

**STICHTING INTERKERKELIJKE AKTIE VOOR
LATIJNS AMERIKA - SOLIDARIDAD**

Lima – Peru

FINANCIAL STATEMENTS

2 0 1 8

STICHTING INTERKERKELIJKE AKTIE VOOR LATIJNS AMERIKA - SOLIDARIDAD

Lima - Peru

REPORT ON THE REVIEW OF FINANCIAL STATEMENTS

for the years ended on

December 31, 2018 and 2017

REPORT OF THE INDEPENDENT AUDITORS

To the Directorate

**STICHTING INTERKERKELIJKE AKTIE VOOR LATIJNS AMERIKA -
SOLIDARIDAD**

We have audited the accompanying financial statements of **STICHTING INTERKERKELIJKE AKTIE VOOR LATIJNS AMERIKA - SOLIDARIDAD**, which comprise the statements of financial position as of December 31, 2018 and 2017, and the statements of income and expenses, of changes in equity, and of cash flows for the years ending on those dates, as well as the summary of significant accounting policies and other explanatory notes

Management's Responsibility for Financial Statements

The Direction of the Organization is responsible for the preparation and fair presentation of these financial statements in accordance with Generally Accepted Accounting Principles. This responsibility includes: designing, implementing and maintaining the relevant internal control in the preparation and fair presentation of financial statements so that they are free of material misstatement, whether as a result of fraud or error; select and apply the appropriate accounting policies; and make reasonable accounting estimates according to the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Our audit was conducted in accordance with International Auditing Standards approved for its application in Peru, by the Board of Deans of Public Accountants of Peru. Such standards require that we comply with ethical requirements and that we plan and perform the audit in order to obtain reasonable assurance that the financial statements do not contain material misstatements.

An audit involves the execution of procedures to obtain evidence about the balances and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, which includes assessing the risk that the financial statements contain material misstatements either as a result of fraud or error. In conducting this risk assessment, the auditor takes into consideration the relevant internal control of the company in the preparation and fair presentation of financial statements in order to design audit procedures in accordance with the circumstances, but not for the purpose of expressing an opinion about the effectiveness of the company's internal control. An audit also includes evaluating whether the accounting principles applied are appropriate and whether the accounting estimates made by management are reasonable, as well as an evaluation of the overall presentation of the financial statements.

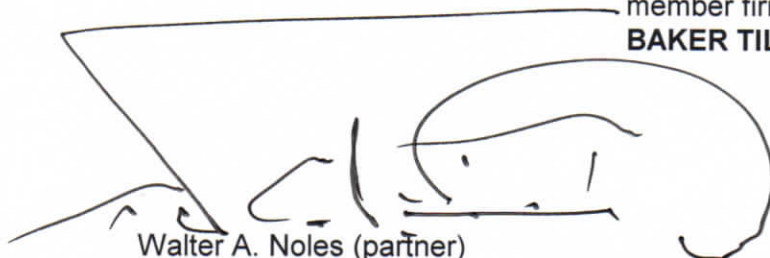
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying financial statements present reasonably in all material respects, the financial position of **STICHTING INTERKERKELIJKE AKTIE VOOR LATIJNS AMERIKA - SOLIDARIDAD**, as of December 31, 2018 and 2017, the results of its operations, and its cash flows from the years then ended, in accordance with Generally Accepted Accounting Principles.

Lima, Peru
March 15, 2019

NOLES MONTEBLANCO & ASOCIADOS
member firm of
BAKER TILLY INTERNATIONAL



Walter A. Noles (partner)
Certified Public Accountant
Registration N° 7208

STICHTING INTERKERKELIJKE AKTIE VOOR LATIJNS AMERIKA - SOLIDARIDAD

STATEMENT OF FINANCIAL POSITION AS OF DECEMBER 31, 2018 AND 2017

(In Soles)

| <u>ASSETS</u> | | <u>LIABILITIES AND EQUITY</u> | | |
|--|------------------|-------------------------------|---|------------------|
| | <u>2 0 1 8</u> | <u>2 0 1 7</u> | <u>2 0 1 8</u> | <u>2 0 1 7</u> |
| Current Assets: | | | Current liabilities: | |
| Cash and cash equivalents (Note 4) | 554 976 | 891 584 | Trade accounts payable (Note 9) | 5 585 |
| Trade accounts receivable | -.- | 21 283 | Accounts to be executed from projects (Note 10) | 2 704 637 |
| Accounts receivable to related (Note 5) | 51 754 | -.- | Other accounts payable (Note 11) | 1 163 723 |
| Accounts receivable from projects (Note 6) | 2 268 041 | 1 838 448 | | |
| Miscellaneous accounts receivable (Note 7) | 136 346 | 143 911 | | |
| | | | | |
| Total current assets | 3 011 117 | 2 895 226 | Total liabilities | 3 873 945 |
| | | | | |
| Non current assets: | | | Institutional Equity (Note 12) | |
| Accounts receivable to related (Note 5) | -.- | 88 940 | Accumulated results | 17 220 |
| Miscellaneous accounts receivable (Note 7) | 675 821 | 729 205 | | 115 519 |
| Installations, furniture and equipment, net (Note 8) | 204 227 | 206 822 | | |
| | | | | |
| Total non-current assets | 880 048 | 1 024 967 | Total equity | 17 220 |
| | | | | |
| TOTAL ASSETS | 3 891 165 | 3 920 193 | TOTAL LIABILITIES AND EQUITY | 3 891 165 |
| | | | | |

The accompanying notes are an integral part of the financial statements.

