

## **IMPORTANT NOTICE**

THIS OFFERING CONTEMPLATED BY THE OFFERING MEMORANDUM FOLLOWING THIS PAGE IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QUALIFIED INSTITUTIONAL BUYERS (“QIBs”) (WITHIN THE MEANING OF RULE 144A UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”)) OR (2) NON-U.S. PERSONS (WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT) OUTSIDE THE UNITED STATES.

IMPORTANT: You must read the following before continuing. The following applies to the offering memorandum following this page, and you are advised to read this carefully before reading, accessing or making any other use of the offering memorandum. In accessing the offering memorandum, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE LAWS OF OTHER JURISDICTIONS. IN RELATION TO EACH MEMBER STATE OF THE EUROPEAN ECONOMIC AREA, NO OFFER OF SECURITIES WHICH ARE THE SUBJECT OF THIS OFFERING MEMORANDUM HAS BEEN, OR WILL BE MADE TO THE PUBLIC IN THAT MEMBER STATE, OTHER THAN UNDER THE FOLLOWING EXEMPTIONS UNDER THE PROSPECTUS DIRECTIVE: (I) TO ANY LEGAL ENTITY WHICH IS A “QUALIFIED INVESTOR” AS DEFINED IN THE PROSPECTUS DIRECTIVE; (II) TO FEWER THAN 150 NATURAL OR LEGAL PERSONS (OTHER THAN “QUALIFIED INVESTORS” AS DEFINED IN THE PROSPECTUS DIRECTIVE), SUBJECT TO OBTAINING THE PRIOR CONSENT OF THE RELEVANT DEALER OR DEALERS FOR ANY SUCH OFFER; OR (III) IN ANY OTHER CIRCUMSTANCES FALLING WITHIN ARTICLE 3(2) OF THE PROSPECTUS DIRECTIVE; PROVIDED THAT NO SUCH OFFER OF SECURITIES REFERRED TO IN (I) THROUGH (III) ABOVE SHALL RESULT IN A REQUIREMENT FOR THE ISSUER OR ANY DEALER TO PUBLISH A PROSPECTUS PURSUANT TO ARTICLE 3 OF THE PROSPECTUS DIRECTIVE, OR SUPPLEMENT A PROSPECTUS PURSUANT TO ARTICLE 16 OF THE PROSPECTUS DIRECTIVE. IN ADDITION, IN THE UNITED KINGDOM THE OFFERING MEMORANDUM IS ONLY BEING DISTRIBUTED TO AND IS ONLY DIRECTED AT (1) PERSONS WHO ARE OUTSIDE THE UNITED KINGDOM, OR (2) TO INVESTMENT PROFESSIONALS FALLING WITHIN ARTICLE 19(5) OF THE FINANCIAL SERVICES AND MARKET ACT 2000 (FINANCIAL PROMOTION) ORDER 2005, OR THE ORDER OR (3) HIGH NET WORTH ENTITIES, AND OTHER PERSONS TO WHOM IT MAY LAWFULLY BE COMMUNICATED, FALLING WITHIN ARTICLE 49(2)(A) TO (D) OF THE ORDER (ALL SUCH PERSONS TOGETHER BEING REFERRED TO AS “RELEVANT PERSONS”). THE SECURITIES ARE ONLY AVAILABLE TO, AND ANY INVITATION, OFFER OR AGREEMENT TO SUBSCRIBE, PURCHASE OR OTHERWISE ACQUIRE SUCH SECURITIES WILL BE ENGAGED IN ONLY WITH, RELEVANT PERSONS. IN ADDITION, THIS COMMUNICATION IS, IN ANY EVENT ONLY DIRECTED AT PERSONS WHO ARE “QUALIFIED INVESTORS”

PURSUANT TO THE PROSPECTUS DIRECTIVE. ANY PERSON WHO IS NOT A RELEVANT PERSON SHOULD NOT ACT OR RELY ON THIS DOCUMENT OR ANY OF ITS CONTENTS.

THE FOLLOWING OFFERING MEMORANDUM MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

Confirmation of your Representation: In order to be eligible to view this offering memorandum or make an investment decision with respect to the securities, investors must be either (1) QIBs or (2) non-U.S. persons (within the meaning of Regulation S under the Securities Act) outside the U.S. This offering memorandum is being sent at your request and by accepting the e-mail and accessing this offering memorandum, you shall be deemed to have represented to us that (1) you and any customers you represent are either (a) QIBs or (b) non-U.S. persons (within the meaning of Regulation S under the Securities Act), and that the electronic mail address that you gave us and to which this offering memorandum has been delivered is not located in the United States and (2) that you consent to delivery of this offering memorandum by electronic transmission.

You are reminded that this offering memorandum has been delivered to you on the basis that you are a person into whose possession this offering memorandum may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorized to, deliver this offering memorandum to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the initial purchasers or any affiliate of the initial purchasers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the initial purchasers or such affiliate on behalf of the issuer in such jurisdiction.



**US\$450,000,000**  
**Inkia Energy Limited**  
**5.875% Senior Notes due 2027**

**Interest payable on May 9 and November 9**

We are offering US\$450,000,000 aggregate principal amount of our 5.875% Senior Notes due 2027, or the Notes. The Notes will mature on November 9, 2027. Interest on the Notes will accrue at a rate of 5.875% per annum and will be payable semi-annually in arrears on each May 9 and November 9 of each year, commencing on May 9, 2018. Interest on the Notes will accrue from the date of original issuance, or if interest has already been paid, from the date it was most recently paid.

We may redeem the Notes, in whole or in part, at any time on or after November 9, 2022 at the applicable redemption prices set forth in this offering memorandum, plus accrued interest. Before November 9, 2022, we may also redeem the Notes, in whole or in part, at a redemption price based on a "make-whole" premium. In addition, before November 9, 2020, we may redeem up to 35% of the Notes at a redemption price equal to 105.875% of their principal amount, plus accrued interest, using the proceeds of certain equity offerings. We may also redeem the Notes, in whole but not in part, if certain changes in applicable tax law occur.

The Notes will be our senior unsecured obligations and will rank equally in right of payment with all of our existing and future unsubordinated indebtedness. The Notes will be effectively junior to all of our existing and future secured indebtedness to the extent of the assets securing that indebtedness and to all of the existing and future liabilities of our subsidiaries. The Notes are not guaranteed by any person or entity.

There is currently no public market for the Notes. Approval in principle has been received for the listing and quotation of the Notes on the Singapore Exchange Securities Trading Limited, or the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained in this offering memorandum. Approval in principle for the listing and quotation of the Notes on the SGX-ST is not taken as an indication of our merits or the merits of the Notes.

**Investing in the Notes involves risks. See "Risk Factors" beginning on page 27.**

**Price: 100.000% plus accrued interest from November 9, 2017.**

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended, or the Securities Act. Prospective purchasers that are qualified institutional buyers are hereby notified that the sellers of the Notes may be relying on an exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A under the Securities Act. Outside the United States, the offering is being made in reliance on Regulation S under the Securities Act.

