Translation of a report and financial statements originally issued in Spanish – See Note 22

Interconexión Eléctrica ISA Perú S.A.

Financial statements as of December 31, 2018 and 2017, together with the Report of Independent Auditors

Building a better working world

Translation of a report and financial statements originally issued in Spanish – See Note 22

Interconexión Eléctrica ISA Perú S.A.

Financial statements as of December 31, 2018 and 2017, together with the Report of Independent Auditors

Content

Translation of a report originally issued in Spanish – See Note 22

Report of Independent Auditors

To the Shareholders of Interconexión Eléctrica ISA Perú S.A.

We have audited the accompanying financial statements of Interconexión Eléctrica ISA Perú S.A. (a subsidiary of Interconexión Eléctrica S.A. E.S.P. – from Colombia), which comprise the statement of financial position as of December 31, 2018 and 2017, and the related statements of comprehensive income, changes in net equity and cash flows for the years then ended, as well as the summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for the internal control that Management determines is appropriate to the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing approved for application in Peru by the Board of Deans of Institutes of Peruvian Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatements.

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

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

Report of Independent Auditors (continued)

Opinion

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Interconexión Eléctrica ISA Perú S.A. as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended, in accordance with International Financial Reporting Standards.

Lima, Peru,
February 12, 2019

Countersigned by:

Paredes, Burga & Asociados

Elizabeth Fontenla
C.P.C.C. Register No.25063

Interconexión Eléctrica ISA Perú S.A.

Statement of financial position

As of December 31, 2018 and 2017

	Note	2018 US$	2017 (Restated) Note 3.2 US$
Assets			
Current assets			
Cash and cash equivalents	5	6,241,028	7,632,471
Trade accounts receivable,net	6	2,119,578	1,689,659
Other accounts receivable, net		94,047	26,759
Supplies		1,335,042	1,147,745
Prepaid expenses		155,428	79,573
Total current assets		9,945,123	10,576,207
Financial investment		176	204
Machinery and equipment, net		44,400	47,053
Intangibles, net	7	49,158,233	52,615,105
Deferred income tax asset, net	8	645,242	535,505
Total non-current assets		49,848,051	53,197,867
Total assets		59,793,174	63,774,074
Liabilities and net equity			
Current liabilities			
Current portion of financial obligations	11	8,808,112	5,688,242
Trade accounts payable	9	127,105	262,158
Accounts payable to related parties	17(c)	77,914	117,445
Income tax payable		348,586	6,683
Taxes and contributions		230,711	184,137
Other accounts payable		173,038	399,121
Provision for maintenances and replacements	10	505,413	210,168
Total current liabilities		10,270,879	6,867,954
Long-term financial obligations	11	14,287,118	23,087,602
Provision for maintenances and replacements	10	1,765,047	1,697,244
Total non-current liabilities		16,052,165	24,784,846
Total liabilities		26,323,044	31,652,800
Net equity	12		
Issued capital		21,658,948	21,658,948
Share premium		78,093	78,093
Other capital reserves		4,331,790	4,331,790
Retained earnings		7,401,299	6,052,443
Total net equity		33,470,130	32,121,274
Total liabilities and net equity		59,793,174	63,774,074

The accompanying notes are an integral part of this statement.

Translation of financial statements originally issued in Spanish – See Note 22

Interconexión Eléctrica ISA Perú S.A.

Statement of comprehensive income

For the years ended December 31, 2018 and 2017

	Note	2018 US$	2017 (Restated) Note 3.2 US$
Electric power transmission services		16,998,310	15,529,258
Construction services	17(f)	-	32,046
Other operating revenue		54,995	98,501
Total revenue		17,053,305	15,659,805
Cost of electric power transmission services	14	(5,270,660)	(5,189,117)
Cost of construction services	17(f)	-	(32,046)
Provision for maintenance and replacement	10(a)	(443,539)	(628,830)
Gross profit		11,339,106	9,809,812
Operating expenses			
Administrative expenses	15	(310,617)	(365,847)
Other income		-	76,571
Operating profit		11,028,489	9,520,536
Other income (expenses)			
Financial income		89,088	44,466
Financial expenses	16	(1,407,243)	(1,557,947)
Exchange rate difference, net		(50,248)	61,383
Profit before income tax		9,660,086	8,068,438
Income tax	8(b)	(2,232,000)	(2,015,864)
Net income		7,428,086	6,052,574
Other comprehensive income		-	-
Total comprehensive income for the year		7,428,086	6,052,574

The accompanying notes are an integral part of this statement.

Interconexión Eléctrica ISA Perú S.A.

Statement of changes in net equity

For the years ended December 31, 2018 and 2017

	Issued capital US$	Share premium US$	Other capital reserves US$	Retained earnings US$	Total US$
Balance as of January 1, 2017	21,658,948	78,093	4,331,790	6,059,399	32,128,230
Dividends paid, note 12(d)	-	-	-	(6,059,397)	(6,059,397)
Net income	-	-	-	6,052,574	6,052,574
Other adjustments	-	-		(133)	(133)
Balance as of December 31, 2017 (Restated, note 3.2)	21,658,948	78,093	4,331,790	6,052,443	32,121,274
Dividends paid, note 12(d)	-	-	-	(6,079,129)	(6,079,129)
Net income	-	-	-	7,428,086	7,428,086
Other adjustments	-	-	-	(101)	(101)
Balance as of December 31, 2018	21,658,948	78,093	4,331,790	7,401,299	33,470,130

The accompanying notes are an integral part of this statement.

Interconexión Eléctrica ISA Perú S.A.

Statement of cash flows

For the years ended December 31, 2018 and 2017

	Note	2018 US$	2017 (Restated) US$
Operating activities			
Collection from customers		16,678,348	15,638,742
Collection of interest		94,040	35,235
Payments to suppliers and employees		(2,654,373)	(4,726,334)
Income tax paid		(1,999,833)	(693,330)
Interests paid		(1,692,005)	(1,402,870)
Net cash and cash equivalents provided by operating activities		10,426,177	8,851,443
Investing activities			
Purchase of intangible assets	7	-	(32,046)
Net cash and cash equivalents used in investing activities		-	(32,046)
Financing activities			
Amortization of financial obligations	11	(5,688,242)	-
Dividends payment	12(d)	(6,079,129)	(6,059,397)
Net cash and cash equivalents used in financing activities		(11,767,371)	(6,059,397)
(Net decrease) net increase in cash in the year before changes in exchange rate		(1,341,194)	2,760,000
Effect of variation in exchange rate		(50,249)	61,384
(Net decrease) net increase in cash and cash equivalents during the year		(1,391,443)	2,821,384
Cash and cash equivalents at the beginning of the year		7,632,471	4,811,087
Cash and cash equivalents at year-end	5(a)	6,241,028	7,632,471

The accompanying notes are an integral part of this statement.

Interconexión Eléctrica ISA Perú S.A.

Notes to the financial statements

As of December 31, 2018 and 2017

1. **Identification and business activity**

    (a) Identification –

    Interconexión Eléctrica ISA Perú S.A. (hereinafter "the Company") was incorporated in February 2001. The Company is a subsidiary of Interconexión Eléctrica S.A. E.S.P. (company with legal address in Colombia). The Company's legal address is Av. Juan de Arona 720, San Isidro, Lima, Peru.

    (b) Business activity –

    It is engaged in the transmission of electric power and the operation and maintenance of power transmission networks. It is also entitled to provide services related to telecommunications, data transmission and expansion of the national interconnection power network as well as technical and consulting services in these areas and engineering services in general.

    The Company's activities of electric power transmission are developed in accordance with the Electrical Concession Law and its regulation, and are governed and supervised by the Supervising Organism of Investment in Energy and Mining (OSINERGMIN for its Spanish acronym).

    (c) Approval of financial statements -

    The financial statements as of December 31, 2018 were approved by the Company's Management on February 6, 2019 and will be presented for the approval of the Board of Directors and the Shareholders within the terms established by law. In Management's opinion, the accompanying financial statements will be approved without changes by the Board of Directors and Shareholders' Meetings that will be held during the first quarter of 2019. The financial statements at December 31, 2017, before its re-expression, were approved by the Mandatory Annual Shareholders' Meeting held on March 13, 2018.

2. **Concession contract of electrical transmission systems**

    On February 16, 2001, Interconexión Eléctrica S.A. E.S.P. awarded the international public bid to grant the private sector concession of Pachachaca - Oroya - Carhuamayo - Paragsha - Antamina Annex, and Aguaytia - Pucallpa electric power lines (hereinafter "the Project"). On April 26, 2001, the Company signed with the Peruvian Government, represented by the Ministry of Energy and Mines, the Concession Agreement (hereinafter "the Agreement") to design, supply goods and services and build and operate the electric power transmission lines and provide transmission service for a 32-year term.