STICHTING INTERKERKELIJKE AKTIE VOOR LATIJNS AMERIKA - SOLIDARIDAD

STATEMENTS OF INCOME AND EXPENSES

FOR THE YEARS ENDED AS OF DECEMBER 31, 2018 AND 2017

(In Soles)

| | <u>2 0 1 8</u> | <u>2 0 1 7</u> |
|--|--------------------------|----------------------|
| INCOME | | |
| Income from project management (Note 13) | 6 464 503 | 8 211 308 |
| Other institutional income (Note 14) | 742 151 | 544 180 |
| Miscellaneous income (Note 15) | -.- | 328 |
| | <u>7 206 654</u> | <u>8 755 816</u> |
| EXPENSES | | |
| Personnel expenses (Note 16) | (1 598 279) | (1 694 080) |
| Services provided by third parties (Note 17) | (2 229 354) | (1 746 979) |
| Taxes | (3 731) | (1 123) |
| Miscellaneous management charges (Note 18) | (3 326 420) | (4 717 571) |
| Provisions | (63 854) | (594 112) |
| | <u>(7 221 638)</u> | <u>(8 753 865)</u> |
| Financial income | -.- | 39 |
| Difference in change, net | (128 626) | 78 471 |
| SURPLUS (DEFICIT) FOR THE YEAR | <u><u>(143 610)</u></u> | <u><u>80 461</u></u> |

**STICHTING INTERKERKELIJKE AKTIE
VOOR LATIJNS AMERIKA - SOLIDARIDAD**

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED AS OF DECEMBER 31, 2018 AND 2017

(In Soles)

| | <u>RETAINED EARNINGS</u> | <u>TOTAL EQUITY</u> |
|--|-------------------------------------|--------------------------------|
| Balance as of December 31, 2016 | 36 585 | 36 585 |
| Adjustment depreciation | (1 527) | (1 527) |
| Surplus for the year 2017 | 80 461 | 80 461 |
| | <hr/> | <hr/> |
| Balance as of December 31, 2017 | 115 519 | 115 519 |
| Adjustment depreciation | 45 311 | 45 311 |
| Deficit of the year 2018 | (143 610) | (143 610) |
| | <hr/> | <hr/> |
| Balance as of December 31, 2018 | 17 220 | 17 220 |
| | <hr/> <hr/> | <hr/> <hr/> |

The accompanying notes are an integral part of the financial statements.

**STICHTING INTERKERKELIJKE AKTIE
VOOR LATIJNS AMERIKA - SOLIDARIDAD**

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED AS OF DECEMBER 31, 2018 AND 2017

(In Soles)

| | <u>2 0 1 8</u> | <u>2 0 1 7</u> |
|--|--------------------------|--------------------------|
| OPERATING ACTIVITIES | | |
| Income from project execution | 7 183 608 | 8 733 305 |
| Other charges | 307 181 | 14 580 |
| Donations to entities | (2 363 754) | (4 481 875) |
| Goods and service suppliers | (2 517 180) | (1 983 592) |
| Remuneration and social benefits | (1 646 129) | (1 724 519) |
| Other payments | (1 427 178) | (1 112 541) |
| Cash and cash equivalents used in operating activities | <u>(463 452)</u> | <u>(554 642)</u> |
| INVESTMENT ACTIVITIES | | |
| Purchase of fixed assets | (17 289) | (127 432) |
| Loan to Oro Blanco | 89 461 | -.- |
| Loan to Textil Incaholland S.A.C./Franky Ricky S.A. | 54 672 | (189 662) |
| Cash and cash equivalents from (used in) of investment activities | <u>126 844</u> | <u>(317 094)</u> |
| Net decrease in cash | <u>(336 608)</u> | <u>(871 736)</u> |
| Cash balance at the beginning of the year | 891 584 | 1 763 320 |
| Cash balance at the end of the year | <u>554 976</u> | <u>891 584</u> |

| | <u>2 0 1 8</u> | <u>2 0 1 7</u> |
|--|--------------------------|--------------------------|
| RECONCILIATION OF SURPLUS (DEFICIT) WITH CASH AND CASH EQUIVALENTS USED IN OPERATING ACTIVITIES | | |
| Surplus (Deficit) of the year | (143 610) | 80 461 |
| Net Income Adjustment according to the Statement of Financial Position: | | |
| Depreciation for the year | 63 853 | 55 901 |
| Fixed asset down | 4 119 | 13 078 |
| Social benefits | 110 598 | -.- |
| Debits and credits for net changes in the active and liabilities: | | |
| Accounts receivable from projects | 307 181 | (252 841) |
| Other accounts receivable | -.- | 531 438 |
| Prepaid expenses | (5 398) | 9 935 |
| Trade accounts payable | 1 306 | (5 860) |
| Other accounts payable | (158 448) | 344 823 |
| Projects to be executed | (643 053) | (1 331 577) |
| Cash and cash equivalents used in operating activities | <u><u>(463 452)</u></u> | <u><u>(554 642)</u></u> |

The accompanying notes are an integral part of the financial statements.

STICHTING INTERKERKELIJKE AKTIE VOOR LATIJNS AMERIKA - SOLIDARIDAD

NOTES TO THE FINANCIAL STATEMENTS

(In Soles)

1. ECONOMIC ACTIVITY OF THE ORGANIZATION

STICHTING INTERKERKELIJKE AKTIE VOOR LATIJNS AMERIKA - SOLIDARIDAD, is a Civil Organization that is not for profit, it is part of the Solidarity Network entity established in the Netherlands for international cooperation with global experience in facilitating responsible social and environmental development, through the sustainable development of twelve (12) supply chains of products, operating through a network of nine (9) regional centers in five (5) continents.

It was incorporated by means of a public deed dated November 17, 2003, as recorded in item N° 11613699 of the Registry of Foreign Legal Persons of the Oficina de Registros Publicos de Lima, the duration of the Organization being indefinite. Its fiscal domicile and administrative office is located at Roosevelt Ave. N° 5866, district of Miraflores, Lima - Peru.

SOLIDARIDAD PERU is part of the REC (Regional Expertise Center) Solidaridad South America (REC SAM), currently working seven development programs (coffee, cocoa, gold, palm oil, fruit, agriculture, and sugarcane) in Peru, Colombia, Bolivia and Ecuador, has the following objectives:

- a) Provide support to producer organizations, civil society organizations and companies that seek to grow and fight in an innovative way against poverty and damage to the environment.
- b) Strengthen producer organizations and civil society organizations that work towards the sustainable development of their economies.
- c) Involve companies and investors in the development of sustainable commercial chains that have an added value for producers, resorting to fair trade and corporate social responsibility.

SOLIDARIDAD according to its constitution, aims to support the efforts of churches, groups and people in Latin America to ensure that the inhabitants of this region can shape themselves and their life and society, for which it can, among others things, disseminate information about Latin America, collecting from the Netherlands, providing financial support for activities that are considered to contribute to the achievement of this objective.