The Notes will not be subject to a public offering in Peru. The Notes and the information contained in this offering memorandum have not been and will not be registered with or approved by the Peruvian Superintendency of Capital Markets (*Superintendencia del Mercado de Valores*), or the SMV, or the Lima Stock Exchange (*Bolsa de Valores de Lima*), or the BVL. Accordingly, the Notes cannot be offered or sold in Peru, except in compliance with the securities laws and regulations of Peru.

Consent under the Exchange Control Act of 1972 (and its related regulations) has been granted by the Bermuda Monetary Authority for the issue and transfer of securities of Bermuda companies (other than certain equity securities) to and between non-residents of Bermuda for exchange control purposes. In granting such consent the Bermuda Monetary Authority does not accept any responsibility for the financial soundness of Inkia or the correctness of any of the statements made or opinions expressed in this offering memorandum.

Pursuant to the Companies Act 1981 of Bermuda, there is no requirement to file this offering memorandum with the Registrar of Companies in Bermuda. Neither the Bermuda Monetary Authority, the Registrar of Companies of Bermuda nor any other relevant Bermuda authority or government body accepts any responsibility for the financial soundness of any proposal or for the correctness of any of the statements made or opinions expressed herein.

Delivery of the Notes in book-entry form is expected on or about November 9, 2017, through the facilities of The Depository Trust Company, or DTC, and its direct and indirect participants, including Euroclear Bank S.A./N.V., as operator of the Euroclear System, or Euroclear, and Clearstream Banking, *société anonyme*, or Clearstream.

*Global Coordinators*

**Credit Suisse**

**Scotiabank**

*Joint Bookrunners*

**Credit Suisse**

**Citigroup**

**Scotiabank**

*Lead Manager*

**Santander**

The date of this offering memorandum is November 2, 2017.

**In making your investment decision, you should rely only on the information contained in this offering memorandum. Neither we nor the initial purchasers have authorized any person to provide you with different information. If any person provides you with different or inconsistent information, you should not rely on it. You should assume that the information appearing in this offering memorandum is accurate as of the date on the front cover of this offering memorandum only. Our business, properties, results of operations or financial condition may have changed since that date. Neither the delivery of this offering memorandum nor any sale of Notes hereunder will under any circumstances imply that the information herein is correct as of any date subsequent to the date on the front cover of this offering memorandum.**

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Unless otherwise indicated or the context otherwise requires, in this offering memorandum, “Inkia” refers to Inkia Energy Limited, and “we,” “us,” “our,” “our company” and words of similar effect refer to Inkia Energy Limited and its consolidated subsidiaries and associated companies, including but not limited to:

- “Amayo I,” or Consorcio Eólico Amayo S.A., a Panamanian corporation;
- “Amayo II,” or Consorcio Eólico Amayo (Fase II) S.A., a Panamanian corporation;
- “CDA,” or Cerro del Águila S.A., a Peruvian corporation, which was renamed Kallpa Generación S.A. in September 2017 following the merger of our subsidiary Kallpa with and into CDA;
- “Cenérgica,” or Compañía de Energía de Centroamérica, S.A. de C.V. (Cenérgica), a Salvadorian corporation;
- “Central Cardones,” or Central Cardones S.A., a Chilean corporation;
- “CEPP,” or Compañía de Electricidad de Puerto Plata S.A., a Dominican Republic corporation;
- “COBEE,” or Compañía Boliviana de Energía Eléctrica S.A., a Canadian corporation;

- “Colmito,” or Termoeléctrica Colmito S.A., a Chilean corporation;
- “Corinto,” or Empresa Energética Corinto Ltd., a Cayman Islands corporation;
- “DEOCSA,” or Distribuidora de Electricidad de Occidente, S.A., a Guatemalan corporation;
- “DEORSA,” or Distribuidora de Electricidad de Oriente, S.A., a Guatemalan corporation;
- “Energuate,” which we use to refer to DEOCSA and DEORSA collectively, which jointly operate in Guatemala under the trade name “Energuate”;
- “Guatemel, or Comercializadora Guatemalteca Mayorista de Electricidad, S.A., a Guatemalan corporation;
- “IC Power,” or IC Power Ltd, a Singaporean corporation;
- “IC Power DR,” or IC Power DR Operations S.A.S., a Dominican Republic corporation;
- “ICPDH,” or IC Power Distribution Holdings Pte. Ltd., a Singaporean corporation;
- “ICPNH,” or IC Power Nicaragua Holdings, a Cayman Islands corporation, formerly known as AEI Nicaragua Holdings Ltd., or AEI Nicaragua;
- “JPPC,” or Jamaica Private Power Company Ltd., a Jamaican corporation;
- “Kallpa,” or Kallpa Generación S.A., a Peruvian corporation, which merged with and into CDA on August 16, 2017, which in turn was subsequently renamed Kallpa Generación S.A. (for dates and periods ended prior to August 16, 2017, “Kallpa” refers to the entity historically named Kallpa Generación S.A., and for dates and periods ended after August 16, 2017, “Kallpa” refers to the entity historically named Cerro del Águila S.A.);
- “Kanan,” or Kanan Overseas I, Inc., a Panamanian corporation;
- “Nejapa,” or Nejapa Power Company S.A., a Panamanian corporation;
- “Pedregal,” or Pedregal Power Company S.de R.L., a Panamanian corporation;
- “Puerto Quetzal,” or Puerto Quetzal Power LLC, a Delaware limited liability company;
- “RECSA,” or Redes Eléctricas de Centro América, S.A., a Guatemalan corporation;
- “Samay I,” or Samay I S.A., a Peruvian corporation;
- “Surpetroil,” or Surpetroil S.A.S., a Colombian corporation; and
- “Tipitapa Power,” or Tipitapa Power Company Ltd., a Cayman Islands corporation.

For the sale of the Notes in the United States, we are relying upon an exemption from registration under the Securities Act for an offer and sale of securities that does not involve a public offering. By purchasing the Notes, you will be deemed to have made certain acknowledgments, representations and agreements as set forth under “Transfer Restrictions.” We are not, and the initial purchasers are not, making an offer to sell the Notes in any jurisdiction except where such an offer or sale is permitted. You should understand that you will be required to bear the financial risks of your investment for an indefinite period of time.

We have submitted this offering memorandum solely to a limited number of qualified institutional buyers in the United States and in offshore transactions to persons other than U.S. persons so they can consider a purchase of the Notes. We have not authorized the use of this offering memorandum for any other purpose. This offering

memorandum may not be copied or reproduced in whole or in part. This offering memorandum is personal to each offeree and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire the Notes. Distribution of this offering memorandum to any person other than the offeree and any person retained to advise such offeree is unauthorized, and any disclosure of any of the contents hereof without our prior written consent is prohibited. By accepting delivery of this offering memorandum, you agree to these restrictions.

This offering memorandum is based on information provided by us and other sources that we believe to be reliable. We and the initial purchasers cannot assure you that such information provided to us is accurate or complete. This offering memorandum summarizes certain documents (including the indenture that will govern the Notes) and other information, and we refer you to them for a more complete understanding of what we discuss in this offering memorandum. In making an investment decision, you must rely on your own examination of us and the terms of the offering and the Notes, including the merits and risks involved.