The power transmission system, as established in the Agreement, comprises the following power transmission lines: (a) Pachachaca - Oroya - Carhuamayo - Paragsha – Antamina Annex with the related substations, and (b) Aguaytía - Pucallpa with the respective substations Aguaytía and Parque Industrial Pucallpa. On November 19, 2001, the Company signed with the Peruvian Government, represented by the Ministry of Energy and Mines and the Foreign Investment and Technology Commission - CONITE (for its Spanish acronym), an Investment Agreement by which it is eligible to use the benefits established under Legislative Decree 818 as amended, regarding the investments to be made in the Project. As of December 31, 2018 and 2017, the total investment realized by the Company amounts to US$57,644,461, see note 7(a).

In return for the electric power transmission services, the Company is paid through an annual compensation which includes investment, operating and maintenance costs and other concepts. During the effective concession period, it is readjusted every four years based on the variation of the "Finished Good Less Food and Energy" index of the United States of America. The Peruvian Government, through the Ministry of Energy and Mines (MEM), guarantees that the Supervising Organism of Investment in Energy and Mining (OSINERGMIN) establishes the necessary pricing mechanisms and the corresponding values in order to assure that the total cost of transmission of the Company will be entirely paid each year. As a result of the application of guaranteed annual remuneration, the Company recognized revenues from electric power transmission amounting to US$ 16,998,310 and US$15,529,258, during 2018 and 2017, respectively.

In recent years, additional clauses to the concession contract were approved in order to execute the following extensions:

- Extension N° 1: On July 16, 2012, it was signed the First Additional clause for the Concession Contract Extensions. The service became operational on August 3, 2013 and investments made as of December 31, 2018 and 2017 amounted to US$415,439, see note 7(b).

- Extension N° 2: The service became operational on December 21, 2014. As of December 31, 2018 and 2017, the Company has made investments amounting to US$1,536,269, see note 7(b).

- Extension N° 3: The service became operational on July 27, 2016. As of December 31, 2018 and 2017, the Company has made investments amounting US$24,373,953, see note 7(b).

- Extension N° 4 is under negotiation with the Peruvian Government.

3. Significant accounting principles and practices

3.1 Basis of preparation and presentation –

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (hereinafter "IFRS") as issued by the International Accounting Standards Board (the "IASB") as of December 31, 2018 and 2017.

The accompanying financial statements have been prepared on a historical cost basis, based on the accounting records kept by the Company. The financial statements are presented in United States dollars, which is the Company´s functional and presentation currency, except when otherwise indicated.

The financial statements provide comparative information in respect of the previous period, except of the issued standards not yet applicable that did not require the restatement of previous financial statements, as explained in Note 4.

In note 3.3 includes information on judgments, estimates and significant accounting assumptions used by management in the preparation of the accompanying financial statements.

3.2 Changes in accounting policies and disclosures –

Adoption of new accounting standards –

During 2018, the Company has adopted the new standards issued by the IASB, effective beginning January 1, 2018; specifically, IFRS 15 "Revenue from Contracts with Customers" and IFRS 9 "Financial Instruments".

The Company has recorded the impacts that resulted from the adoption of these standards and has incorporated them in the financial statements as of December 31, 2018.

The description of the main changes and the estimated impact, as applicable, are detailed below:

- IFRS 15 "*Revenue from Contracts with Customers*"

  IFRS 15 was published in May 2014 and amended in April 2016 and establishes a five-step model to account for revenue arising from contracts with customers. It requires revenue to be recognized at an amount that reflects the consideration to which an entity expects to be entitled as agreed with a customer. The accounting principles established in IFRS 15 provide a more structured approach to measure and recognize income.

  This new standard abrogated all previous rules relating to revenue recognition. A total retroactive or partial retroactive application is required for the periods beginning on or after January 1, 2018.

The Company adopted IFRS 15 retrospectively, with an initial application date on January 1, 2018. The Company has not modified the comparative information, as it did not identify differences in the adoption of the standard.

- *IFRS 9 "Financial Instruments"*

  IFRS 9 presents changes mainly in the following areas: the classification and measurement of financial instruments, the impairment of financial assets, hedge accounting and the accounting for changes in financial liabilities.

  For the transition to IFRS 9, the Company has used the full retrospective approach indicated by the standard. The aspects associated with hedge accounting and changes in liabilities have no impact on the initial application of IFRS 9 for the Company.

  The main impacts resulting from the initial application of IFRS 9 are associated with aspects of classification, measurement and impairment of the financial assets as described below:

  - Classification and measurement of financial assets

    IFRS 9 includes three main classification categories for financial assets:
    - amortized cost,
    - fair value with changes in other comprehensive income,
    - fair value with changes in results

    The classification of financial assets under IFRS 9 is based both on the business model in which a financial asset is managed and on the characteristics of the contractual cash flows of those instruments. The standard eliminates the existing categories of IAS 39 from held-to-maturity, loans and accounts receivable and available for sale.

  - Impairment

    IFRS 9 replaces the model of incurred losses presented in IAS 39 to an expected credit loss model (ECL). IFRS 9 requires that the ECL of all its financial assets be recorded, except those that are carried at fair value with an effect on results and shares, estimating it over 12 months or for the entire life of the financial instrument ("lifetime"). In accordance with the provisions of the standard, the Company applied the simplified approach (which estimates the loss for the life of the financial instrument), for trade accounts receivable, and the general approach for other financial assets; the same that requires evaluating whether or not a significant increase in risk exists to determine whether the loss should be estimated based on 12 months after the reporting date or during the entire life of the asset.

From the application of this new concept of ECL, the Company has determined the following impacts in its financial statements:

- Trade accounts receivable are subject to impairment evaluation using the simplified approach. The Company has concluded that, based on the historical behavior of its client portfolio where there were no defaults, the credit quality of the clients and a qualitative evaluation of prospective macroeconomic information, additional provisions were made for impairment of accounts receivable in relation to the level of credit risk.

The impacts of the accounting changes in the financial statements of the comparative periods are described below:

Adjustment to the items of the statement of financial position as of December 31, 2017:

	Balance as of 12.31.17 US$	Impacts IFRS 9 US$	Balance as of 12.31.17 (Restated) US$
Assets			
Current assets			
Cash and cash equivalents	7,632,471	-	7,632,471
Trade accounts receivable, net	1,716,214	(26,555)	1,689,659
Other accounts receivable, net	26,759	-	26,759
Supplies	1,147,745	-	1,147,745
Prepaid expenses	79,573	-	79,573
Total current assets	10,602,762	(26,555)	10,576,207
Non-current assets	53,197,867	-	53,197,867
Total assets	63,800,629	(26,555)	63,774,074
Total liabilities	31,652,800	-	31,652,800
Equity			
Issued capital	21,658,948	-	21,658,948
Share premium	78,093	-	78,093
Other capital reserves	4,331,790	-	4,331,790
Retained earnings	6,078,998	(26,555)	6,052,443
Total equity	32,147,829	(26,555)	32,121,274
Total liabilities and equity	63,800,629	(26,555)	63,774,074

Adjustment to the items of the statement of income for the year ended December 31, 2017:

	2017 US$	Impacts IFRS 9 US$	2017 (Restated) US$
Ordinary activities revenues	15,659,805	-	15,659,805
Cost of transmission services	(5,849,993)	-	(5,849,993)
Gross profit	9,809,812	-	9,809,812
Administrative expenses	(339,292)	(26,555)	(365,847)
Other income	76,571	-	76,571
Operating profit	9,547,091	(26,555)	9,520,536
Financial income	44,466	-	44,466
Financial expenses	(1,557,947)	-	(1,557,947)
Exchange difference, net	61,383	-	61,383
Profit before income tax	8,094,993	(26,555)	8,068,438
Income tax	(2,015,864)	-	(2,015,864)
Net income	6,079,129	(26,555)	6,052,574

Certain statements and amendments became effective for annual periods beginning on or after January 1, 2018; however, they did not have an impact in the financial statements; thus, they were not disclosed. The Company has not early adopted any other standard or interpretation issued that is not yet effective.

3.3 Summary of significant accounting policies –

(a) Financial instruments: initial recognition and subsequent measurement –

(i) Financial assets –

Initial recognition and measurement -

Financial assets are classified, at initial recognition, and subsequently measured at amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The Company's financial assets include cash and cash equivalent, trade and other receivables and account receivables from related parties.

Subsequent measurement -

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortized cost (debt instruments).
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments).

- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments).
- Financial assets at fair value through profit or loss.

The classification depends on the business model of the Company and the contractual terms of the cash flows.

Financial assets at amortized cost (debt instruments) -
The Company measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows and not for its sale or trading, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

Financial assets are not reclassified after their initial recognition, except if the Company changes its business model for its management.

This category includes cash and cash equivalent and trade and other receivables.

Financial assets at fair value through OCI with recycling of cumulative gains and losses *(debt instruments) -*
A financial asset is measured at fair value through changes in other comprehensive income if the following two conditions are met:

- The financial asset is conserved within a business model whose objective is met both by obtaining the contractual cash flows and selling the cash flows, and
- The contractual terms of the financial asset give rise, on specific dates, to cash flows that are only payments of principal and interest.

The Company does not have debt instruments classified in this category.

Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments) -
Upon initial recognition, the Company can elect to classify irrevocably its equity investments as equity instruments designated at fair value through changes in OCI when they meet the definition of equity and are not held for trading.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Company elected to classify irrevocably its non-listed equity investments under this category.

Financial assets at fair value through profit or loss -
Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model.

Financial assets at fair value through profit or loss are carried in the statements of financial position at fair value with net changes in fair value recognized as finance costs (net negative changes in fair value) or finance income (net positive changes in fair value) in the statements of profit or loss.

The Company has no investments classified as financial assets at fair value through profit or loss.

Derecognition -
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is primarily derecognized when:

(i) The rights to receive cash flows from the asset have expired; or
(ii) The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a pass-through arrangement;

and either (a) the Company has transferred substantially all the risks and rewards of the asset or, (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent, it has retained the risk and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognize the transferred asset to the extent of the Company´s continuing involvement. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

When continuing involvement takes the form of a guarantee on the transferred asset, it is measured at the lower of original book value of assets and the maximum amount of consideration that the Company would have to pay for the guarantee.

Impairment of financial assets -

The Company recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Company considers a financial asset in default when contractual payments are 360 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

(ii) Financial liabilities -

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Company's financial liabilities include trade and other payables, accounts payable to related parties and financial obligations.

Subsequent measurement -

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss -

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied.

The Company has not designated any financial liability as at fair value through profit or loss as of December 31, 2018 and 2017.

Loans and borrowings -
After their initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and loss are recognized in the income statement when the liabilities are derecognized as well as through the effective interest rate method (EIR) amortization process.

Amortized cost is calculated taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Amortization under the effective interest rate method is included as financial costs in the statements of profit or loss.

This category includes trade and other payables, accounts payable to related parties and financial obligations.

Derecognition -
A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statements of profit or loss.

(iii) Offsetting of financial instruments -
Financial assets and financial liabilities are offset and the net amount is reported in the statements of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

(iv) Fair value measurement -
Fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or most advantageous market must be accessible by the Company.

The fair value of an asset or liability is measured using the assumptions that market participants would use to rank the asset or liability value, assuming that market participants act in their best economic interest.

A fair value measurement of a non-financial asset takes into account the ability of market participant to generate economic benefits by using the asset in its highest and best use or by selling this to another market participant that would use the asset at its maximum and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient information is available to measure fair value, maximizing the use of relevant observable inputs and minimize the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the statements of financial position on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest-level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Company's Management determines the policies and procedures for both recurring fair value measurement and non-recurring measurement.

At each reporting date, the Company's Management analyzes the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Company’s accounting policies. For this analysis, Management contrasts the main variables used in the latest assessments made with updated information available from valuations included in contracts and other relevant documents.

Management also compares the changes in the fair value of assets and liabilities with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities based on the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

(b) Foreign currency translation -

(i) Functional and presentation currency –
The Company's financial statements are presented in U.S. dollars, which is also the Company's functional currency.

(ii) Transactions and balances in foreign currency –
The transactions carried out in a currency other than the functional currency are considered as transactions in foreign currency. Transactions in foreign currencies are initially recorded by the Company at the functional currency rates prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency exchange rate ruling at the reporting date. The gains or loss for exchange differences resulting from the liquidation of such transactions and the translation of monetary assets and liabilities in foreign currency to the exchange rates prevailing at year-end, are recognized in the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as of the dates of the initial transactions.

(c) Cash and cash equivalents –
Cash and cash equivalents in the statement of financial position comprise cash and balances held in banks. For the purpose of preparation of the cash flows statement, cash and cash equivalents consist of cash and short-term deposits with a maturity of three months or less. These accounts do not have any significant risk of changes in value.

(d) Supplies –
Supplies are valued at the lower of cost and net realizable value. Cost is determined based on a weighted average method.

The estimation for supplies impairment is calculated based on a specific analysis performed annually by Management and is charged to profit or loss in the year in which the requirement of that provision is determined.

(e) Machinery and equipment –
The item of machinery and equipment is stated at cost, net of accumulated depreciation and / or accumulated impairment losses. The cost of an item of machinery and equipment comprises its purchase price or its manufacturing cost, including non-refundable purchase duties and taxes and any costs necessary to put the asset into operating conditions as anticipated by management. The purchase price or the construction cost correspond to the total of the amount paid and the fair value of any other consideration given for acquiring the asset.

This cost includes replacing components of machinery and equipment and, in the case of qualified assets, the cost of financing. For the significant components of machinery and equipment that must be replaced periodically, the Company derecognized the replaced component and recognizes the new component with their respective useful lives and depreciation. Similarly, when a major inspection is performed, its cost is recognized as a replacement to the extent that they meet the recognition requirements. Other repair and maintenance costs are recognized as expenses as incurred.

Depreciation –
Depreciation is calculated following the straight-line method using the following estimated useful lives:

	Years
Vehicles	5
Furniture and fixtures	10
Other equipment	From 4 to 10

The asset´s residual value, useful lives and depreciation methods are reviewed at each reporting period, and adjusted prospectively if appropriate.

An item of machinery and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognized.

As of December 31, 2018 and 2017, the Company does not maintain machinery and equipment that would qualify for interest capitalization from loans.

(f) Intangible assets –
Concession agreement with the Peruvian Government -
The Company has adopted IFRIC 12, Service Concession Arrangements, to record its concession contracts with the Peruvian Government (see note 2). The following criteria must be met in order for a concession contract to be within the scope of IFRIC 12:

- The grantor controls or regulates what services the operator must provide using the assets, to whom, and at what price; and
- The grantor controls, through ownership, beneficial entitlement or otherwise, any significant residual interest in the assets at the end of the term of the arrangement.

The Company uses the Intangible Assets model to record its concession agreements.

The intangible asset represents the right granted by the Peruvian Government to perform charges to electric power transmission service users. Extensions to the infrastructure are recorded as additions to intangible assets because they are expected to generate future economic benefits to the Company.

Significant replacements and maintenance that the Company must perform to the infrastructure of the electric power transmission system in order to maintain the conditions required by the Peruvian State in accordance with the Concession Contract, and that will not generate future economic flows for the Company are recorded as part of the provision of maintenance and significant replacements, see note 10(b).

The intangible asset arising from the Concession contract is amortized using the straight line method during the effective period of the contract. The amortization expense on intangible assets with finite lives is recognized in the statement of comprehensive income in the expense category consistent with the function of the intangible assets.

Software -
The software licenses acquired are capitalized based on the costs incurred to acquire or set-up the specific computer software. These costs are amortized in 5 years.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net proceeds from disposal and the carrying amount of the asset and are recognized in the income statement when the asset is derecognized.

(g) Impairment of long-term assets –
At each year-end, the Company evaluates if there are indicators that an asset could be impaired. If there is an indicator, the Company estimates the asset’s recoverable amount. The recoverable amount of an asset is the greater of the fair value of the unit cash of production less the costs to sell and its value in use, and it is determined for an individual asset, unless the asset does not generate cash flows in an independent manner. When the book value of an asset exceeds its recoverable value, an asset is considered impaired and it is reduced to its recoverable value. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices or other available fair value indicators. The impairment losses are recognized in the income statement.

Such assessment requires certain estimates and assumptions such as volume of projects, investments, working capital budgets, discount rates, list prices and operating costs.

As of December 31, 2018 and 2017, the Company's management believes that there is no operational and / or economic evidence that indicates that the carrying amount of machinery and equipment and intangibles, cannot be recovered.

(h) Revenue and expenses recognition –

Revenues are recognized when all inherent risks and benefits of the service are transferred, to the extent that it is probable that the economic benefits related to the transaction will flow to the Company and the revenue can be reliably measured, without considering the time in which the payment is carried out. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duties.

The following specific criteria must be met to recognize revenues:

Energy transmission services –

Revenues from the power transmission services are recognized at a point in time, when they are rendered, as established under the concession agreement signed by the Peruvian State. The performance obligation is satisfied when energy is transmitted. The transmission service rendered and not billed is accounted for on the basis of estimates of power transmission, which does not differ significantly from the subsequent actual billing.

Construction services -

Revenues and costs for the projects' construction services are recognized in the income statement over time, in proportion to the stage of completion of the project at the reporting date. The Company has not recognized any profit margin from these construction services given that they are rendered, managed and supervised by a related party. The related party is the only entity which recognizes a profit margin for those services in its financial statements.

Operation and maintenance services -

Revenues from operation and maintenance services to third party installations are recognized over time as the services are provided.

Interests –

Interest income is recognized on a time-proportion basis using the effective interest method and recorded as earned in the "Financial income" caption of the income statement.

Costs and expenses -
The costs and expenses are recognized as they are accrued, independent from the moment of payment, and are recorded in the periods to which they are related.

(i) Taxes -
Current income tax -
Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The income tax is calculated based on the Company´s financial information

The current income tax is calculated and recorded in accordance with the legal stability agreement signed with the Peruvian Government in 2001.

Deferred income tax -
The income tax for future periods is recognized using the liability method on temporary differences between the accounting basis and the tax basis at the date of the statement of financial position.