APPROVAL OF THE FINANCIAL STATEMENTS

The accompanying financial statements for the year 2018 have been approved by the Direction of SOLIDARIDAD and will be sent to its offices in the Netherlands. The financial statements for the year 2017 were forwarded to their offices in the Netherlands on March 26, 2018.

2. PRINCIPLES AND/OR ACCOUNTING PRACTICES

The accounting policies are the principles, bases, agreements, rules and specific procedures adopted by the Direction in the preparation and presentation of its financial statements. A change in an accounting estimate is an adjustment in the carrying amount of an asset or a liability, or for consumption of an asset, which occurs after the evaluation of the current situation of the item, as well as of the expected future benefits and obligations associated with the corresponding assets and liabilities. Changes in accounting estimates are the result of new information or new events and, as a result, are not bug fixes.

The Direction recognizes in its financial statements the events that occurred after the date of the statement of financial position that imply adjustments, in order to reflect its impact.

The main accounting policies applied in the preparation of the financial statements are detailed below. These policies have been applied uniformly in the formulation of these financial statements, which have been prepared from the accounting records of the Organization, following the accounting criteria of historical cost.

a. Bases of presentation

Applicable regulations

The financial statements are prepared in accordance with the legal provisions on the matter and with accounting principles in Peru. The generally accepted accounting principles in Peru include, substantially, International Financial Reporting Standards (IFRS), formalized through Resolutions of the Accounting Standards Board (ISB).

The International Financial Reporting Standards (IFRS) are the Standards and Interpretations adopted by the International Accounting Standards Board (IASB). Those Standards include: (a) the International Financial Reporting Standards; (b) International Accounting Standards; and (c) the Interpretations, whether those originated by the Interpretations Committee of the International Financial Reporting Standards (IFRIC) or the old Interpretations (SIC).

Entity in march

When preparing the financial statements, the Direction of the Organization evaluates the ability of the Organization to continue operating. The financial statements have been prepared under the going entity hypothesis.

Accounting basis of accumulation (or accrual)

Except in relation to information on cash flows, the Direction of the Organization draws up the financial statements applying the accrual basis, recognizing as assets, liabilities, net worth, income and expenses the elements that satisfy the definitions and the recognition criteria provided in the Conceptual Framework for such elements.

Uniformity in the presentation

The Direction of the Organization considers that the presentation and classification applied in the financial statements are kept from one period to another.

Materiality or relative importance and grouping of data

Each class of similar items, which are of sufficient relative importance, are presented separately in the financial statements. Items of a different nature or function are presented separately, unless they are not material.

Compensation

In the formulation of the financial statements, the Direction of the Organization does not compensate the assets with liabilities, nor income with expenditures, except when compensation is required or permitted by any Standard or Interpretation, in which case this situation is revealed in notes to financial statements.

b. Application of accounting estimates

The preparation process of the financial statements requires the Direction of the Organization to carry out estimations for the determination of the balances of the assets and liabilities, the amount of the contingencies and the recognition of the income and expenses. These estimates should be based on the best judgment of the Direction of the Organization at the date of the financial statements, and will vary as a result of the modifications in the premises on which they were based. The balances of the financial statements are corrected on the date of the change in the estimates. The main estimates related to the financial statements refer to the depreciation of facilities, furniture and equipment, and compensation for time of services.

c. Transactions in foreign currency

The Direction of the Organization considers that its functional and presentation currency is the Sol, because it is the currency of the main economic environment in which the entity operates.

Transactions in foreign currency are initially recorded in their currency of origin applying the exchange rates in effect on the dates of the transactions to be shown in soles. Monetary assets and liabilities denominated in foreign currency are subsequently adjusted to the functional currency using the closing exchange rate in force on the date of the statement of financial position, established by the Superintendencia de Banca y Seguros. Gains or losses on exchange difference resulting from the settlement of such transactions and the transfer of monetary assets and liabilities in foreign currency at the exchange rates of the date of the statement of financial position, are recognized in the statement of income and expenses.

Non-monetary assets and liabilities denominated in foreign currency, established at historical cost, are transferred to Soles at the exchange rate prevailing at the date of the transaction.

d. Cash and cash equivalents

Cash comprises both the fixed fund and current and savings accounts.

The cash exposed in the statement of cash flows is made up of the balance of cash and cash equivalents of the Statement of Financial Position.

e. Accounts receivable

Accounts receivable are recorded at their net nominal value of the corresponding impairment estimate.

The estimate for impairment of accounts receivable is determined based on when there is evidence that Solidaridad will not be able to collect the amounts due in accordance with their original conditions. The amount of the estimate is recognized in the financial statements. Accounts are punished when they are identified as such.

f. Project assets and liabilities accounts

These items record the funds receivable and payable to the institutions from which the financing for the execution of projects is received, said accounts receivable and payable are related to the funds pending reimbursement by the financing sources, and funds pending execution and surrender by SOLIDARIDAD, respectively.

g. Installations, furniture and equipment

Furniture and miscellaneous equipment are presented at acquisition cost, net of accumulated depreciation, the acquisition cost includes the disbursements that are directly attributable to the acquisition of the assets. Maintenance and repair costs are charged to results, any renewal and significant improvement is capitalized only when it is probable that future economic benefits will be produced that exceed the standard performance originally evaluated for the asset.

The corresponding depreciation is calculated based on the straight line method, at legally permitted rates considered appropriate, to extinguish said cost at the end of the estimated useful life of the respective assets.

The depreciation method used reflects the pattern according to which the future economic benefits of the asset are expected to be consumed by the Organization.

When assets are sold or withdrawn, their cost and depreciation is eliminated and any profit or loss resulting from their disposal is included in the statement of income and expenses.

h. Compensation for time of service

In accordance with current legal provisions, the compensation for time of services is calculated for each worker based on the time worked in the Organization based on the remuneration received.