We are not making any representation to any purchaser regarding the legality of an investment in the Notes by such purchaser under any legal investment or similar laws or regulations. You should not consider any information in this offering memorandum to be legal, business, tax or other advice. You should consult your own counsel, accountant, business advisor and tax advisor for legal, tax, business and financial advice regarding any investment in the Notes.

We have not, and the initial purchasers have not, authorized any person to provide you with different information or to make any representation not contained in this offering memorandum. You should assume that the information contained in this offering memorandum is accurate only as of the date on the front cover of this offering memorandum. Our business, financial condition, results of operations and prospects may have changed since that date.

By purchasing any Notes, you will be deemed to have acknowledged that: (1) you have received a copy of and have reviewed this offering memorandum; (2) you have had an opportunity to review all financial and other information considered by you to be necessary to make your investment decision and to verify the accuracy of, or to supplement, the information contained in this offering memorandum and have been offered the opportunity to ask us questions, and received answers, as you deemed necessary in connection with your investment decision; (3) you have not relied on the initial purchasers or any person or entity affiliated with the initial purchasers in connection with your investigation of the accuracy of such information or your investment decision; (4) the initial purchasers are not responsible for, and are not making any representation to you concerning, us, our future performance or the accuracy or completeness of this offering memorandum; and (5) no person has been authorized to give any information or to make any representation concerning us or the Notes or the offer and sale of the Notes, other than as contained in this offering memorandum.

We reserve the right to withdraw this offering of the Notes at any time, and we and the initial purchasers reserve the right to reject any commitment to subscribe for the Notes in whole or in part and to allot to any prospective investor less than the full amount of Notes sought by that investor. The initial purchasers and their respective affiliates may acquire for their own account a portion of the Notes.

You must comply with all applicable laws and regulations in force in any jurisdiction in connection with the possession or distribution of this offering memorandum and the purchase, offer or sale of the Notes and you must obtain any consent, approval or permission required by you for the purchase, offer or sale of the Notes under the laws and regulations applicable to you in force in any jurisdiction to which you are subject or in which you make such purchase, offer or sale, and neither we nor the initial purchasers will have any responsibility therefor.

This offering memorandum has been prepared on the basis that any offer of Notes in any Member State of the European Economic Area (the "EEA") will be made pursuant to an exemption under the Prospectus Directive from the requirement to publish an offering memorandum for offers of notes. Accordingly, any person making or intending to make an offer in that Member State of Notes which are the subject of the offering contemplated in this offering memorandum may only do so in circumstances in which no obligation arises for us or any of the initial purchasers to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither we nor the initial purchasers have authorized, nor do we or they authorize, the making of any offer of Notes in circumstances in which

an obligation arises for us or the initial purchasers to publish a prospectus for such offer. Neither we nor the initial purchasers have authorized, nor do we or they authorize, the making of any offer of Notes through any financial intermediary, other than offers made by the initial purchasers, which constitute the final placement of the Notes contemplated in this offering memorandum. The expression “Prospectus Directive” means Directive 2003/71/EC (as amended), and includes any relevant implementing measure in the Member State concerned.

This document is for distribution only to persons who (i) have professional experience in matters relating to investments falling within Article 19(5) of the U.K. Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the “Financial Promotion Order”); (ii) are persons falling within Article 49(2)(a) to (d) (“high net worth companies, unincorporated associations etc.”) of the Financial Promotion Order; (iii) are outside the United Kingdom; or (iv) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the U.K. Financial Services and Markets Act 2000) in connection with the issue or sale of any securities may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as “relevant persons”). This document is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons, and will be engaged in only with relevant persons.

In Guatemala, the Notes will comply with the rules of the *Ley del Mercado de Valores y Mercancías* (Stock Exchange Act, Decree 34-96 of the Congress of the Republic of Guatemala), and any of its amendments, including without limitation, Decree 49-2008 of the Congress of the Republic of Guatemala, and its applicable regulation (Governmental Accord 557-97). The Notes will not be registered for public offering with the Securities Market Registry of Guatemala (*Registro del Mercado de Valores y Mercancías*), because they will not be offered or sold: (1) to any person in an open market, directly or indirectly, by means of mass communication; (2) through a third party or intermediary to any individual person or entity that is considered an institutional investor, including entities that are under the supervision of the Guatemalan Superintendency of Banks (*Superintendencia de Bancos*), the Guatemalan banking regulator, the Guatemalan Social Security Institute (*Instituto Guatemalteco de Seguridad Social*) and its affiliates; (3) through a third party or intermediary to any entity or vehicle used for purposes of collective investment; or (4) to more than 35 individual persons or entities.

The contents of our website do not form part of this offering memorandum and are not included herein by reference or otherwise.

This offering memorandum contains some of our trademarks, trade names and service marks, including our logos. Each trademark, trade name or service mark of any company appearing in this offering memorandum belongs to its respective holder.

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#### NOTICE TO RESIDENTS OF PERU

**THE NOTES WILL NOT BE SUBJECT TO A PUBLIC OFFERING IN PERU. THE NOTES AND THE INFORMATION CONTAINED IN THIS OFFERING MEMORANDUM HAVE NOT BEEN AND WILL NOT BE REGISTERED WITH OR APPROVED BY THE SMV OR THE BVL.**

**PERUVIAN SECURITIES LAWS AND REGULATIONS ON PUBLIC OFFERINGS WILL NOT BE APPLICABLE TO THE OFFERING OF THE NOTES AND THEREFORE, THE DISCLOSURE OBLIGATIONS SET FORTH THEREIN WILL NOT BE APPLICABLE TO THE ISSUER OR THE SELLERS OF THE NOTES BEFORE OR AFTER THEIR ACQUISITION BY PROSPECTIVE INVESTORS. THIS OFFERING MEMORANDUM AND OTHER OFFERING MATERIALS RELATING TO THE OFFER OF THE NOTES ARE BEING SUPPLIED TO THOSE PERUVIAN INVESTORS WHO HAVE EXPRESSLY REQUESTED THEM. SUCH MATERIALS MAY NOT BE DISTRIBUTED TO ANY PERSON OR ENTITY OTHER THAN THE INTENDED RECIPIENTS. ACCORDINGLY, THE NOTES CANNOT BE OFFERED OR SOLD IN PERU, EXCEPT IF (I) SUCH NOTES WERE PREVIOUSLY REGISTERED WITH THE SMV, OR (II) SUCH OFFERING IS CONSIDERED A PRIVATE OFFERING UNDER THE PERUVIAN SECURITIES LAWS AND REGULATIONS OF PERU. THE PERUVIAN SECURITIES LAWS ESTABLISH, AMONG OTHER THINGS, THAT AN OFFER DIRECTED**

**EXCLUSIVELY TO PERUVIAN INSTITUTIONAL INVESTORS QUALIFIES AS A PRIVATE OFFERING. IN MAKING AN INVESTMENT DECISION, INSTITUTIONAL INVESTORS (AS DEFINED BY PERUVIAN LAW) MUST RELY ON THEIR OWN EXAMINATION OF THE TERMS OF THE OFFERING OF THE NOTES TO DETERMINE THEIR ABILITY TO INVEST IN THE NOTES.**

