debentures		13,234	5,500
Option agreements	*9.C*	6,355	9,965
Value-Added Tax		1,724	1,047
Other taxes		632	1,933
Employee severance indemnities		932	1,776
Vacations and compensations payables		776	495
Income tax		119	435
Various accruals and other accounts payables		397	121
Self-employment and regular employment income tax payables		120	211
Rural electricity contribution		79	68
		24,368	**21,551**

12. Debentures

Comprises the following:

In thousands of U.S. dollars	**March 31, 2019**	**December 31, 2018**
International bonds		
Notes Orazul Energy Perú 2027 (a)	550,000	550,000
Transaction costs	(9,309)	(9,532)
	540,691	**540,468**

(a) 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 thousand under Rule 144A 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.

A. Terms and debt repayment schedule

The terms and conditions are as follows:

	Nominal annual			**Face value**		**Carrying amount**	
In thousands of U.S. dollars	**interest rate**	**Currency**	**Maturity**	**2019**	**2018**	**2019**	**2018**
Debentures							
International Bonds	5.625%	US$	April -2027	550,000	550,000	540,691	540,468

The table below presents the payment schedule of the non-current portion of the long-term debt as of March 31, 2019:

In thousands of U.S. dollars	
2024 and thereafter	540,691
	540,691

B. Financial obligations and covenants

The conditions of the notes as of March 31, 2019 are the same disclosed in the annual financial statements of the Company as of December 31, 2018.

13. Financial Instruments

A. Carrying amounts and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy:

	Carrying amount				Fair value
	Current		Non-current		
In thousands of U.S. dollars	Amortized cost	Other financial liabilities	Amortized cost	Total	Level 2
As of March 31, 2019					
Financial assets not measured at fair value					
Cash and cash equivalents	65,551	-	-	65,551	-
Trade receivables	21,485	-	-	21,485	-
Other receivables (*)	2,111	-	-	2,111	-
Intercompany receivables	1,499	-	-	1,499	-
Financial liabilities not measured at fair value					
Trade payable	-	(7,192)	-	(7,192)	-
Other payable (*)	-	(20,325)	-	(20,325)	-
Intercompany payables	(9,602)	-	(104,108)	(113,710)	-
Debentures	-	-	(540,691)	(540,691)	(540,540)
	81,044	**(27,517)**	**(644,799)**	**(591,272)**	**(540,540)**
As of December 31, 2018					
Financial assets not measured at fair value					
Cash and cash equivalents	50,014	-	-	50,014	-
Trade receivables	16,753	-	-	16,753	-
Other receivables (*)	2,227	-	-	2,227	-
Intercompany receivables	1,299	-	-	1,299	-
Financial liabilities not measured at fair value					
Trade payable	-	(9,050)	-	(9,050)	-
Other payable (*)	-	(16,536)	-	(16,536)	-
Intercompany payables	(8,893)	-	(150,602)	(159,495)	-
Debentures	-	-	(540,468)	(540,468)	(509,135)
	61,400	**(25,586)**	**(691,070)**	**(655,256)**	**(509,135)**

(*) It does not include tax assets, tax liabilities, employee benefits and advances.

B. Fair value measurements

Valuation techniques and significant unobservable inputs
The following table shows the valuation techniques used in the determination of fair values of financial instruments – Level 2 as at March 31, 2019 and December 31, 2018:

Financial instruments not measured at fair value

Type	Valuation techniques	Key unobservable data	Interrelationship between key unobservable inputs and fair value
Loans from banks, debentures and others	Discounted cash flows using current market interest rate	Not applicable	Not applicable

14. Equity

Share capital
Comprises the following:

In thousands of U.S. dollars	March 31, 2019	December 31, 2018
Orazul Energía (UK) Holdings Ltd.	196,066	196,066
Others	20	20
	196,086	**196,086**

As of March 31, 2019 and December 31, 2018, issued capital stock is represented by 651,224,289 common shares with a face value of S/ 1.00 per share, duly authorized, issued and paid.

Shareholders	Number of shares	%
Orazul Energía (UK) Holdings Ltd.	651,132,301	99.99
Others	91,988	0.01
	651,224,289	**100**

15. Revenues

Comprises the following:

In thousands of U.S. dollars	**March 31, 2019**	**March 31, 2018**
Sale of electrical energy		
Sale of energy and capacity		
Energy	20,104	19,730
Capacity	7,584	4,860
COES (regulated clients)		
Energy	2,448	6,363
Capacity	2,403	2,754
Other	268	409
Energy transmission	1,970	1,762
	34,777	**35,878**
Sale of hydrocarbons		
Natural gasoline	2,795	1,928
LPG	1,484	3,991
	4,279	**5,919**
	39,056	**41,797**

The estimated revenues pending of invoicing for the three-month period ended March 31, 2019 amounts to US$ 13,652 thousand (US$ 12,414 thousand for the three-month period ended March 31, 2018).

16. Tax Issues

The income tax rate for legal entities domiciled in Peru shall be determined by applying the rate of 29.5% on their net income.

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

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

The estimated average effective annual tax rate used for the three-month period ended March 31, 2019 is 59% (28% for the three-month period ended March 31, 2018). The increase in the effective tax rate for the three-month period ended March 31, 2019 is due to the impact of exchange difference in local currency.