The compensation for service time is included in the Other Accounts Payable item, which is recorded with a charge to results to the extent that the obligation accrues, calculated in accordance with current labor legislation. The amount of the recorded liability is the amount that would have to be paid to the workers, assuming that the labor relationship will culminate at the date of these financial statements.

i. Provisions

A provision is recognized only when the Organization has a present obligation (legal or implicit) as a result of a past event, it is probable that resources will be required to cancel the obligation and the amount of the obligation can be estimated reliably. Provisions are reviewed each period and adjusted to reflect the best estimate at the date of the statement of financial position. When the effect of the value of money over time is important, the amount of the provision is the present value of the expenses that are expected to be incurred in order to cancel it.

j. Assets and contingent liabilities

Contingent assets and liabilities are not recognized in the financial statements. These are disclosed in notes to the financial statements, unless there is the possibility of income or disbursements of remote economic flows.

k. Income recognition

Donations constitute the amount equivalent to the payments made by Solidaridad in the execution of the operating plans and the annual budgets of the projects executed according to the financing agreements signed with different cooperating entities. These incomes are recognized in the Statement of Income and Expenses and Changes in the Organization equity, simultaneously with the execution of the related expenditure.

Other income from training services and any other contribution from mediators or other services of the Organization are recognized as they accrue and in the periods to which they relate, regardless of when they are collected.

l. Recognition of expenses

The disbursements made by Solidaridad in relation to the execution of its resource allocation projects, as well as those disbursements made to fund the Solidaridad operation, are recognized in the statement of income and expenses at the time they are made, in accordance with the accrual basis of accounting.

m. Exchange rate

Gains or losses on foreign currency exchange resulting from the payment of transactions and the conversion at the year-end exchange rate of monetary assets and liabilities denominated in foreign currency are recognized in the results of the period in which they are denominated. they produce the mentioned differences

3. TRANSACTIONS IN FOREIGN CURRENCY

The following are the balances in US Dollars (US \$) and Euros (€) as of December 31, 2018 and 2017:

| | <u>2018</u> <u>US \$</u> | <u>2018</u> <u>€</u> | <u>2017</u> <u>US \$</u> | <u>2017</u> <u>€</u> |
|--|-----------------------------|-------------------------|-----------------------------|-------------------------|
| Assets: | | | | |
| Cash and cash equivalents | 37 718 | 116 282 | 13 841 | 194 654 |
| Trade accounts receivable | -.- | -.- | 6 573 | -.- |
| Accounts receivable from projects | 38 342 | 497 142 | 57 583 | 444 223 |
| Accounts receivable | 205 983 | -.- | 231 600 | -.- |
| | <u>282 043</u> | <u>613 424</u> | <u>309 597</u> | <u>638 877</u> |
| Liabilities: | | | | |
| Trade accounts payable | (130) | -.- | 1 225 | -.- |
| Accounts to execute projects | (654 930) | (115 645) | 698 367 | 122 401 |
| Other accounts payable | (156 159) | (73 423) | 127 695 | 81 049 |
| | <u>(811 219)</u> | <u>(189 068)</u> | <u>827 287</u> | <u>203 450</u> |
| Monetary position active (passive), net | <u>(529 176)</u> | <u>(424 356)</u> | <u>(517 690)</u> | <u>435 427</u> |

These balances have been expressed in Soles at the following exchange rates established by the SBS and effective as of December 31, as detailed below:

| | <u>2018</u> <u>US \$</u> | <u>2018</u> <u>€</u> | <u>2017</u> <u>US \$</u> | <u>2017</u> <u>€</u> |
|-------------------------------|-----------------------------|-------------------------|-----------------------------|-------------------------|
| 1 US\$ exchange rate purchase | 3.369 | 3.695 | 3.238 | 3.718 |
| 1 US\$ exchange rate sale | 3.379 | 4.150 | 3.245 | 3.945 |

As of December 31, 2018, the Organization recorded a loss for difference in net exchange rate of S/ 128,626 (net difference gain of S/ 78,471 as of December 31, 2017), which is presented in the item Exchange difference in the Statement of Income and Expenses:

| | <u>2018</u> | <u>2017</u> |
|---------------------------------|------------------|---------------|
| Gain on exchange difference | 676 891 | 1 079 529 |
| Loss due to exchange difference | (805 517) | (1 001 058) |
| | <u>(128 626)</u> | <u>78 471</u> |

4. CASH AND CASH EQUIVALENTS

Comprises:

| | <u>2018</u> | <u>2017</u> |
|----------------------|----------------|----------------|
| Fixed fund | 600 | 3 600 |
| Current accounts (a) | 403 906 | 823 921 |
| Savings accounts (b) | 150 470 | 64 063 |
| | <u>554 976</u> | <u>891 584</u> |

(a) Corresponds mainly to accounts for US \$ 14,457 and € 116,282 (US \$ 5,943 and € 194,654 in 2017).

(b) Corresponds mainly to US dollar accounts for US \$ 44,663 (US \$ 19,784 in 2017).

The Organization maintains accounts in Banco de Credito del Peru in Soles, US Dollars and Euros, are freely available.

5. ACCOUNTS RECEIVABLE TO RELATED

They are summarized as follows:

| <u>RELATED</u> | <u>BEGINNING BALANCE</u> | <u>ADDITIONS</u> | <u>DEDUC- TIONS</u> | <u>FINAL BALANCE</u> |
|--------------------------------------|------------------------------|------------------|-------------------------|--------------------------|
| <u>Year 2018:</u> | | | | |
| Current | | | | |
| Agrofair | -.- | 51 754 | -.- | 51 754 |
| | <u>-.-</u> | <u>51 754</u> | <u>-.-</u> | <u>51 754</u> |
| Non Current (a) | | | | |
| Oro Blanco S.A | 89 461 | -.- | (89 461) | -.- |
| Grupo Hualtaco S.A.C | 537 690 | 9 742 | -.- | 547 432 |
| (-)Estimation of doubtful collection | (538 211) | (9 221) | -.- | (547 432) |
| | <u>88 940</u> | <u>521</u> | <u>(89 461)</u> | <u>-.-</u> |
| | <u>88 940</u> | <u>52 275</u> | <u>(89 461)</u> | <u>51 574</u> |
| | <u>=====</u> | <u>=====</u> | <u>=====</u> | <u>=====</u> |
| <u>Year 2017:</u> | | | | |
| Current (a) | | | | |
| Grupo Hualtaco S.A.C | 266 125 | -.- | (266 125) | -.- |
| | <u>266 125</u> | <u>-.-</u> | <u>(266 125)</u> | <u>-.-</u> |
| Non current (a) | | | | |
| Oro Blanco S.A | 89 461 | -.- | -.- | 89 461 |
| Grupo Hualtaco S.A.C | 81 903 | 455 787 | -.- | 537 690 |
| (-)Estimation of doubtful collection | -.- | (538 211) | -.- | (538 211) |
| | <u>171 364</u> | <u>(82 424)</u> | <u>-.-</u> | <u>88 940</u> |
| | <u>437 489</u> | <u>(82 424)</u> | <u>(266 125)</u> | <u>88 940</u> |
| | <u>=====</u> | <u>=====</u> | <u>=====</u> | <u>=====</u> |

Oro Blanco S.A, is dedicated to the purchase sale of cotton and its derivatives, especially organic cotton, produces cotton yarn that is sold in the local market.