**NO OFFER OR INVITATION TO SUBSCRIBE FOR OR SELL THE NOTES OR BENEFICIAL INTERESTS THEREIN CAN BE MADE IN THE REPUBLIC OF PERU EXCEPT IN COMPLIANCE WITH THE PERUVIAN SECURITIES LAWS AND REGULATIONS.**

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### **AVAILABLE INFORMATION**

For so long as any Notes are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, we will, during any period in which we are neither subject to Section 13 or Section 15(d) of the U.S. Securities Exchange Act of 1934, as amended, or the Exchange Act, nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted securities or to any prospective purchaser or subscriber of such restricted securities designated by such holder or beneficial owner upon the request of such holder, beneficial owner or prospective purchaser or subscriber the information required to be delivered to such persons pursuant to Rule 144A(d)(4) under the Securities Act (or any successor provision thereto). Any such request should be directed to our Chief Financial Officer at Av. Santo Toribio 115, 7<sup>th</sup> floor, San Isidro, Lima 27, Peru.

Copies of the Indenture may be obtained without charge from the Trustee by writing to Citibank, N.A. at its address on the back cover page of this offering memorandum.

### **ENFORCEMENT OF CIVIL LIABILITIES**

Inkia is an exempted company having limited liability incorporated under the laws of Bermuda and substantially all of its assets are located outside the United States. In addition, most of Inkia’s directors and officers and certain other persons named in this offering memorandum reside outside the United States and all or a significant portion of their assets are located outside the United States. There is no treaty in force between the United States and Bermuda providing for the reciprocal recognition and enforcement of judgments in civil and commercial matters. As a result, whether a U.S. judgment would be enforceable in Bermuda against Inkia (or its directors and officers, if applicable) depends on an application of Bermuda’s common law rules relating to the enforcement of foreign judgments. By way of summary only, Bermuda’s common law provides that (outside the bankruptcy context) a U.S. judgment (being a final and conclusive judgment for a debt for a definite sum of money, other than a sum payable in respect of taxes of other charges of a like nature, in respect of a fine or other penalty) will only be enforceable in Bermuda in circumstances where the U.S. court that entered the judgment is recognized by the Bermuda court as having had jurisdiction over Inkia (or its directors and officers, if applicable), as determined by reference to Bermuda’s conflict of law rules, and its enforcement is not otherwise contrary to Bermuda public policy. A judgment from a U.S. court, even one that is final and conclusive and for a debt or definite sum of money, will not be enforceable in Bermuda unless the judgment debtor was either present in the relevant U.S. jurisdiction when the U.S. proceedings were instituted or had submitted to the jurisdiction of the U.S. court, and the issue of presence, submission and jurisdiction is assessed as a matter of Bermuda’s (not the United States’) rules of private international law.

In addition to and irrespective of jurisdictional issues, the Bermuda courts will not enforce a U.S. judgment that is based on a U.S. federal securities law that is either penal or contrary to the public policy of Bermuda. A foreign judgment based on a foreign public, revenue or penal law, the purpose of which is the enforcement of a sanction, power or right at the instance of the foreign state in its sovereign character or by virtue of sovereign authority, may not be recognized and enforced by a Bermuda court. Certain remedies available under the laws of U.S. jurisdictions, including awards of multiple damages and certain remedies under U.S. federal securities laws, are not available under Bermuda law or enforceable in a Bermuda court, if they are penal in nature or would be contrary to Bermuda public policy. Further, it may not be possible to pursue direct claims in Bermuda against Inkia or its directors and officers for alleged violations of U.S. federal securities laws because U.S. federal securities laws are unlikely to have extraterritorial effect and do not have the force of law in Bermuda. A Bermuda court may, however, impose civil



liability on Inkia or its directors and officers if the facts alleged and proved in the Bermuda proceedings constitute or give rise to a cause of action under the applicable governing law, not being a foreign public, penal or revenue law. No stamp duty or similar or other tax or duty is payable in Bermuda on the enforcement of a foreign judgment. Court fees will be payable in connection with proceedings for enforcement.

## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This offering memorandum contains forward-looking statements that reflect our current expectations and views of the quality of our assets, our anticipated financial performance, our future growth prospects, the future growth prospects of our businesses, the liquidity of our ordinary shares, and other future events. Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts, and are principally contained in the sections entitled “*Summary*,” “*Risk Factors*,” “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*,” “*Industry*” and “*Business*.” Some of these forward-looking statements can be identified by terms and phrases such as “anticipate,” “aim,” “should,” “likely,” “foresee,” “believe,” “estimate,” “expect,” “intend,” “continue,” “could,” “may,” “plan,” “project,” “predict,” “will,” “shall” and similar expressions. These forward-looking statements include, but are not limited to, statements relating to:

- our goals and strategies, including with respect to the expansion of our business;
- potential projects, including the location, nature, fuel source and expected capacity of such projects;
- our capital commitments and/or intentions with respect to certain of our operating businesses, including the sufficiency of our liquidity and capital resources;
- the nature and extent of future competition in the energy industry in the markets in which we operate;
- expected supply and demand trends in the Peruvian power market;
- our ability to finance existing, and to source and finance new, greenfield projects and acquisitions;
- the expected cost and expected timing of completion of existing projects and the anticipated installed capacity, capacity factor, and results of such projects;
- the expected timing, completion, and terms of certain acquisitions, including the assignment of certain supply and/or transmission agreements;
- our ability to secure, or renew, appropriate licenses, including water rights, for any acquisitions or greenfield projects;
- the price of, and our ability to successfully integrate, acquired businesses;
- the expected cash flows from our distribution businesses;
- expected trends in electrification levels in Guatemala;
- the competitive landscape within Energuate’s service areas;
- expected or potential changes in distribution tariffs, including expected or potential quarterly adjustments to these tariffs;
- our planned capital expenditures, including with respect to our plan to reduce electricity losses;
- our ability to successfully pursue greenfield projects and acquisition opportunities;
- our ability to source, enter into and/or renew long-term power purchase agreements and engineering, procurement, and construction agreements, as applicable, and the amounts to be paid under such agreements;
- our ability to renew and/or enter into supply, transmission and/or distribution agreements on competitive terms, as such agreements expire;