Deferred tax liabilities are recognized for all taxable temporary differences.

Deferred tax assets are recognized for all deductible temporary differences, and for the future offset of unused tax credits and tax loss carry forward. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be used.

The carrying amount of the deferred asset is reviewed at each statement of financial position date and is reduced to the extent that it is no longer probable that sufficient future taxable income will be available to allow the benefit of part or the entire deferred asset to be utilized. Unrecognized deferred assets are re-assessed on each statement of financial position date and recognized if there is future taxable income to recover such assets.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled in accordance with the legal stability agreement signed with the Peruvian Government in 2001.

Deferred tax relating to items recognized outside profit or loss is recognized outside it. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities, and when the deferred taxes relate to the same taxable entity that is subject to the tax and to the same taxation authority.

Sales tax -
Revenues, expenses and assets are recognized net of the amount of sales tax, except:

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable.

- Receivables and payables are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority, is included as part of receivables or payables in the statement of financial position.

(j) Provisions –
A provision is recognized only when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be reliably estimated. The expense relating to any provision is presented in the statement of comprehensive income, net of any reimbursement. If the time value of money is material, the provisions are discounted using a pre-tax rate that reflects, when appropriate, the risks specific to the liability. When the discount is made, the increase in the provision due to the passage of time is recognized as a financial cost.

Provision for maintenances and significant replacements-
As part of its obligations under the Concession Agreement subscribed with the Peruvian State (note 2), the Company takes responsibility for the significant maintenances and replacements of the infrastructure it maintains. The future maintenance and replacement costs, necessary to maintain the infrastructure in the conditions required by the Peruvian State, are estimated and recorded as an expense and a provision at year end, in accordance with the estimated period of use of the assets that will be maintained or replaced.

Provision for Electrical Services Quality Technical Standard (NTCSE) -
This Standard is mandatory for the supply of generation, transmission and distribution of electrical services subject to a regulated tariff; in accordance with Supreme Decree N°020-97-EM which approved the Electrical Services Quality Technical Standard. This standard establishes the minimum levels of quality in electrical services and regulates the implementation of compensation for breaches of the quality parameters of electricity supply and the stated tolerances. These obligations are recorded in the income statement at the time of the interruption's events are in progress, and those exceed the tolerance level. This economic consideration by the compensation for interruption of power supply is calculated based on the number of interruptions and the total duration of interruptions, and is paid to the generators that have been affected. Compensation arising from deficiencies in the transmission lines may not exceed 10% of the semiannual sales of the Company.

(k) Contingencies –
A contingent liability is recorded in the financial statements when the existence of an obligation will only be confirmed by future events or when the amount of the obligation can be reliably measured. Otherwise, it is only disclosed in notes to the financial statements.

Contingent assets are not recorded in the financial statements, but they are disclosed in notes to the financial statements when their contingency degree is probable.

(l) Subsequent events –
Events occurred subsequent to the year-end which provide additional information about financial status of the Company at the statement of financial position date (adjustment events) are included as part of the financial statements. Subsequent events that do not represent adjustment events are disclosed in notes to the financial statements.

(m) Segments –
A business segment is a distinguishable component of an enterprise that provides a single product or service or group of products or related services, and subject to risks and returns that are different from other business segments. A geographical segment is a distinguishable component of an enterprise that is dedicated to providing products or services within a particular economic environment and is subject to risks and returns that are different from those of components operating in other economic environments. Companies should consider its organizational structure and management and its internal financial reporting systems to identify segments.

With regard to the revenues from construction services according to the requirements of IFRIC 12, the Company provides a construction service for the Peruvian State, so that, this standard establishes that an income equivalent to the fair value of construction service provided is recognized. In the case of the Company, these income presented in the statement of comprehensive income, correspond to the same amount that the cost incurred whenever the Company does not generate a profit margin or profitability, in the presentation of these services in accordance with the definition of business segment from IFRS 8, since these are provided, administered and/or supervised by their related parties (PDI and REP) or third parties.

The solely segment of Company is the transmission of electrical power.

3.4 Significant accounting judgments, estimates and assumptions –

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions to determine the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the day of the financial statements, as well as the reported amounts of revenues and expenses for the years ended December 31, 2018 and 2017.

The most significant estimates considered by the Company's Management in relation to the financial statements are mainly referred to:

(a) Significant judgments –

The most significant judgment in relation with the financial statements is described below:

Identification of the concession as an intangible asset (see note 7)-

Based on its analysis of IFRIC 12 Service Concession Agreements, the Company decided to use the intangible asset model to register transmission lines concessions granted by the Peruvian State. According to Company's Management, although the remuneration for the Company's transmission service is determined annually by the Peruvian State during the concession term, the concession contracts do not establish obligations by the Peruvian Government to take responsibility for the payment of the duties assigned to each service user as a result of the annual provision of transmission services, since the obligation is on the users of the service provided. That is, once the compensation is allocated to service users, there is no mechanism established in the Concession Agreement unconditionally guaranteeing the collection of the rights generated by the transmission service.

Furthermore, Company Management considers that the right to charge each transmission service end-user is generated on an annual basis whilst the Company remains capable of maintaining the transmission lines to a certain standard of service over the lifetime of each concession. If the service were not maintained to the standard specified, no counterpart exists to guarantee payment for the service. Moreover, and according to the terms established in the concession Contracts, insofar as the Peruvian Government cannot guarantee the permanent presence of electricity generating firms in the concession zones, it was established that in the absence of end-users, the corresponding concession Contracts will be interrupted until new generators enter into the transmission system.

As a result of the above considerations, the Company's Management concludes that although the Peruvian Government provides for the assignation of the service to each end-user, it does not guarantee the payment of the corresponding service fee. Therefore, and in accordance with the IFRIC 12 Service Concession Arrangements, the Intangible Asset model should be used.

(b) Estimates and assumptions –
The most significant estimates and assumptions in relation with the preparation of the financial statements are described below:

(i) Impairment of non-financial assets (see note 7) –
The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount.

At the reporting date, there are available projections of those variables which show favorable trends in a view of the Company's objectives. These projections support the recoverability of its long - lived assets.

(ii) Provision for significant maintenance and replacement costs (see note 10) –
The provision for maintenance and replacements represents the present value of the costs of significant maintenance and replacement outlays expected during the remaining lifetime of the concession. This provision corresponds mainly to those expenses necessary in order to maintain the transmission lines' infrastructure in the operative conditions demanded by the Peruvian State and set out in the corresponding concession contract. The provision is calculated by the Transmission Management staff and is based on an assessment of factors relating to the condition and age of the transmission lines and sub-stations. The evaluation includes both a qualitative and a quantitative analysis.

Budget estimates are reviewed annually and take into consideration any material changes to previous projections. However, it should be pointed out that significant maintenance and replacement costs are dependent upon market prices, maintenance activity and the price of required equipment is affected by future economic conditions.

Based on the capital expenses budget previously approved by the Board, the financial planning staff indexes cash outflows by inflation and updates budget flows by applying an annual risk-free rate that takes into consideration market conditions and the specific risk of the related liability.

The main criteria and assumptions used for calculating the provision for significant maintenance and replacement are set out in note 10(b).

(iii) Taxes (see note 13) –
Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the nature of the long-term concession contract and the complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could need future adjustments to tax income and expense already recorded. The Company establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Company's domicile.

As the Company assesses the probability for litigation and subsequent cash outflow with respect to taxes as remote, no contingent liability has been recognized.

(iv) Recovery of the deferred income taxes (see note 8) –
Significant management judgment is required to determine the amount of deferred tax assets that can be recognized in the statement of financial position. The deferred income taxes require the Management assesses if it is probable that taxable profit will be available in future periods in order to use the recorded deferred tax asset. The estimate future taxable profit is based on the projections of the operative cash flows and the applying of the corresponding tax laws in each jurisdiction. If the future cash flows and the taxable profit are significantly different from the estimates, such situation could have an impact in the Company's capacity to recover the net deferred tax asset recorded at the reporting date.

In addition, future changes in tax laws could limit the Company's capacity to obtaining tax deductions in future periods. Any difference between the estimates and subsequent real outflows is recorded in the period in which it occurs.

In Management's opinion, the estimates included in the financial statements were realized taking into consideration the best knowledge of the relevant facts and circumstances at the reporting date. However, the final results could be different from the estimates included in the financial statements.

4. Accounting standards

(i) Standards issued but not effective -

The standards and interpretations that were issued, but that were not yet effective at year-end are detailed below. The Company intends to adopt these standards, if applicable, when they become effective.

- IFRS 16 Leases

  IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the amortization expense on the right-of-use asset.

  Subsequent to initial measurement, lessees will be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

  Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

Transition to IFRS 16
The Company plans to adopt the exemptions proposed in the standard for leases which expire after 12 months of the initial adoption date, and for those contracts with a low value asset.

During the last quarter of 2018, the Company has carried out a detailed corporate evaluation of the impact of IFRS 16, this evaluation will end in the first quarter of 2019; whereby; the impact that it could have on internal processes and financial statements has not yet been estimated.