Grupo Hualtaco S.A.C is dedicated to the production and export of organic fruits. Both companies belong to the textile and fruit sectors, sectors through which Solidaridad promotes the development of its production chain.

- (a) In 2017 it corresponded to loans for working capital of very short term in Soles and Dollars, which generated an annual interest of 6%. In 2018, the balances were considered as part of doubtful collection because Grupo Hualtaco S.A.C.; is in the process of liquidation.

6. ACCOUNTS RECEIVABLE FROM PROJECTS

Comprises:

| | <u>2018</u> | <u>2017</u> |
|--|-------------------------|-------------------------|
| FSLA Colombia – Project PE 01017 | 50 820 | 20 469 |
| REC NL - Reimbursement of expenses (a) | 404 578 | 7 383 |
| FSLA Panama – Latin American Matrix - PE Project 01047 and reimbursement of expenses (b) | 406 406 | 1 028 475 |
| Norad (NICFI) - Project PE 01040 | .- | 34 647 |
| Mining Program | .- | 4 470 |
| Coffee Program | 317 018 | 318 991 |
| Seefood Trade Intelligence Portal (Stip) – Project PE 01046 | .- | 37 070 |
| Rec Andes | 967 841 | 386 943 |
| Palma Program | 100 611 | .- |
| IDH | 20 767 | .- |
| | <u>2 268 041</u> | <u>1 838 448</u> |
| | ===== | ===== |

- (a) Refunds for travel expenses of the Coffee IPC.

- (b) Reimbursement of fixed expenses (salaries, electricity, water, rent, among others) made by Solidaridad Peru.

7. MISCELLANEOUS ACCOUNTS RECEIVABLE

Comprises:

| | <u>2018</u> | <u>2017</u> |
|--------------------------------------|------------------|------------------|
| Loans to staff | 3 943 | 6 255 |
| Deliveries to render | 62 | 22 396 |
| Loan Franky y Ricky S.A (*) | 675 821 | 730 493 |
| Interests Franky y Ricky S.A | 597 092 | 595 731 |
| Deposits in guarantee | 82 229 | 77 854 |
| Balance in favor G.S.T. | 13 859 | 6 551 |
| Insurance paid in advance | 36 253 | 30 855 |
| (-)Estimation of doubtful collection | (597 092) | (597 019) |
| | ----- | ----- |
| | 812 167 | 873 116 |
| Short term | (136 346) | (143 911) |
| | ----- | ----- |
| Long term | 675 821 | 729 205 |
| | ===== | ===== |

(*) Equivalent to US\$ 200,000 as of december 31, 2018 and US\$ 225,000 as of december 31, 2017.

8. INSTALLATIONS, FURNITURE AND EQUIPMENT, NET

They are summarized as follows:

| <u>CONCEPT</u> | <u>BEGINNING BALANCE</u> | <u>ADDITIONS</u> | <u>DEDUC- TIONS</u> | <u>FINAL BALANCE</u> | <u>RATE %</u> |
|-------------------------|------------------------------|------------------|-------------------------|--------------------------|-------------------|
| <u>Year 2018:</u> | | | | | |
| Cost | | | | | |
| Installations | 24 074 | -.- | -.- | 24 074 | |
| Transport units | 173 969 | -.- | (11 415) | 162 554 | |
| Furniture and fixtures | 52 441 | -.- | -.- | 52 441 | |
| Computer equipment | 104 341 | 17 289 | (2 930) | 118 700 | |
| Miscellaneous equipment | 53 961 | -.- | -.- | 53 961 | |
| | ----- | ----- | ----- | ----- | |
| | 408 786 | 17 289 | (14 345) | 411 730 | |
| | ===== | ===== | ===== | ===== | |

| <u>CONCEPT</u> | <u>BEGINNING BALANCE</u> | <u>ADDITIONS</u> | <u>DEDUC- TIONS</u> | <u>FINAL BALANCE</u> | <u>RATE %</u> |
|---------------------------------|------------------------------|------------------|-------------------------|--------------------------|-------------------|
| Accumulated depreciation | | | | | |
| Installations | (10 190) | (1 204) | -.- | (11 394) | 20 |
| Transport units | (51 765) | (33 333) | 20 036 | (65 062) | 5 |
| Furniture and fixtures | (40 301) | (5 524) | 8 387 | (37 438) | 10 |
| Computer equipment | (67 246) | (24 917) | 29 297 | (62 866) | 4 |
| Miscellaneous equipment | (32 462) | (5 993) | 7 712 | (30 743) | 10 |
| | ----- | ----- | ----- | ----- | |
| | (201 964) | (70 971) | 65 432 | (207 503) | |
| | ===== | ===== | ===== | ===== | |
| | 206 822 | | | 204 227 | |
| | ===== | | | ===== | |

Year 2017:

Cost

| | | | | |
|-------------------------|----------------|----------------|-----------------|----------------|
| Installations | 24 074 | -.- | -.- | 24 074 |
| Transport units | 67 214 | 106 755 | -.- | 173 969 |
| Furniture and fixtures | 52 441 | -.- | -.- | 52 441 |
| Computer equipment | 99 660 | 20 677 | (15 996) | 104 341 |
| Miscellaneous equipment | 77 173 | -.- | (23 212) | 53 961 |
| | ----- | ----- | ----- | ----- |
| | 320 562 | 127 432 | (39 208) | 408 786 |
| | ===== | ===== | ===== | ===== |