- the performance and reliability of our generation plants and our ability to manage our operation and maintenance costs;
- expected trends in the countries in which each of our businesses operate, including trends relating to the growth of a particular market, supply and demand imbalances, and investments in power generation facilities;
- expected revenues under our power purchase agreements;
- expected or potential changes in tariffs, which may impact our business, financial condition and results of operations;
- the impact of fuel price and foreign exchange rate fluctuations on our revenues, profit and Adjusted EBITDA;
- our plans to seek coverage for the costs related to the repair and outage of our plants and our ability to recover such costs;
- expected growth in demand for energy in the markets that we serve;
- terms of gas and other supply contracts and our ability to continue to procure gas and other inputs on competitive terms and the ability of our plants to operate using alternate fuels;
- the availability and prices of raw materials, including natural gas and other fuels, and our ability to secure such raw materials to operate our power generation plants;
- the political and macroeconomic outlook for each of the countries in which we operate, many of which are emerging markets, and the impact on our businesses of such conditions;
- the legal and regulatory framework of the energy industry at the national, regional or municipal level in one or more of the countries in which we operate, develop or construct generation assets;
- new types of taxes or increases or decreases in taxes applicable to us;
- the potential expropriation or nationalization of our operating assets by foreign governments, with or without adequate compensation;
- our ability to utilize our power purchase agreements, fuel supply and other agreements to hedge against fuel price and exchange rate fluctuations;
- increased development costs, and the impact such increased costs could have on the development of additional power generation assets and the value of our assets, particularly with respect to hydroelectric power plants;
- the effect of weather conditions on generation, consumer energy use, tariffs, or our operating costs;
- expected trends in energy consumption, particularly in Latin America;
- adequacy of our insurance coverage;
- litigation and/or regulatory proceedings or developments and our expectations and strategy with respect to such litigation, proceedings, appeals, developments and/or awards, including the impact of our release of certain provisions;
- with respect to the Guatemala tax claim, our plan to seek remedies;

- the potential sale of some or all of IC Power’s businesses in Latin America and the Caribbean by our controlling shareholder, Kenon Holdings Ltd., or Kenon; and
- other risk factors identified or discussed under Risk Factors.

Although we base these statements on assumptions that we believe to be reasonable when made, these forward-looking statements are not a guarantee of performance, and you should not place undue reliance on such statements. These statements are only predictions based upon our current expectations and projections about future events. Forward-looking statements are subject to many uncertainties and other variable circumstances, many of which are outside of our control, that could cause our actual results and experience to differ materially from those we thought would occur.

These forward-looking statements speak only as of the date of this offering memorandum. Except as required by law, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. You should read this offering memorandum completely and with the understanding that our actual future results may be materially different from what we expect.

There are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from the results, level of activity, performance or achievements expressed or implied by the forward-looking statements. Some of these factors are discussed under “Risk Factors,” but there may be other risks and uncertainties not discussed under “Risk Factors” or elsewhere in this offering memorandum that may cause our actual results, level of activity, performance or achievement, to differ materially from our forward-looking statements.

## PRESENTATION OF FINANCIAL AND OTHER INFORMATION

### Financial Statements

We present financial statements in accordance with International Financial Reporting Standards, or IFRS, as issued by the International Accounting Standards Board, or IASB. We present our financial statements in U.S. dollars, our functional currency.

The financial statements we have included in this offering memorandum consist of our:

- annual consolidated financial statements as of and for the years ended December 31, 2016, 2015 and 2014, the notes thereto, and the independent auditors' reports thereon ("our audited consolidated financial statements"); and
- unaudited condensed consolidated interim financial statements as of June 30, 2017 and for the three-month and six-month periods ended June 30, 2017 and 2016, the notes thereto and the independent auditors' review report thereon ("our unaudited condensed interim financial statements").

### Reporting and Functional Currency

All references in this offering memorandum to (1) "dollars" or "US\$" are to U.S. dollars, (2) "Peruvian Sol" or "S/" are to the legal currency of Peru, and (3) "Guatemalan Quetzal," "Guatemalan Quetzales," "*quetzal*," "*quetzales*" or "Q" are to Guatemalan Quetzales, the legal currency of the Republic of Guatemala. The financial information included in this offering memorandum is presented in U.S. dollars, unless otherwise indicated. Notwithstanding the fact that we maintain our books and records in U.S. dollars, the functional currency of Energuate is the *quetzales*.

### Rounding

We have made rounding adjustments to some of the figures included in this offering memorandum. Consequently, numerical figures shown as totals in some tables may not be arithmetic aggregations of the figures that precede them.

### Non-IFRS Financial Information

In this offering memorandum, we disclose non-IFRS financial measures, such as Adjusted EBITDA and net debt, each as defined in "Summary Consolidated Financial and Other Information." Adjusted EBITDA and net debt are not measures defined under IFRS, should not be considered as substitutes for income (loss) or working capital, as indicators of operating performance or liquidity, and cannot be considered as a basis for dividend distributions. Each of these measures is an important measure used by us to assess financial and operating performance. These measures are also used by our competitors, ratings agencies, financial analysts and investors to assess the financial performance of companies within our industry. We believe that the disclosure of Adjusted EBITDA and net debt better demonstrates our recurring capacity for cash flow generation and provides transparent and useful supplemental information to investors and financial analysts in their review of our, or our subsidiaries' and associated companies', operating performance and in the comparison of such operating performance to the operating performance of other companies in the same industry or in other industries that have different capital structures, debt levels and/or income tax rates. Other companies may calculate Adjusted EBITDA differently and, therefore, our presentation of Adjusted EBITDA may not be comparable to other similarly titled measures used by other companies. The presentation of non-IFRS financial information is not meant to be considered in isolation or as a substitute for the directly comparable financial measures prepared in accordance with IFRS. We urge you to review the reconciliations of the non-IFRS financial measures presented herein to the comparable IFRS financial measures presented herein and not to rely on any single financial measure to evaluate our business.

## **Industry and Market Data**

Certain information relating to our industry and market position used or referenced in this offering memorandum was obtained from internal analyses, surveys, market research, publicly available information and industry publications. Unless otherwise indicated, all sources for industry data are estimates or forecasts contained in or derived from internal or industry sources we believe to be reliable. Market and macroeconomic data used throughout this offering memorandum were obtained from independent industry publications and other publicly available information. Such data, as well as internal surveys, industry forecasts and market research, while believed to be reliable, have not been independently verified. In addition, in certain cases we have made statements in this offering memorandum regarding our industry and position in the industry based upon our experience and our own investigation of market conditions. We cannot assure you that any of these assumptions are accurate or correctly reflect our position in the industry, and none of our internal surveys or information have been verified by independent sources.

Market data are inherently predictive and speculative and are not necessarily reflective of actual market conditions. Such statistics are based on market research, which itself is based on sampling and subjective judgments by both the researchers and the respondents, including judgments about what types of products and transactions should be included in the relevant market. In addition, the value of comparisons of statistics for different markets is limited by many factors, including that (1) the markets are defined differently, (2) the underlying information was gathered by different methods and (3) different assumptions were applied in compiling the data. Accordingly, the market statistics included in this offering memorandum should be viewed with caution.

## **Representation of Capacity and Production Figures**

Unless otherwise indicated, statistics provided throughout this offering memorandum with respect to power generation units are expressed in MW (in the case of the capacity of such power generation units) or in GWh (in the case of the electricity production of such power generation units). Unless otherwise indicated, our capacity figures provided in this offering memorandum reflect 100% of the capacity of all of our assets, regardless of our ownership interest in the entity that owns each such asset, and our consolidated generation figures provided in this offering memorandum reflect 100% of the generation figures of our subsidiaries and excludes the generation figures of our associated companies. In addition, our generation figures of our acquired companies reflect 100% of the generation figures of these companies for the period indicated, regardless of our date of acquisition of such companies. For example, the generation figures provided in this offering memorandum of ICPNH, Puerto Quetzal, Surpetroil and JPPC, each of which we acquired in 2014, reflect 100% of the generation figures of these companies for the year ended December 31, 2014. With respect to capacity figures for the year ended December 31, 2014, and any prior periods thereto, our capacity figures exclude the 1,540 MW of capacity of Enel Generación Peru S.A.A. (formerly Edegel S.A.A.), a Peruvian corporation, or Edegel, as a result of the sale of our indirect interest in Edegel in September 2014. For information on our ownership interest in each of the operating companies and investments within our generation portfolio, see “Business.”