- *Amendments to IFRS 9: Prepayment Features with Negative Compensation* -
Under IFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

The amendments should be applied retrospectively and are effective from January 1, 2019, with earlier application permitted. These amendments have no impact on the Company´s financial statements.

- *IFRIC Interpretation 23 Uncertainty over Income Tax Treatment* -
The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

  - Whether an entity considers uncertain tax treatments separately
  - The assumptions an entity makes about the examination of tax treatments by taxation authorities

- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity must determine whether it considers each uncertain tax treatment separately or together with one or more uncertain tax treatments. The approach that best predicts the resolution of uncertainty should be followed. The interpretation is effective for annual periods beginning on January 1, 2019, but there are certain transition considerations available. The Company will apply the interpretation from its effective date. Since the Company operates in a complex tax environment, the application of this standard may affect its financial statement and required disclosures. In addition, the Company may need to establish processes and procedures to obtain the necessary information to apply the interpretation in a timely manner.

Management of the Company is evaluation the possible effects of this standard.

- *Annual Improvements 2015-2017 Cycle (issued in December 2017) -*

  IAS 12 Income Taxes

  The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted. When an entity applies these amendments for the first time, it will do so from the stat date of the oldest comparative period. Since the Company´s current practices are aligned with these amendments, Management does not expect any effect on the Company´s financial statements.

  IAS 23 Interest costs - Capitalized interest costs

  The amendments clarify that an entity considers part of its general interest costs any interest costs originally incurred to develop a qualified asset when substantially all the activities necessary to prepare the asset for its use or sale have been completed.

  An entity applies these amendments to finance costs incurred in or after the commencement of the reporting period in which the entity applies these modifications. These modifications will be applied to the interest costs incurred in the periods beginning on January 1, 2019 or later, allowing early application. Since the Company´s current practices are aligned with these amendments, Management does not expect any effect on the Company´s financial statements.

5. Cash and cash equivalents

(a) This item is made up as follows:

	2018 US$	2017 US$
Cash	909	945
Current bank accounts (b)	475,994	2,791,927
Time deposits (c)	5,764,125	4,839,599
	6,241,028	7,632,471

(b) As of December 31, 2018 and 2017, current bank accounts are stated in Soles and U.S. dollars. All of them are held in local banks and are freely available.

(c) Time deposits originally fall due at under 90 days and may be renewed at the end of each term. As of December 31, 2018, these deposits earned interest at an effective annual interest rate that fluctuated between 3.60% and 3.65% for deposits in Soles and 1.95% and 2.15% for deposits in U.S. Dollars (as of December 31, 2017, the interest rates for deposits in Soles was 3.36% and 3.41%; and between 1.20% and 1.45%for deposits in U.S. dollars).

6. Trade accounts receivable

(a) This item is made up as follows:

	2018 US$	2017 (Restated) Nota 3.2 US$
Trade accounts receivable (b)	503,108	162,981
Estimate of accrued transmission services (c)	1,687,908	1,553,233
	2,191,016	1,716,214
Estimation for doubtful accounts (e)	(71,438)	(26,555)
	2,119,578	1,689,659

(b) Trade accounts receivable are mainly denominated in Soles, have current maturities and do not earn interest.

(c) As of December 31, 2018 and 2017, it corresponds to the billing for transmission services performed in December of the current year and which were fully collected in January of the following year.

(d) An analysis of aging of the current portion of trade accounts receivable as of December 31, 2018 and 2017 is set out below:

	Not provisioned US$	Provisioned US$	Total US$
As of December 31, 2018			
Not past due	1,687,908	-	1,687,908
Past due:			
Under 30 days	410,529	18,071	428,600
From 31 to 180 days	20,372	875	21,247
From 181 to 360 days	769	172	941
More than 360 days	-	52,320	52,320
Total	2,119,578	71,438	2,191,016
As of December 31, 2017 (Restated)			
Not past due	1,553,233	-	1,553,233
Past due:			
Under 30 days	132,134	16,666	148,800
From 31 to 180 days	2,675	177	2,852
From 181 to 360 days	1,617	5,130	6,747
More than 360 days	-	4,582	4,582
Total	1,689,659	26,555	1,716,214

(e) The movement of the impairment estimate for accounts receivable during 2018 and 2017 was as follows:

	2018 US$	2017 (Restated) US$
Beginning balance	26,555	-
Estimation for doubtful accounts, note 15	44,883	26,555
Ending balance	71,438	26,555

7. **Intangible assets, net**

(a) The composition and movement in this caption is presented below:

	2018					2017				
	Software and patents US$	Electric transmission system concessions (d) US$	Extensions to the concession (b) US$	Projects in progress (c) US$	Total US$	Software and patents US$	Electric transmission system concessions (d) US$	Extensions to the concession (b) US$	Projects in progress (c) US$	Total US$
Cost										
Balance as of January 1,	140,819	57,644,461	26,325,661	44,282	84,155,223	140,819	57,644,461	26,293,615	44,282	84,123,177
Additions	-	-	-	-	-	-	-	32,046	-	32,046
Balance as of December 31,	140,819	57,644,461	26,325,661	44,282	84,155,223	140,819	57,644,461	26,325,661	44,282	84,155,223
Accumulated amortization										
Balance as of January 1,	140,819	29,015,873	2,383,426	-	31,540,118	140,819	27,094,391	847,229	-	28,082,439
Additions, note 14	-	1,921,482	1,535,390	-	3,456,872	-	1,921,482	1,536,197	-	3,457,679
Balance as of December 31,	140,819	30,937,355	3,918,816	-	34,996,990	140,819	29,015,873	2,383,426	-	31,540,118
Net book value	-	26,707,106	22,406,845	44,282	49,158,233	-	28,628,588	23,942,235	44,282	52,615,105

(b) As of December 31, 2018 and 2017, “extension to concessions” account corresponds to the following extensions:

	US$
Extension N°1	415,439
Extension N°2	1,536,269
Extension N°3	24,373,953
	26,325,661

(c) As of December 31, 2018 and 2017, “Project in progress” account includes extension No. 4 of the concession.

(d) The "Electric transmission system concessions" accounts for the cost of construction of electric transmission system Pachachaca – Oroya – Carhuamayo – Paragsha – Derivación Antamina and Aguaytía – Pucallpa, built between 2001 and 2002.

(e) As of December 31, 2018 and 2017, the Company has not mortgaged the concession rights or the concession assets, in guarantee of its obligations.

(f) As of December 31, 2018 and 2017, the Company’s Management assessed the condition and use of its intangible assets. No impairment indicator was identified.

8. Deferred income tax asset, net

(a) The composition of this caption based on the items that generated it is as follows:

	As of January 1, 2017 US$	Credit/(debit) to the statement of comprehensive income US$	Balance as of December 31, 2017 US$	Credit/(debit) to the statement of comprehensive income US$	Balance as of December 31, 2018 US$
Deferred assets					
Provisions for maintenance and replacements	846,294	(251,938)	594,356	86,428	680,784
Provisions payable - Electrical Services Quality Technical Standard	47,118	(47,118)	-	-	-
Provisions payable	-	-	-	8,132	8,132
Provision for vacations	1,275	141	1,416	(1,058)	358
Other provisions	3,087	3,255	6,342	132	6,474
	897,774	(295,660)	602,114	93,634	695,748
Deferred liabilities					
Effects from differences in the amortization rate of intangibles	(26,361)	(40,248)	(66,609)	16,103	(50,506)
	(26,361)	(40,248)	(66,609)	16,103	(50,506)
Total deferred asset, net	871,413	(335,908)	535,505	109,737	645,242

(b) Income tax expense (benefit) as shown in the statement of comprehensive income, breaks down as follows:

	2017 US$	2018 US$
Current	2,341,737	1,679,956
Deferred	(109,737)	335,908
	2,232,000	2,015,864

(c) Following, the reconciliation of income tax expense using the effective tax rate and the theoretical tax rate for the years 2018 and 2017:

	2018 US$	2017 US$
Profit before income tax	9,660,086	8,068,438
Theoretical income tax (22%), note 13(a)	2,125,219	1,775,056
Other permanent items	106,781	240,808
Income tax expense	2,232,000	2,015,864

9. Trade accounts payable

(a) This item is made up as follows:

	2018 US$	2017 US$
Suppliers	108,458	212,264
Accounts payable not yet invoiced	18,647	49,894
	127,105	262,158

(b) Trade accounts payable correspond primarily to the purchase of goods and services to contribute to the development of the Company's operations. These liabilities are stated in Soles and U.S. dollars, do not accrue interest and are normally settled within 30 days. No specific guarantees have been issued to underwrite these obligations.