Accumulated depreciation

| | | | | | |
|-------------------------|------------------|-----------------|---------------|------------------|-----------|
| Installations | (8 987) | (1 203) | -.- | (10 190) | 20 |
| Transport units | (33 284) | (18 481) | -.- | (51 765) | 5 |
| Furniture and fixtures | (35 336) | (4 965) | -.- | (40 301) | 10 |
| Computer equipment | (51 825) | (25 128) | 9 707 | (67 246) | 4 |
| Miscellaneous equipment | (41 234) | (6 124) | 14 896 | (32 462) | 10 |
| | ----- | ----- | ----- | ----- | |
| | (170 666) | (55 901) | 24 603 | (201 964) | |
| | ===== | ===== | ===== | ===== | |
| | 149 896 | | | 206 822 | |
| | ===== | | | ===== | |

9. TRADE ACCOUNTS PAYABLE

Comprises:

| | <u>2018</u> | <u>2017</u> |
|------------------|--------------|--------------|
| Invoices payable | -.- | 174 |
| Fees payable | 5 585 | 6 863 |
| | ----- | ----- |
| | 5 585 | 7 037 |
| | ===== | ===== |

10. ACCOUNTS TO BE EXECUTED FOR PROJECTS

Comprises:

| <u>Cod - Plaza</u> | <u>Name of the Project</u> | <u>2018</u> | <u>2017</u> |
|--------------------|--|------------------|------------------|
| F-0007 | Fair Tex Peru (1) | 2 212 018 | 2 124 511 |
| F-0007 | Cocoa support network - Ecuador (2) | -.- | 15 778 |
| P-1052 | Yanaquihua Mining Project (3) | -.- | 64 815 |
| P-1556 | International program coordinator (4) | 15 572 | 32 141 |
| P-1315 | Sustainable Coffee Program (SCP) (5) | 892 | 47 099 |
| F-0007 | Land of sustainable flowers (6) | -.- | 61 545 |
| P-1042 | Development of the banana chain (7) | -.- | 4 767 |
| P-1295 | Increase in family income due to organic banana activity, Piura region (8) | -.- | 58 899 |
| P-1831 | GP & RI Responsible practices in the sectors of the Peruvian and Colombian ASM GOLD (9) | 101 119 | 90 786 |
| P-1810 | STIP Peru (10) | -.- | 23 452 |
| P-1821 | GP & RI Improving the potential of the Sustainable Trade platform (11) | 128 508 | 39 492 |
| P-1930 | Sustainable coffee chain in Peru (12) | -.- | 21 120 |
| P-1315 | Sustainable coffee program - ECOM (13) | -.- | 94 592 |
| P-1488 | EPE Country-Enabling regulatory environment for responsible small-scale mining (14) | 122 287 | 19 183 |
| P-1551 | EPE G&C Advocafe: Develop non-competitive collaboration capacity. (15) | 81 456 | 24 854 |
| F-0007 | Ciban (16) | -.- | 5 114 |
| P-1808 | Rural Horizons (17) | -.- | 84 940 |
| P-1556 | IPC Coffee | 882 | -.- |
| PE-1057 | Cafe Colombia | 97 | -.- |
| PE-1059 | Palma Peru | 11 702 | -.- |
| PE-1061 | Cafe del Mar – Rios del Inka | 30 104 | -.- |
| | | ----- | ----- |
| | | 2 704 637 | 2 813 088 |
| | | ===== | ===== |

(1) Investment fund for the development of the textile and apparel chain in Peru (US \$ in 2018 and US \$ 654,703 in 2017).

(2) Development program for the cocoa chain in Ecuador (€ 3,999 in 2017).

- (3) Project that serves to strengthen the Pallaqueras, so that they are recognized within the Gold chain (€ 16,430 in 2017).
- (4) Corresponds to the funds destined to travel, lodging, and food for the international coordinator (€ 3,752 in 2018 and € 8,147 in 2017).
- (5) IDH Program, which serves to strengthen the Coffee chain in Colombia, working with private companies (US\$264 in 2018 and US\$ 14,514 in 2017).
- (6) Project to improve environmental labor conditions in the flower sector in Colombia (€ in 2018 and € 15,601 in 2017).
- (7) Project that seeks to improve the competitiveness of the banana production chain, at the level of small producers and workers in the valleys of Chira and San Lorenzo (€ 1,208 in 2017).
- (8) Project that consists of increasing family income through the banana production chain at the level of small producers.
- (9) Project to strengthen the Gold chain in Peru and Colombia (€ 24,336 in 2018 and € 23,013 in 2017).
- (10) Program that supports the aquaculture chain in Peru (€ 5,945).
- (11) Corresponds to the commodities of the Colombia Project for palm, coffee, sugarcane, banana and meat products (€ 30,966 in 2018 and € 10,011 in 2017).
- (12) Program that serves to strengthen coffee chain in Peru (€ 5,354 in 2017).
- (13) Executed by the company ECOM, to accelerate sustainable production at sector level and promote collaboration between local governments and the industry (US\$ 29,150 in 2017).
- (14) Executed by Solidaridad Peru, to increase the productivity of the sector and develop policies that promote the formalization of small-scale mining in Bolivia (€ 29,467 in 2018 and € 4,862 in 2017).
- (15) Project that corresponds to the development of capacities and to adopt policies of smart climate inclusion of gender in the coffee sector (€ 19,628 in 2018 and € 6,300 in 2017).
- (16) International Banana Congress, was held in Piura, and was organized by Solidaridad Peru on behalf of the Banana Technical Board.
- (17) Executed by Ezio Varese (Peru) and Andrea Olivar (Colombia), for the creation of a tool for coffee valuation in Peru and Colombia (€ 21,531 in 2017).
- (18) Program that serves to develop an Intelligent Agriculture Cooperative based on Coffee 2.0 that promotes the improvement of the quality of life of the coffee producing families of the Cooperativa Rios del Inka and the reduction of deforestation in the primary forests of the National Sanctuary of Tabaconas (€ 7,254 in 2018)

11. OTHER ACCOUNTS PAYABLE

Comprises:

| | <u>2018</u> | <u>2017</u> |
|------------------------------------|--------------------|--------------------|
| Taxes payable | 44 563 | 40 599 |
| Remuneration and vacations payable | 130 664 | 179 955 |
| Compensation for time of service | 17 236 | 18 244 |
| Funds to reimburse projects | 707 461 | 542 145 |
| Consultancy from abroad | 208 194 | 137 059 |
| Other accounts payable | 55 605 | 66 547 |
| | ----- | ----- |
| | 1 163 723 | 984 549 |
| | ===== | ===== |

12. INSTITUTIONAL EQUITY

It is constituted by the accumulated result of the management of SOLIDARIDAD and is derived mainly from provisions for depreciation and exchange differences.