## REGULATORY AND TECHNICAL TERMS

We have prepared this offering memorandum using a number of defined terms, which you should consider when reading the information contained herein. In this offering memorandum:

### Regulatory Bodies and Terms in Peru

- “ANA” means the National Water Authority of Peru (*Autoridad Nacional del Agua*);
- “COES” means the Committee for the Economic Operation of the System (*Comité de Operación Económica del Sistema Interconectado Nacional*), an independent and private Peruvian entity composed of qualified participants undertaking activities in SEIN which is responsible for planning and coordinating the operation of the generation, transmission and distribution systems that form the SEIN;
- “INDECOPI” means the National Institute for the Defense of Competition and Intellectual Property Protection (*Instituto Nacional de Defensa de la Competencia y de la Protección de la Propiedad Intelectual*), the Peruvian antitrust and intellectual property regulator;
- “MINEM” means the Ministry of Energy and Mines of Peru (*Ministerio de Energía y Minas*), which is responsible for, among other things, setting national energy policy, proposing and adopting laws and regulations to supervise the energy sector, controlling expansion plans for the SEIN (as defined below) and granting concessions and authorizations to entities who wish to operate in power generation, transmission or distribution in Peru;
- “Ministry of Culture” means the Peruvian Ministry of Culture, which is the competent authority responsible for the issuance of Certificates of Inexistence of Archeological Remains (*Certificado de Inexistencia de Restos Arqueológicos*, or “CIRA”), prior to the development of investment projects, as well as other permits for the protection of Peru’s national cultural heritage;
- “OEFA” means the Organization of Supervision and Environmental Assessment (*Organismo de Evaluación y Fiscalización Ambiental*), the Peruvian governmental body responsible for the power plants’ compliance with environmental regulations;
- “OSINERGMIN” means the Supervisory Body of Investment in Energy and Mining (*Organismo Supervisor de la Inversión en Energía y Minería*), a Peruvian governmental authority which is responsible for, among other things, ensuring that companies comply with the rules and regulations applicable to the energy industry in Peru and for setting the tariffs to be charged to regulated customers;
- “SEIN” means the national interconnected electrical system of Peru (*Sistema Eléctrico Interconectado Nacional*);
- “SENACE” means the National Service for Environmental Certification of Sustainable Investments of Peru (*Servicio Nacional de Certificación Ambiental para las Inversiones Sostenibles*), a Peruvian specialized technical governmental agency in charge of reviewing and approving detailed environmental impact assessments related to projects involving activities, works or services that may cause significant impacts to the environment; and
- “SERFOR” means the National Service for Forest and Wildlife (*Servicio Nacional Forestal y de Fauna Silvestre*), a specialized Peruvian technical governmental agency, dependent on the Ministry of Agriculture, which is in charge of regulating forest and wildlife matters and proposing policies, strategies, plans and other instruments to promote the sustainable use of forest and wildlife resources.

### Regulatory Bodies and Terms in Guatemala

- “AMM” means Wholesale Market Administrator (*Administrador del Mercado Mayorista*), a private entity that coordinates the operation of the generation facilities and international interconnections and transmission lines that form the Guatemalan National Electricity System;

- “CNEE” means the National Electric Energy Commission of Guatemala (*Comisión Nacional de Energía Eléctrica*), which was established pursuant to the General Electricity Law of 1996, Decree 93-96, or General Electricity Law (*Ley General de Electricidad*) and acts as a technical arm of the MEM and which determines the transmission and distribution tariffs and is responsible for ensuring compliance with Guatemalan electricity laws;
- “Guatemalan National Electricity System” means the Guatemalan national electricity system, which comprises the set of premises, facilities, power plants, transmission lines, substations, distribution grids, electric equipment, loading centers, including all of the electric infrastructure used to supply electricity, whether or not interconnected, within which electric power is transmitted among the country’s several regions;
- “INDE” means the National Electrification Institute of Guatemala (*Instituto Nacional de Electrificación*), a state entity in charge of development of local power production pursuant to the INDE Statutory Law (*Ley Orgánica del Instituto Nacional de Electrificación*) and consequently in accordance with the General Electricity Law. This entity operates through its three divisions: *Empresa de Generación de Energía Eléctrica* (EGEE), which is responsible for power generation, *Empresa de Transporte y Control de Energía Eléctrica* (ETCEE), which is responsible for transmission and *Empresa de Comercialización de Energía* (ECOE), which is responsible for trading;
- “MEM” means the Ministry of Energy and Mines of Guatemala (*Ministerio de Energía y Minas*), which is responsible for enforcing the General Electricity Law and the related regulations and for the coordination of policies between CNEE and the AMM and overseeing energy and mining sectors in Guatemala; and
- “SIN” means a national system formed by generation plants, the interconnected grid, regional transmission lines, distribution lines and consumer loads (*Sistema Interconectado Nacional*) in each of Bolivia, Colombia and Guatemala.

### **Industry and Other Terms**

- “availability factor” means the percentage of hours a power generation unit is available for generation of electricity in the relevant period, whether or not the unit is actually dispatched or used for generating power;
- “Btu” means British thermal units;
- “CAGR” means compound annual growth rate;
- “COD” means the commercial operation date of a development project;
- “distribution” refers to the transfer of electricity from the transmission lines at grid supply points and its delivery to consumers at lower voltages through a distribution system;
- “EPC” means engineering, procurement and construction;
- “firm capacity” means the amount of energy available for production that, pursuant to applicable regulations, must be guaranteed to be available at a given time for injection to a certain power grid;
- “greenfield projects” means projects constructed on unused land with no need to demolish or remodel existing structures;
- “GWh” means gigawatt hour (one GWh is equal to 1,000 MWh);
- “Heat rate” means the number of Btu of energy contained in the fuel required to produce a kWh of energy (Btu/kWh) for thermal plants;



- “HFO” means heavy fuel oil;
- “installed capacity” means the intended full-load sustained output of energy that a generation unit is designed to produce (also referred to as name-plate capacity);
- “IPP” means independent power producer, excluding co-generators and generators for self-consumption;
- “kV” means kilovolt;
- “kWh” means kilowatt hour;
- “MMBtu” means one million metric Btus;
- “MW” means megawatts (one MW is equal to 1,000 Kilowatts or KW);
- “MWh” means megawatt hour;
- “OEM” means original equipment manufacturer;
- “our capacity” or “our installed capacity” means, with respect to each generation asset, 100% of the capacity of such asset, regardless of our ownership interest in the entity that owns such asset;
- “PPA” means power purchase agreement;
- “transmission” refers to the bulk transfer of electricity from generating facilities to the distribution system at load center station in which the electricity is stabilized by means of the transmission grid;
- “VAD” means the Value Added by Distribution (*Valor Agregado de Distribución*) charge that is set by the CNEE;
- “VNR” means new replacement value (*Valor Nuevo de Reemplazo*);
- “VNR of the transmission system” means the estimated cost of replacing a “model” transmission system, including an estimated return on capital; and
- “weighted average availability” refers to the number of hours that a generation facility is available to produce electricity divided by the total number of hours in a year.