10. Provision for maintenance and replacement

(a) This item is made up as follows:

	2018 US$	2017 US$
Opening balance	1,907,412	1,985,729
Disbursements	(256,312)	(814,582)
Provision for the year	443,539	628,830
Present value update, note 16	175,821	107,435
Ending balance	2,270,460	1,907,412
Current portion	505,413	210,168
Non- current portion	1,765,047	1,697,244
	2,270,460	1,907,412

(b) The provision for maintenance and replacement represents the current value of significant maintenance and replacement costs that the Company expects to incur in between 2019 and 2032 on the transmission line systems Pachachaca – Oroya – Carhuamayo – Paragsha – Derivación Antamina and Aguaytia – Pucallpa. The provision for maintenance and replacement mainly corresponds to the outlays required to maintain the transmission lines' infrastructure in accordance with the operational standards specified by the Peruvian Government in the related concession contract. These costs have been estimated by the Transmission Management on the basis of the physical condition and age of the transmission lines.

Budgets for maintenance and replacement used for calculating the corresponding provision are based upon maintenance forecasts and current available information related to operational concessions up to date, over an equivalent period to the remaining years of the Concession Contract. Budgets are regularly reviewed to incorporate any material change to previous projections. However, maintenance costs and replacement outlays are dependent upon market prices, maintenance activity and the price of required equipment, which will reflect future economic conditions. Furthermore, disbursement schedules depend upon the useful life of units to be maintained or replaced.

The main assumptions used for calculating the provision for maintenance and replacements as of December 31, 2018 and 2017 were as follows:

	2018	2017
Operating Budget (nominal value in US$)	7,380,244	8,289,622
Risk free rate	3.550-4.351	1.479 - 3.638
Average probability of budget execution	71%	67%
Projected inflation rate in the United States of America	2.5	2.4

As of December 31, 2018 and 2017, the Company's Management considers that the provision for significant maintenance and replacement is sufficient to fulfill the conditions of quality and efficiency demanded by the Peruvian State.

11. Financial obligations

(a) This item is made up as follows:

	2018 US$	2017 US$
Bank loans		
Banco Internacional del Perú (b)	19,311,758	25,000,000
Banco de Crédito del Perú (c)	4,000,000	4,000,000
Structuring commissions	(216,528)	(224,156)
Total	23,095,230	28,775,844
Current portion	8,808,112	5,688,242
Non- current portion (d)	14,287,118	23,087,602
	23,095,230	28,775,844

In 2018, the financial obligations of the Company accrued interest expenses amounting to US$1,223,554 (US$1,363,563 in 2017), see note 16.

(b) Banco Internacional del Perú -
On October 16, 2015, the Company entered into a loan agreement with the Banco Internacional del Perú - Interbank in which a credit of up to US$25,000,000 is granted to be used in the Extension Project N°3. Such loan expires in September 2022, accruing quarterly interest at an annual effective rate of 5.02 percent. During 2018, the Company has canceled US$5,688,242 plus interest.

The Company has no obligation to maintain financial ratios as part of its contractual obligations.

(c) Banco de Crédito del Perú -
On July 1, 2016, the Company entered into a loan agreement with Banco de Crédito del Peru for US$4,000,000. This loan was used for working capital. The term of the loan is 2.5 years with maturity in January 2019. This loan accrues interests calculated with an annual rate of 2.85 percent, payable quarterly.

The Company has no obligation to maintain financial ratios as part of its contractual obligations.

(d) Payment schedule –
As of December 31, 2018 and 2017, the amortization calendar of the non-current portion of the financial obligations is as follows:

	2018 US$	2017 US$
2019	-	8,808,112
2020	5,049,480	5,049,480
2021	5,302,964	5,302,964
2022 forward	4,151,202	4,151,202
Less: Structuring commissions	(216,528)	(224,156)
	14,287,118	23,087,602

12. Net equity

(a) Issued capital –

As of December 31, 2018 and 2017, share capital is represented by 66,209,111 subscribed and fully paid-in common shares, with a par value of one Sol per share.

As of December 31, 2018 and 2017, the Company's capital structure is as follows:

Percentage of individual stock participation	**Number of shareholders**	**Total participation percentage %**
From 10.01 to 50	1	45.15
From 50.01 to 100	1	54.85
	2	100.00

(b) Share premium –

It comprises the share premium resulting from the exchange rate difference of the contribution of ETECEN (transmission line) amounting to US$31,178 as well as contributions of Transelca S.A. E.S.P. and Interconexión Eléctrica S.A. E.S.P. amounting to US$40,633 and US$6,282 respectively.

(c) Other capital reserves –

Corporation Law in Peru requires that each financial year a minimum of 10 percent of distributable profits, net of income tax, be transferred to a legal reserve until this reaches an equivalent of 20 percent of the Company's capital. The legal reserve may be used to offset losses or may be capitalized, but in either circumstance must be replaced. The Company appropriates and registers the legal reserve when authorized to do so by the shareholders at the Annual General Meeting.

(d) Dividend distribution –

In the General Shareholders' Meeting held on March 13, 2018, a dividend distribution was approved for approximately US$6,079,129; corresponding to 2017 net profit, being canceled during 2018.

In the General Shareholders' Meeting held on March 21, 2017, a dividend distribution was approved for approximately US$6,059,397; corresponding to 2016 net profit, being canceled during 2017.

13. Tax situation

(a) On March 29, 2001, the Company signed with the Peruvian Government a Legal Stability Agreement under the framework of Legislative Decree No.662 and No.757, and Law No.27342. The Agreement effective date is the starting effective date of the Concession Agreement and will be in force during the Concession term. As long as this Agreement is effective, the Peruvian Government is obliged to guarantee the legal stability for the Company in the tax regime relating to Income Tax; accordingly, the tax laws and regulations in force at the Agreement signing date are maintained. According to this agreement, the income tax rate is 20% plus an additional of 2%.

Non - domiciled companies in Peru and individuals must pay an additional tax of 4.1 percent over received dividends.

(a) In July 2018, Law N°. 30823 was published, whereby the Congress delegated to the Executive Branch the power to legislate on various issues, including tax and financial matters. In this sense, the main tax regulations issued are the following:

(i) Beginning January 1, 2019, the treatment applicable to royalties and remuneration for services rendered by non-domiciled persons was modified, eliminating the obligation to pay the amount equivalent to the withholding due to the accounting record of the cost or expense. Now the income tax is withheld at the payment or accreditation of the compensation. In order for said cost or expense to be deductible for the local company, the remuneration must have been paid or credited up to the filing date of the annual tax return for the income tax (Legislative Decree No. 1369).

(ii) The rules that regulate the obligation of legal persons and / or legal entities to inform the identification of their final beneficiaries (Legislative Decree No. 1372) were established. These rules are applicable to legal entities domiciled in the country, in accordance with the provisions of Article 7 of the Income Tax Law, and legal entities established in the country. The obligation covers non-domiciled legal entities and legal entities established abroad, as long as: a) they have a branch, agency or other permanent establishment in the country; b) the natural or juridical person who manages the autonomous patrimony or the investment funds from abroad, or the natural or juridical person who has the status of protector or administrator, is domiciled in the country; c) any of the parts of a consortium is domiciled in the country. This obligation will be fulfilled through the presentation to the Tax Authority of an informative Sworn Statement, which must contain the information of the final beneficiary and be presented, in accordance with the regulations and within the periods established by SUNAT Superintendency Resolution.

(iii) The Tax Code was modified in the application of the general anti-avoidance rule (Rule XVI of the Preliminary Title of the Tax Code - Legislative Decree N°. 1422).
As part of this modification, a new assumption of joint and several liability is envisaged, when the tax debtor is subject to the application of the measures provided by Rule XVI in the event that tax evasion cases are detected; in such case, the joint and several liability shall be attributed to the legal representatives provided that they have collaborated with the design or approval or execution of acts or situations or economic relations foreseen as elusive in Rule XVI. In the case of companies that have a Board of Directors, it is up to this corporate body to define the tax strategy of the entity, having to decide on the approval or not of acts, situations or economic relations to be carried out within the framework of tax planning, this power being non-delegable. The acts, situations and economic relations carried out within the framework of fiscal planning and implemented on the date of entry into force of Legislative Decree No. 1422 (September 14, 2018) and which continue to have effect, must be evaluated by the Board of Directors of the legal entity for the purpose of ratification or modification until March 29, 2019, without prejudice to the fact that the management or other administrators of the company have approved the aforementioned acts, situations and economic relations.

Likewise, it has been established that the application of Rule XVI, as regards the re-characterization of tax evasion cases, will take place in the final inspection procedures in which acts, events or situations produced since July 19, 2012 are reviewed.

(c) Management considers that it has determined the taxable income under the general regime of income tax in force in 2001, which requires adding and deducting to the result shown in the financial statements, those items that the aforementioned legislation recognizes as taxable and not taxable, respectively.

(d) In accordance with the provisions of Article 87 of the Tax Code and after having complied with the provisions of Supreme Decree No.151-2002-EF, the Company maintains its accounting records in US dollars.

(e) For the purpose of determining the income tax, the transfer prices of transactions with related companies and with companies resident in territories with low or no taxation, must be supported by documentation and information on the valuation methods used and the criteria considered for its determination. Based on the analysis of the Company's operations, Management and its legal advisors believe that, as a consequence of the application of these standards, no significant contingencies will arise for the Company as of December 31, 2018 and 2017.