17. Related Party Transactions

A. Parent companies and ultimate parent Company

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.

B. Transactions with key management

i. Loans to directors

As of March 31, 2019, there are no loans to directors (no loans to directors as of December 31, 2018).

ii. Key management compensation

	Transaction value		Outstanding balances	
In thousands of U.S. dollars	**March 31, 2019**	**March 31, 2018**	**March 31, 2019**	**March 31, 2018**
Short-term employee benefits	49	422	-	-

iii. Transactions with key management personnel

During the three-month period ended March 31, 2019 there were no transactions between the Company and key management, other than those in (ii) (no transactions between the Company and key management during the three-month period ended March 31, 2018 other than those in (ii).

C. Other related entities transactions

In 2019 and 2018, the Group performed the following significant transactions with related parties, during the normal course of operations:

		Transaction value		Outstanding balances	
In thousands of U.S. dollars	**Transaction type**	**2019**	**2018**	**2019**	**2018**
Kallpa Generación S.A.	A&G fees	(771)	-	(771)	-
Samay I S.A.	COES	(375)	-	-	-
Kallpa Generación S.A.	COES	1,618	-	86	-
Orazul Energy Group BV - Netherlands	Loan	(1)	-	(24)	-
Orazul Energía (España) Holding S.L.	Loan	(14)	(568)	(8,807)	(8,803)
Orazul Energía Partners LLC (a)	Loan	(1,178)	(1,893)	(104,108)	(150,602)
Orazul Energia Management LLC - Delaware	Loan	-	241	1,142	1,142
Orazul Energía Partners LLC	Others	-	-	41	41
Orazul Energía (UK) Holding Ltd.	Capital reduction	-	(17,197)	-	-
Goldwat BD, S.L. - Spain	Loan	-	872	-	-
Compañia Boliviana de Energia Electrica Cobee-Sucursal	Services	230	-	230	-
Other related entities	Others	-	(241)	-	26
		(491)	**(18,786)**	**(112,211)**	**(158,196)**

The outstanding balances with related parties have current maturity and do not accrue interest. None of these balances are guaranteed.

(a) On December 20, 2016, Orazul Energía Partners LLC, granted a loan in favor of the Company for an aggregate amount of US$255,950 thousand to fund the acquisition of Orazul Energy Group Shares. The 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 US$ 127,950 thousand to Orazul Energia (UK) Holdings Ltd. On the same date, Orazul Energia (UK) Holdings Ltd. approved the capitalization of said debt and increased the capital stock issued by the Company.

In January 2019, Orazul Energy Partners LLC modified the loan rate from 6% to 0%, without modifying the terms of maturity and payment. As a result of this change, the liability was reduced and increased equity by US$ 47,673 thousand net of a deferred tax of US$ 14,063 thousand.

18. Contingencies

As of March 31, 2019 the main contingencies of the Company are described as follows:

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/ 4,952 thousand (equivalent to US$ 1,500 thousand) for labor claims that are not more likely than not that the Company will pay.

Aguaytía

(a) Judicial challenge filed against the OSINERGMIN

On April 9, 2012, Aguaytía initiated a court proceeding seeking judicial review of the Resolution No. 175-2011-OS/TASTEM-S2 issued by the OSINERGMIN, which determined the administrative responsibility of Aguaytía for having infringed the regulatory framework related to the implementation of the Supervisory Control and Data Acquisition System ("SCADA") and to pay a fine of US$ 7,156 thousand plus interests.

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

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

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

(b) 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 2019), ordering that Maple shall pay the Aguaytía an approximate amount of US$ 22,000 thousand and all of counterclaims were dismissed.

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

19. Standards Issued but not yet Effective

A number of new standards and amendments to standards are effective for annual periods beginning on or after January 1, 2019 and earlier application is permitted; however, the Group´s Management has not early adopted the following new or amended standards in preparing these condensed consolidated interim financial statements.

New currently effective requirements

New IFRS	Date of mandatory application
IFRIC 23: Uncertainty over income tax treatments.	Annual periods beginning on or after January 1, 2019.
Prepayments features with negative compensation (Amendments to IFRS 9).	Annual periods beginning on or after January 1, 2019.
Plan amendments, curtailment or settlement (Amendments to IAS 19).	Annual periods beginning on or after January 1, 2019.
Annual improvements to IFRSs 2015-2017 Cycle (Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23).	Annual periods beginning on or after January 1, 2019.

The Company's Management is evaluating the impact, if any, of the adoption of these amendments and interpretation issued but not yet effective as of the date of the condensed consolidated interim financial statements.

Forthcoming requirements

New IFRS	Date of mandatory application
Amendments to References to Conceptual Framework in IFRS Standards.	Annual periods beginning on or after January 1, 2020.
Definition of Business (Amendments to IFRS 3).	Annual periods beginning on or after January 1, 2020.
Definition of Material (Amendments to IAS 1 and IAS 8).	Annual periods beginning on or after January 1, 2020.
IFRS 17 Insurance Contracts.	Annual periods beginning on or after January 1, 2021.

20. 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.