## SUMMARY

*This summary highlights information presented in greater detail elsewhere in this offering memorandum and does not contain all of the information that you should consider in making your investment decision. Before deciding whether to invest in the Notes, you should carefully read this entire offering memorandum, especially the risks of investing in the Notes discussed under the heading “Risk Factors.”*

### Overview

We are a leading owner, developer and operator of power generation facilities located in key energy markets in Latin America and the Caribbean with an aggregate installed capacity of 3,364 MW as of June 30, 2017. Our power generation assets utilize a range of energy sources, including natural gas, hydroelectric, HFO, diesel and wind. In January 2016, we acquired DEOCSA and DEORSA, which jointly operate in Guatemala under the trade name “Energuate”, marking our initial entry in the electricity distribution sector. In August 2016, our hydroelectric CDA project reached COD and added 545 MW to our generation capacity.

We focus our operations in Latin American markets, which typically have higher growth rates of gross domestic product, or GDP, and lower overall and per capita energy consumption, as compared with more developed markets. We believe that economic growth in Latin American markets will drive increases in overall and per capita energy consumption and therefore require significant additional investments in power generation assets in those markets.

We are the second largest power producer in Peru in terms of installed capacity. As of June 30, 2017, our aggregate installed capacity in Peru of 2,240 MW represented 18.7% of Peru’s installed capacity. During the year ended December 31, 2016, we generated 14.3% of the gross energy generated (in GWh) in Peru, one of the fastest-growing economies in Latin America. Our generation assets in Peru include Kallpa’s 870 MW combined cycle plant, Peru’s largest power generation facility, Kallpa’s 193 MW Las Flores open cycle plant, Samay I’s 632 MW cold-reserve thermoelectric plant, which began to operate in May 2016, and Kallpa’s 545 MW hydroelectric CDA plant, which began to operate in August 2016. Our generation operations in Peru represented 109% and 122% of our net profit and 62% and 52% of our Adjusted EBITDA for the six-month period ended June 30, 2017 and the year ended December 31, 2016, respectively. On August 16, 2017, Kallpa merged with and into CDA, with CDA as the surviving entity which was subsequently renamed Kallpa Generación S.A.

In January 2016, we entered the electricity distribution sector through our acquisition of Energuate. As of June 30, 2017, Energuate was the largest distribution company in Central America based on population served, providing electric service to approximately 1.7 million regulated customers in Guatemala (representing approximately 56.0% of Guatemala’s population and 54.3% of Guatemala’s regulated distribution customers) across a service area of 101,914 km<sup>2</sup> in Guatemala (representing approximately 93.6% of Guatemala’s territory, primarily rural areas with a total population of approximately 11.8 million inhabitants). We hold the non-exclusive right to distribute electricity within our service area until 2048. Our distribution operations represented 24% and 130% of our net profit and 17% and 23% of our Adjusted EBITDA for the six-month period ended June 30, 2017 and the year ended December 31, 2016, respectively.

In addition to our positions in generation in Peru and distribution in Guatemala, we have developed an attractive footprint in several generation markets in Latin America and the Caribbean and have development offices in Colombia, Mexico, Argentina and the United States, where we monitor and consider development and acquisition opportunities relating to generation or distribution throughout Latin America. By successfully pursuing growth opportunities, primarily through contracted greenfield development projects in existing markets and acquisitions of anchor investments in new markets, we have expanded our regional presence, diversified our generation portfolio through the addition of various facilities which use a range of energy sources, and significantly increased our cash flows. In 2016, our net profit was US\$27 million, as compared to a net loss of US\$4 million in 2008. In 2016, our Adjusted EBITDA was US\$363 million, as compared to US\$41 million in 2008, representing a CAGR of 31.3% during this period. Adjusted EBITDA is a non-IFRS measure. For a reconciliation of our profit to our Adjusted EBITDA, see “Selected Consolidated Financial and Other Data.”

The following table sets forth certain of our summary consolidated financial and operational information as of the dates and for the periods set forth below:

|   | As of and for the<br>Six Months Ended<br>June 30, |       | As of and for the Year Ended<br>December 31, |       |       |
|---|---|-------|--|-------|-------|
|   | 2017  | 2016  | 2016   | 2015  | 2014  |
| (US\$ millions, except as otherwise indicated)            |   |       |  |       |       |
| <b>Summary Statement of profit or loss information:</b>   |   |       |  |       |       |
| Revenue .....   | 882   | 696   | 1,517  | 963   | 959   |
| Profit from operating activities(1).....                  | 189   | 98    | 218  | 155   | 113   |
| Finance costs, net.....                                   | (77)  | (58)  | (135)  | (80)  | (76)  |
| Profit before income tax and discontinued operations..... | 113   | 40    | 84   | 75    | 110   |
| Income tax expense.....                                   | (47)  | (20)  | (57)   | (41)  | (34)  |
| Profit from continuing operations.....                    | 66  | 20    | 27   | 34    | 76    |
| Discontinued operations.....                              | —   | —     | —  | 4     | 128   |
| Net profit for the period.....                            | 66  | 20    | 27   | 38    | 204   |
| <b>Other financial information:</b>                       |   |       |  |       |       |
| Adjusted EBITDA(2).....                                   | 277   | 162   | 363  | 253   | 246   |
| LTM Adjusted EBITDA(2).....                               | 478(3)  | —     | —  | —     | —     |
| <b>Operating information:</b>                             |   |       |  |       |       |
| Installed capacity at end of period (in MW)(4).....       | 3,364(5)  | 2,926 | 3,487  | 2,207 | 2,202 |

(1) Excludes profit from discontinued operations.

(2) Adjusted EBITDA is a non-IFRS measure. We defined “Adjusted EBITDA” for each period as profit (loss) for the period before depreciation and amortization, finance costs, net, income tax expense and impairment, excluding share of (profit) loss of associates, gain on bargain purchase, capital gains (excluding capital gains from sales of fixed assets), and profit from discontinued operations, net of tax (excluding dividends received from discontinued operations). For a reconciliation of our profit to our Adjusted EBITDA, see “Selected Consolidated Financial and Other Data—Non-IFRS Financial Information.”

(3) Represents Adjusted EBITDA for the twelve-month period ended June 30, 2017.

(4) Reflects 100% of the capacity of each of our assets, regardless of our ownership interest in the entity that owns each such asset.