(f) Tax authorities have the power to review and, if applicable, correct the income tax and the value added tax calculated by the Company in the four years after the year of filing the tax return. Income tax returns from 2015 to 2018 and value added tax returns from December 2014 to December 2018 are pending review by the tax authorities.

Due to the possible interpretations that the tax authorities can give to the legal norms in force, to date it is not possible to determine if the revisions made will be result inabilities or not for the Company, so that any higher tax or surcharge that could result of the fiscal reviews, would be applied to the results of the fiscal year in which they are determined. However, in the case of the Administration and its legal advisors, any eventual additional settlement of the tax would not be significant for the financial statements as of December 31, 2018 and 2017.

14. Cost of electric power transmission services

This item is made up as follows:

	2018 US$	2017 US$
Amortization, note 7(a)	3,456,872	3,457,679
Operation and maintenance services	1,019,595	1,032,724
Management services, note 17(b)	305,194	327,176
Insurance	165,971	177,313
Depreciation	2,652	2,652
Other	320,376	191,573
	5,270,660	5,189,117

15. Administrative expenses

This item is made up as follows:

	2018 US$	2017 (Restated) Note 3.2 US$
Various charges	182,187	176,472
Consulting and advisory fees	47,115	122,681
Doubtful accounts	44,883	26,555
Personnel expenses	34,371	38,513
Taxes	2,061	1,626
	310,617	365,847

16. Financial expenses

This item is made up as follows:

	2018 US$	2017 US$
Loan interests, note 11(a)	1,223,554	1,363,563
Present value update of the provision for maintenance and replacements, note 10(a)	175,821	107,435
Other financial expenses	7,868	86,949
	1,407,243	1,557,947

17. Transactions with related companies

(a) Nature of relation

As of December 31, 2018 and 2017, the Company realizes transactions mainly with the following related entities:

- Red de Energía del Perú S.A. (REP), is dedicated to the transmission of electricity, provision of operation and maintenance, technical services and specialized services.

- Proyectos de Infraestructura del Perú S.A. (PDI), is dedicated to the constructions of the transmission lines to the Group companies in Peru.

- Internexa Perú S.A., is dedicated to providing telecommunications services.

(b) The main transactions with the related parties for the years 2018 and 2017 are presented below:

	2018 US$	2017 US$
Expenses		
Acquisition of operating and maintenance services (e)	790,012	780,693
Acquisition of management services (e), note 14	305,194	327,176

(c) As a consequence of these and other minor transactions, as of December 31, 2018 and 2017, the Company had the following accounts receivable and payable with its related parties:

	2018 US$	2017 US$
Accounts receivable -		
Trade		
Red de Energía del Perú S.A.	64,810	106,719
Internexa Perú S.A.	10,505	5,252
IntercolombiaS.A. E.S.P.	2,599	5,046
Proyectos de Infraestructura del Perú S.A.C. (e)	-	428
	77,914	117,445

Accounts receivable and payable with related parties have current maturities and do not have specific guarantees.

(d) Transactions with related parties were made under normal market conditions. Taxes arising from these transactions together with the base for its calculation are usual in the industry and are liquidated in accordance with the tax regulation in force.

(e) The Company subscribed contracts with Proyectos de Infraestructura del Perú S.A.C. (PDI), a related party, with the purpose of constructing transmission lines. These contracts provided for the supply of services conceived to manage, administer and supervise construction, as well as to put into service and operate the extension of transmission lines described in the accompanying detail. Such contracts provide for a construction timeframe that vary between 24 and 38 months.

(f) Company disbursements in favor of its related party and third parties relating to the construction of electrical energy transmission lines were as follows:

	2018 US$	2017 US$
Disbursements in favor of third parties	-	32,046
	-	32,046

In accordance with the requirements of IFRIC 12 Service Concession Arrangements, the Company recognizes these incurred costs in the statement of comprehensive income as part of the cost of the construction service. According to this interpretation, the Company renders a construction service in favor of the Peruvian Government. Furthermore, the interpretation establishes that earnings equating to a fair value placed on the construction service should be recognized. In the Company's particular case, this revenue, recorded in the statement of comprehensive income, corresponds to the same value as costs incurred, inasmuch as the Company generates no profit margin for rendering these services since they are provided, administered and/or supervised by their related party Proyectos de Infraestructura del Perú S.A. and Red de Energía del Perú S.A.

(g) Board and Management remuneration –
The expenses for profit-sharing, compensation and other concepts for members of the Board of Directors and the Company's executives amounted to US$27,266 during 2018 (US$30,392 in 2017). The Company provides Management with no post-employment or post-contract benefits and no equity participation scheme exists. As of December 31, 2018 and 2017, the Company has 1 executive.

18. Objectives and financial risk management policies

By the nature of its activities, the Company is exposed to market, credit and liquidity risks. These are managed through a policy of identification, assessment and continuous monitoring and are subject to risk limits and other controls. The process of financial risk management is of importance to the Company's continuing profitability.

The independent risk control process does not contemplate business risks such as climate or environmental change or developments in technology or to industry. These are monitored through the Company's strategic planning program.

(a) Risk management structure –
Risk management structure is the responsibility of the Company's Board and Management, who are entrusted to identify and control risks in coordination with other areas of the Company, as explained below:

(i) Board of Directors –
The Board is responsible for guiding the general focus of risk management, and indicates the principles to be employed for this purpose, as well as the policies to be adopted in specific areas. These may include exchange rate risks, interest rate risks, credit risks and liquidity risks.

(ii) Treasury and finance –
The treasury and finance area is responsible for the Company's daily cash flow administration whilst bearing in mind the policies, procedures and limits imposed by the Board. The area is also responsible for arranging credit lines with financial entities when deemed necessary.

(b) Risk mitigation –
As part of their ongoing risk management policy, the Company constantly evaluates different scenarios and identifies different strategies designed to alleviate eventual exposures to changes to interest rates, foreign exchange rates as well as risks to capital and credit risks.

The Board reviews and imposes the policies for managing each of the risks, which are detailed in the following paragraphs:

Market risk
Market risk is defined as a risk whereby a fair value, or a financial instrument's future cash flow, fluctuates as a result of changes to market prices. In the Company's case, market prices include two types of risk: interest rate risk and currency exchange rate risk. Financial instruments exposed to market risk include time deposits, loans and financial obligations.

The sensitivity analyses displayed in the paragraphs below are based upon the situation as of December 31, 2018 and 2017. These analyses are prepared based on the assumption that the net amount of debt, the coefficient of a fixed interest rate applied to the debt's variable interest rates, and the proportion of foreign currency financial instruments all remain constant.

These analyses do not include the impact of a variation of tax or labor legislation on the Company's records.

(a) Interest rate risk –
Interest rate risk is defined as a risk whereby a fair value, or a financial instrument's future cash flow, fluctuates as a result of changes to interest rates in the market. The Company's exposure to market interest rate risk relates principally to time deposits and to long term financial obligations with variable interest rates. As of December 31, 2017 the Company has no obligations with variable interest rates

The Company manages its interest rate risk by obtaining loans at fixed interest rates (100 percent of the total debt), see note 11(a).

(b) Exchange rate risk –

Exchange rate risk is defined as a risk whereby a fair value, or a financial instrument's future cash flow, fluctuates as a result of changes to exchange rates. The Company's exposure to exchange rate risk mainly relates to its operational activities (when earnings and expenses are incurred in other currency than the functional currency used by the Company).

Foreign currency transactions are carried out at free market exchange rates as published by the Superintendence of Banking, Insurance and Private Pension Fund Administrators. As of December 31, 2018, weighted average free market exchange rates for transactions in soles were US$0.297 for buy and sale (US$0.309 for buy and sale as of December 31, 2017).

As of December 31, 2018 and 2017, the Company held the following assets and liabilities in Soles:

	2018 S/	2017 S/
Assets		
Cash and cash equivalents	2,839,195	2,517,323
Trade accounts receivable	7,177,612	5,421,010
	10,016,807	7,938,333
Liabilities		
Trade accounts payable	60,299	103,117
Other accounts payable	769,437	647,818
	829,736	750,935
Net asset position	9,187,071	7,187,398

As of December 31, 2018 and 2017, the Company has no transactions with derivatives to hedge its currency risk. The result of maintain balances in foreign currency to the Company in 2018 was a net loss of approximately US$50,248 (net gain of US$61,383 in 2017), which are presented in the caption "Exchange difference, net" of the statement of comprehensive income.

Sensitivity to exchange rate -

The following table shows the sensitivity to a reasonably possible change in the exchange rate of the U.S. dollar, given that all other variables will remain constant, on the profit before income tax of the Company (due to changes in fair value of monetary assets and liabilities).

	Percentage increase/decrease	**Effect on profit before income tax** US$
2018	+10%	67,238
2018	-10%	(67,238)
2017	+10%	221,799
2017	-10%	(221,799)

Credit risk

Credit risk is the risk that the counterpart cannot fulfill its obligations with regard to a financial instrument or a sales contract, thus generating a financial loss. The Company is exposed to credit risks due to the nature of its operational activities (primarily through accounts receivable and loans) and its financial activities that include deposits in banks and financial institutions.