13. INCOME FROM PROJECT MANAGEMENT

Comprises:

| | <u>2018</u> | | <u>2017</u> | |
|---|------------------|------------------|------------------|------------------|
| | S/ | Eq .US\$ | S/ | Eq .US\$ |
| Fair Tex Peru | 293 | 87 | 538 441 | 165 929 |
| Cocoa Support Network - Ecuador | 14 768 | 4 371 | 89 881 | 27 698 |
| Peru Project | 252 015 | 74 583 | 368 904 | 113 684 |
| Training network for small producers of sustainable bananas | 4 440 | 1 314 | 46 518 | 14 335 |
| MSM Yanaquihua Project | 60 911 | 18 026 | 44 295 | 13 650 |
| Coffee Program | 253 402 | 74 993 | 245 701 | 75 717 |
| Sustainable coffee program-IDH | 96 557 | 28 653 | 140 155 | 43 191 |
| Sustainable coffee program – ECOM | 558 564 | 165 746 | 361 837 | 111 506 |
| Sustainable coffee program – TECHNOSERVE | .- | .- | 18 999 | 5 855 |
| Sustainable coffee program – PURPROJECT | .- | .- | 498 176 | 153 521 |
| Sustainable coffee program – CARCAFE | 41 997 | 12 462 | 224 814 | 69 280 |
| Sustainable coffee program – NESCAFE | .- | .- | 327 177 | 100 825 |
| Sustainable coffee program – LDC | 149 109 | 44 246 | 128 924 | 39 730 |
| Increase in family income due to the activity of organic bananas, Piura region | 57 738 | 17 087 | 404 818 | 124 751 |
| Occupational health and safety initiative in the banana sector | 344 169 | 101 855 | 11 533 | 3 554 |
| Study of the potential to improve low carbon agriculture and forest investment in the Peruvian Amazon | .- | .- | 158 260 | 48 770 |
| Colombia: Land of sustainable flowers | 59 077 | 17 484 | .- | .- |
| EPE Country-Normative environment conducive to small-scale responsible mining | 435 575 | 128 906 | 472 334 | 145 557 |
| EPE G&C-Advocate: Develop non-competitive collaboration capacity | 397 002 | 117 491 | 320 482 | 98 762 |
| DSO IPC Coffee | 157 076 | 46 486 | 141 910 | 43 732 |
| PfC BtB Improving the potential of the sustainable trade platform | .- | .- | 371 841 | 114 589 |
| Ciban | 22 706 | 6 720 | 24 150 | 7 442 |
| Rural Horizons | 88 121 | 26 079 | 197 122 | 60 746 |
| Seefood Trade Intelligence Portal -STIP | .- | .- | 30 918 | 9 528 |
| GP&RI: Responsible practices in the Peruvian and Colombian ASM gold sectors | 536 492 | 158 772 | 496 498 | 153 004 |
| GP&RI - Improving the potential of the Sustainable Trade Platform | 1 149 589 | 340 216 | 1 163 993 | 358 704 |
| Improvement of SAM Capacity | 643 150 | 190 337 | 328 728 | 101 303 |
| Improvement of SAM Gender Ability | .- | .- | 26 479 | 8 160 |
| Sustainable coffee chain in Peru | 19 913 | 5 893 | 20 062 | 6 182 |
| Global Coffee Platform Colombia | 304 357 | 90 342 | 928 968 | 286 277 |
| Consultancy (Kering, Yanaquihua, Centrocafe) | 18 493 | 5 473 | 79 081 | 24 370 |
| Nestle Colombia | 159 178 | 47 269 | 309 | 95 |
| Own income | 144 778 | 42 893 | .- | .- |
| Henkel Colombia | 186 803 | 55 284 | .- | .- |
| Rios del Inka | 43 660 | 12 921 | .- | .- |
| Norad Peru | 115 741 | 34 253 | .- | .- |
| Innovate | 148 829 | 44 045 | .- | .- |
| | 6 464 503 | 1 914 287 | 8 211 308 | 2 530 447 |

14. OTHER INSTITUTIONAL INCOME

Comprises:

| | <u>2018</u> | | <u>2017</u> | |
|---|----------------|----------------|----------------|----------------|
| | S/ | US\$ | S/ | US\$ |
| EPE Country-Normative environment conducive to small-scale responsible mining | 33 581 | 9 938 | 24 510 | 7 553 |
| EPE G & C-Advocafe: Develop non-competitive collaboration capacity | 49 538 | 14 661 | 21 476 | 6 618 |
| Institutional Expenses | 373 320 | 110 482 | 366 592 | 112 971 |
| GP & RI: Responsible practices in the Peruvian and Colombian ASM gold sectors | 45 532 | 13 475 | 36 856 | 11 358 |
| GP & RI - Improving the potential of the Sustainable Trade Platform | 102 500 | 30 334 | 72 839 | 22 446 |
| IDH - Sustainable Coffee Program in Colombia | 1 983 | 587 | 3 329 | 1 026 |
| Global Coffee Platform Colombia | 35 932 | 10 634 | 18 578 | 5 725 |
| Improvement of SAM Capacity | 32 480 | 9 612 | -.- | -.- |
| Nestle Colombia | 44 239 | 13 092 | -.- | -.- |
| Other income | 23 046 | 6 820 | -.- | -.- |
| | ----- | ----- | ----- | ----- |
| | 742 151 | 219 635 | 544 180 | 167 697 |
| | ===== | ===== | ===== | ===== |

It corresponds to flexible own income and mainly to the income that SOLIDARIDAD receives for the administration of the projects, which is granted based on a percentage agreed between the donor and SOLIDARIDAD in relation to the expenses incurred in the period.