The Company considers trade accounts receivable to be a low credit risk as far as its main customers are concerned inasmuch as the risk is reduced due to the fact that the sums invoiced to each transmission service end user – and the collection dates – are regulated by OSINERGMIN and through procedures set out by the National Grid Operations Committee (Peruvian acronym: COES).

In 2018, the three most important customers represented 26 and 18 percent of total sales (22 and 16 percent of total sales in 2017). As of December 31, 2018, 48 percent of accounts receivable were attributable to these clients (42 percent as of December 31, 2017. The Company's electrical energy transmission services connect the generating companies to the Peruvian national grid (SEIN).

The assessment for doubtful accounts at the date of the financial statements and individually for each client is updated.

Liquidity risk

The Company constantly monitors the risk of a deficit of funds with recurrent short-term and long-term cash flow projections.

The Company objective is to balance between continuity of funding and flexibility through the use of loans.

The following table summarizes the maturity profile of financial liabilities of the Company's on the basis of undiscounted payments under the respective contracts:

	Overdue US$	Under 3 months US$	From 3 to 12 months US$	From 1 to 5 years US$	Over 5 years US$	Total US$
As of December 31, 2018						
Financial obligations						
Principal	-	5,180,041	3,628,072	14,287,117	-	23,095,230
Future interest	-	267,073	625,837	1,094,022	-	1,986,932
Trade accounts payable	-	127,105	-	-	-	127,105
Accounts payable to related parties	-	77,914	-	-	-	77,914
Other accounts payable	-	173,038	-	-	-	173,038
Total	-	5,825,171	4,253,909	15,381,139	-	25,460,219
As of December 31, 2017						
Financial obligations						
Principal	-	1,109,959	4,578,283	19,160,556	3,927,046	28,775,844
Future interest	-	336,840	1,207,656	1,884,225	102,707	3,531,428
Trade accounts payable	-	262,158	-	-	-	262,158
Accounts payable to related parties	-	117,445	-	-	-	117,445
Other accounts payable	-	399,121	-	-	-	399,121
Total	-	2,225,523	5,785,939	21,044,781	4,029,753	33,085,996

Capital risk management –

The Company capital management policy's principal objective is to ensure that the Company maintains a solid credit rating and healthy capital ratios, with a view to grow the business and maximize its value to the stockholder.

The Company manages its capital to ensure that the entity to continue as a going concern while maximizing the return it to shareholders through the optimization of debt and equity balances.

The capital structure of the Company consists of net debt (loans less cash and cash equivalents), and shareholders´ equity.

Gearing ratios as of December 31, 2018 and 2017 are set out below:

	2018 US$	2017 US$
Total financial obligations	23,095,230	28,775,844
Trade and other accounts payable and accounts payable to related parties	957,354	969,544
(-) cash and cash equivalents	(6,241,028)	(7,632,471)
Net debt(a)	17,811,556	22,112,917
Equity and reserves	33,470,130	32,121,274
Equity and net debt (b)	51,281,686	54,234,191
Gearing ratio (a / b)	34.73%	40.77%

Changes in liabilities from financing activities (note 4 (i)) -

Following, changes in liabilities from financing activities for the years ended December 31, 2018 and 2017 are set out below:

	Balance as of 01.01.2018	Cash Flow Loans	Cash Flow Amortization	Other	Balance as of 12.31.2018
	US$	US$	US$	US$	US$
Financial Liabilities:					
Bank loans	28,775,844	-	(5,688,242)	7,628	23,095,230

	Balance as of 01.01.2017	Cash Flow Loans	Cash Flow Amortization	Other	Balance as of 12.31.2017
	US$	US$	US$	US$	US$
Financial Liabilities:					
Bank loans	28,696,925	-	-	78,919	28,775,844

The column "Other" includes the accrual of the structuring commissions, which does not generate cash flow.

19. Information concerning fair values of financial instruments

Fair value is defined as the unbiased market price of an asset (or liability) that may be sold or exchanged in a transaction between knowledgeable and willing parties, providing the transaction is not a liquidation sale.

When a financial instrument is traded in a functioning active market, its standard market price is the best evidence of fair value. When the market price does not exist, or when this is not an adequate indicator of the instrument's worth, another substantially similar instrument may be employed to assess fair value. An analysis of discounted cash flows and other techniques are also available, but these are significantly affected by assumptions or the relevant adopted hypotheses. Despite the fact that Management has used its best judgment with a view to estimating fair values of the Company's financial instruments, any technique for such a process is inherently fragile. Consequently, fair value is not necessarily a true indicator of net market prices if the Company's financial instruments were to be liquidated.

The following methods and assumptions were adopted to assess fair values:

(a) Financial instruments with fair values similar to values on the books –
These are financial assets or liabilities that are cleared or mature in the short term (within three months), such as cash and cash equivalents, accounts receivable, accounts payable and other current liabilities. Fair value of these instruments is considered similar to book value.

(b) Fixed rate financial instruments –
Fair values of fixed rate financial assets and liabilities at amortized cost are determined by comparing market interest rates at the time of their initial uptake with current rates applicable to similar instruments. The estimated fair values of interest-bearing deposits are determined through discounted cash flows that are prepared using market interest rates in the prevalent currency and considering products with similar maturity dates and inherent risks. Fair values of long-term financial commitments are approximately the same as their book values, insofar as interest rates are similar to those currently in force in the market.

The following chart compares the Company's financial instruments book values with their fair values, as detailed in the financial statements:

	Book value		Fair value	
	2018 US$	2017 US$	2018 US$	2017 US$
Financial assets				
Cash and cash equivalents	6,241,028	7,632,471	6,241,028	7,632,471
Trade accounts receivable	2,119,578	1,716,214	2,119,578	1,716,214
Other accounts receivable	94,047	26,759	94,047	26,759
Total	8,454,653	9,375,444	8,454,653	9,375,444
Financial liabilities				
Trade accounts payable	127,105	262,158	127,105	262,158
Accounts payable to related parties	77,914	117,445	77,914	117,445
Other accounts payable	51,447	399,121	51,447	399,121
Financial obligations				
Fixed interest rate loans	23,311,758	29,000,000	23,095,230	29,000,000
Structuring commissions	(216,528)	(224,157)	(216,528)	(224,157)
Total	23,351,696	29,554,567	23,135,168	29,554,567

Fair values of financial assets and liabilities are shown at prices which could be obtained in current transactions between willing parties, and not at a forced or liquidation sale. The following methods and assumptions are employed when estimating fair values:

- Cash and short-term deposits, together with trade and other accounts receivable, are to a greater degree the same as their book values insofar as these instruments mature in the short term.

- The estimated fair values of interest-bearing financial obligations are determined through discounted cash flows that are prepared using prevailing market interest rates for like products with similar maturity dates and inherent risks.

20. Standards for protecting the environment and technical standards

(a) Standards for protecting the environment –

In accordance with the General Environment Law (Law N°28611) and the Electrical Activities Environmental Protection Regulation (Supreme Decree N°29-94-EM) the Government establishes principals, policies and standards designed to protect the environment, to promote the rational use of natural resources, and to encourage sustainable development of activities relating to the generation, transmission and distribution of electrical energy.

As of December 31, 2018 and 2017, the Company's Management considers that any contingency relating to the environment would have a negligible effect upon the financial statements in general.

(b) Technical standards -

Technical Standard for Electrical Services Quality -

Supreme Decree N°020-97-EM endorses the Technical Standard for Electrical Services Quality (Peruvian acronym: NTCSE) which establishes minimum levels for the quality of services rendered to regulated customers and, in supplementary fashion, for independent clients. The standard applies to street lighting and to obligations undertaken by companies pertaining to the electricity sector as well as to firms that operate within the framework of the Electrical Concession Law.

The NTCSE contemplates measurement procedures and tolerances which encompass quality standards that are applicable to electricity services and to street lighting. OSINERGMIN is the entity responsible for overseeing and monitoring the above-mentioned standard with reference to both electrical companies and their customers. OSINERGMIN is also empowered to regulate the application of sanctions and compensatory fines when an entity does not fulfill its obligations within the parameters established by the NTCSE. Law N°28832 awards COES - SINAC power to assign responsibility when the NTCSE standard is transgressed and to calculate the corresponding compensatory penalties.

Company's Management considers that if any contingency relating to an incident of non-compliance of the parameters set out by the NTCSE were to arise due to damaged equipment, the event would be covered by the Company´s insurance policies.

21. Subsequent events

Between January 1, 2019 and the date of issuance of the financial statements (February 12, 2019), no significant financial or accounting subsequent events have occurred that may affect the interpretation of these financial statements.

22. Explanation added for English language translation

The accompanying financial statements are presented on the basis of International Financial Reporting Standards. Certain accounting practices applied by the Company that conform with International Financial Reporting Standards, may differ, in certain respects, from generally accepted accounting principles in other countries. In case of discrepancy, the Spanish version prevails.

EY I Assurance I Tax I Transactions I Advisory

About EY

EY is the global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies over the world. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

For more information, please visit ey.com/pe