15. MISCELLANEOUS INCOME

Comprises:

| | <u>2018</u> | | <u>2017</u> | |
|--------------|-------------|------------|-------------|------------|
| | S/ | US\$ | S/ | US\$ |
| Other Income | -.- | -.- | 328 | 101 |
| | ----- | ----- | ----- | ----- |
| | -.- | -.- | 328 | 101 |
| | ===== | ===== | ===== | ===== |

16. PERSONNEL EXPENSES

Comprises:

| | <u>2018</u> | | <u>2017</u> | |
|---------------------------------------|------------------|----------------|------------------|----------------|
| | S/ | US\$ | S/ | US\$ |
| Director of REC South America: | | | | |
| Salaries | 184 163 | 55 941 | 191 856 | 58 955 |
| Gratifications | 38 604 | 11 727 | 38 145 | 11 719 |
| Vacations | 18 069 | 5 498 | 16 859 | 5 177 |
| Security and social security | 45 473 | 13 786 | 48 693 | 14 955 |
| | ----- | ----- | ----- | ----- |
| | 286 309 | 86 952 | 295 553 | 90 806 |
| | ----- | ----- | ----- | ----- |
| Legal representatives: | | | | |
| Salaries | 387 619 | 117 884 | 379 354 | 116 536 |
| Gratifications | 78 525 | 23 856 | 78 473 | 24 114 |
| Vacations | 35 831 | 10 894 | 39 823 | 12 233 |
| Security and social security | 102 654 | 31 270 | 99 641 | 30 616 |
| Training and attention to staff | 2 829 | 864 | 2 500 | 764 |
| | ----- | ----- | ----- | ----- |
| | 607 458 | 184 768 | 599 792 | 184 264 |
| | ----- | ----- | ----- | ----- |
| Employees: | | | | |
| Salaries | 442 675 | 134 508 | 502 422 | 154 350 |
| Gratifications | 89 477 | 27 170 | 105 599 | 32 447 |
| Vacations | 42 693 | 12 975 | 55 872 | 17 173 |
| Bonuses | 2 100 | 654 | 8 450 | 2 597 |
| Security and social security | 114 717 | 34 765 | 119 492 | 36 700 |
| Training and attention to staff | 12 850 | 3 877 | 6 901 | 2 112 |
| | ----- | ----- | ----- | ----- |
| | 704 512 | 213 950 | 798 735 | 245 378 |
| | ----- | ----- | ----- | ----- |
| | 1 598 279 | 485 670 | 1 694 080 | 520 448 |
| | ===== | ===== | ===== | ===== |

17. SERVICES PROVIDED BY THIRD PARTIES

Comprises:

| | <u>2018</u> | | <u>2017</u> | |
|------------------------------------|------------------|----------------|------------------|----------------|
| | <u>S/</u> | <u>US\$</u> | <u>S/</u> | <u>US\$</u> |
| Travel expenses | 603 989 | 182 665 | 325 653 | 99 972 |
| Mail and telecommunications | 13 347 | 4 051 | 4 130 | 1 267 |
| Viatical | 17 144 | 5 171 | 13 611 | 4 175 |
| Fees, commissions and brokerage | 1 082 563 | 328 541 | 973 414 | 298 126 |
| Maintenance and repair | 15 178 | 4 623 | 22 663 | 6 946 |
| Rentals | 230 922 | 70 153 | 217 511 | 66 804 |
| Other services | 266 211 | 80 624 | 189 997 | 58 298 |
| | ----- | ----- | ----- | ----- |
| | 2 229 354 | 675 828 | 1 746 979 | 535 588 |
| | ===== | ===== | ===== | ===== |

18. MISCELLANEOUS MANAGEMENT CHARGES

Comprises:

| | <u>2018</u> | | <u>2017</u> | |
|---|------------------|------------------|------------------|------------------|
| | <u>S/</u> | <u>US\$</u> | <u>S/</u> | <u>US\$</u> |
| Diverse donations | 3 049 600 | 926 533 | 4 481 875 | 2 239 962 |
| Supplies and toiletries and communications | 11 766 | 3 587 | 18 735 | 9 170 |
| Various insurance | 14 246 | 4 330 | 20 962 | 7 659 |
| Goods and other minor assets | 6 970 | 2 118 | 17 728 | 11 539 |
| Expenses of representation | 391 | 120 | 2 952 | 562 |
| Other loads of management | 211 955 | 64 503 | 109 422 | 33 671 |
| Fertilizers and seeds | 9 520 | 2 957 | 33 848 | 24 176 |
| Fuel | 21 972 | 6 670 | 32 049 | 11 071 |
| | ----- | ----- | ----- | ----- |
| | 3 326 420 | 1 010 818 | 4 717 571 | 2 372 034 |
| | ===== | ===== | ===== | ===== |

19. TAX SITUATION

Income tax

SOLIDARIDAD is exempt from the payment of Income Tax, since May 01, 2004, being registered in the Register of Exempt Entities of Income Tax and in Registration of Entities Receiving Donations deductible from Income Tax, the Superintendencia Nacional de Administración Tributaria.

General Sales Tax - GST

SOLIDARIDAD is registered in the National Registry of Foreign Institutions and Institutions of International Technical Cooperation (ENIEX), until November 10, 2019, according to Directorial Resolution N° 650-2017 / APCI-DOC, which was issued on November 10, 2018.

SOLIDARIDAD is unaffected by the GST for donations of material received from the Cooperator as indicated in article 2, paragraph k) of the Consolidated Text of the General Sales Tax and Selective Consumption Tax Law, approved by Supreme Decree N° 055 - 99 EF.

For the fiscal year 2018, SOLIDARIDAD did not obtain a refund of G.S.T. and IPM, due to any request to APCI.

The Direction of the Organization considers that a possible revision by the Tax Administration will not generate significant liabilities, for which reason it has not considered necessary to constitute a provision in this regard.

20. RISKS ADMINISTRATION

The activities of the Organization expose it to a variety of financial risks whose potential adverse effects are permanently evaluated by the Direction of the Organization in order to minimize them. Next, we present the financial risks to which the Organization is exposed.

- a. Exchange rate risk:** The Direction of the Organization considers that there is no significant exchange rate risk that could lead the Organization to a financial situation that is difficult to manage.
- b. Interest, credit and liquidity risk:** The operating income and cash flows of the Organization are substantially independent of changes in market interest rates. The Organization does not have significant assets that accrue interest and significant risks of concentration of credit given its conservative policies on the matter. Likewise, the Management of the Organization considers that it does not have liquidity risks to the extent that the payments of its long-term liabilities have been programmed in coordination with its future cash flows.

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