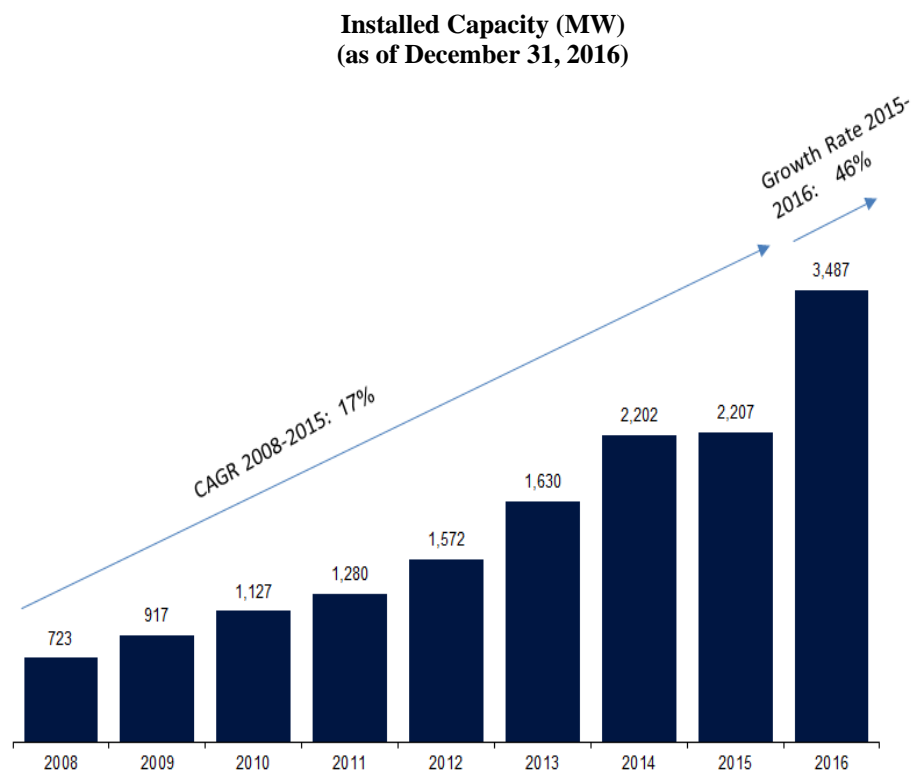
(5) Our installed capacity as of June 30, 2017 declined in comparison to December 31, 2016 as a result of our sale of our interest in Surpetroil in April 2017 and a fire at our Kanan plant in April 2017, as a result of which both of the Kanan plant’s power barges were placed off-line permanently.

## Our History and Growth

Our activities started in 2007 with our acquisition of the power generation assets in Latin America of Globeleq Americas Limited, or Globeleq, which is the former name of Inkia Americas Limited, a Bermuda exempted company, which had 549 MW of installed capacity. Between 2007 and June 30, 2017, we invested approximately US\$2.6 billion in the development, expansion and acquisition of power generation and distribution assets. Of this amount, investment in power generation assets represented US\$2.4 billion, of which 86% represented investments in greenfield development (including investments made in our Kallpa, Samay I and CDA projects), which we financed using a combination of cash on hand, debt financing and investments by minority shareholders at the asset level, and 14% represented acquisitions, which we financed using cash on hand. Of the 2,815 MW that we have added to our installed capacity since Inkia’s formation 10 years ago through June 30, 2017, including our operations in Colombia which we have subsequently sold, 73% was derived from greenfield development projects, including our Kallpa,

Samay I and CDA plants. During the same period, we also acquired power generation businesses with an aggregate installed capacity of 783 MW in five countries in Latin America.

As illustrated below, between 2008 and 2016, we have increased our installed capacity at a CAGR of 22%. In 2016, our installed capacity grew 46% as a result of the completion of the Kanan, Samay I and CDA projects.



### Our Portfolio of Generation Assets

Our power generation portfolio consists of facilities located in key power generation markets in Latin America and the Caribbean, using a range of energy sources. The following table sets forth summary operational information regarding each of our operating companies and associated companies in our generation business as of June 30, 2017.

| Country   | Entity         | Ownership Percentage (1) | Fuel                          | Installed Capacity (MW)(2) | Type of Assets       | Weighted Average Remaining Life of PPAs Based on Contracted Capacity (Years) | LTM Energy Sales Under PPAs (GWh)(3) |
|-----------|----------------|--------------------------|-------------------------------|----------------------------|----------------------|--|--------------------------------------|
| Peru      | Kallpa(4)      | 75%                      | Natural Gas                   | 1,063(5)                   | Greenfield           | 6  | 6,204                                |
|           | CDA            | 75%                      | Hydroelectric                 | 545                        | Greenfield           | 11   | 1,118                                |
|           | Samay I        | 75%                      | Diesel and Natural Gas        | 632                        | Greenfield           | 19   | —                                    |
| Nicaragua | Corinto        | 65%                      | HFO                           | 71                         | Acquired             | 2  | 339                                  |
|           | Tipitapa Power | 65%                      | HFO                           | 51                         | Acquired             | 2  | 347                                  |
|           | Amayo I        | 61%                      | Wind                          | 40                         | Acquired             | 7  | 132                                  |
|           | Amayo II       | 61%                      | Wind                          | 23                         | Acquired             | 8  | 88                                   |
| Bolivia   | COBEE          | 100%                     | Hydroelectric and Natural Gas | 228                        | Original Inkia Asset | —  | 275                                  |
| Chile     | Central        | 87%                      | Diesel                        | 153                        | Acquired             | —  | —                                    |

| <u>Country</u>                  | <u>Entity</u>    | <u>Ownership Percentage (1)</u> | <u>Fuel</u>            | <u>Installed Capacity (MW)(2)</u> | <u>Type of Assets</u> | <u>Weighted Average Remaining Life of PPAs Based on Contracted Capacity (Years)</u> | <u>LTM Energy Sales Under PPAs (GWh)(3)</u> |
|---------------------------------|------------------|---------------------------------|------------------------|-----------------------------------|-----------------------|---|---|
|                                 | Cardones Colmito | 100%                            | Diesel and Natural Gas | 58                                | Acquired              | 1   | 256   |
| El Salvador                     | Nejapa           | 100%                            | HFO                    | 140                               | Original Inkia Asset  | —   | 806   |
| Panama                          | Kanan(6)         | 100%                            | HFO                    | —                                 | Greenfield            | 3   | 515   |
|                                 | Pedregal(7)      | 21%                             | HFO                    | 54                                | Original Inkia Asset  | 3   | 215   |
| Guatemala                       | Puerto Quetzal   | 100%                            | HFO                    | 179                               | Acquired              | 1   | 531   |
| Dominican Republic              | CEPP             | 97%                             | HFO                    | 67                                | Original Inkia Asset  | 2   | 151   |
| Jamaica                         | JPPC             | 100%                            | HFO                    | 60                                | Original Inkia Asset  | 1   | 422   |
| <b>Total Operating Capacity</b> |                  |                                 |                        | <b><u>3,364</u></b>               |                       |   |   |

(1) Ownership interest rounded to nearest percentage.

(2) Reflects 100% of the capacity of each of our assets, regardless of our ownership interest in the entity that owns each such asset.

(3) Reflects energy sales under PPAs for the 12 months ended June 30, 2017.

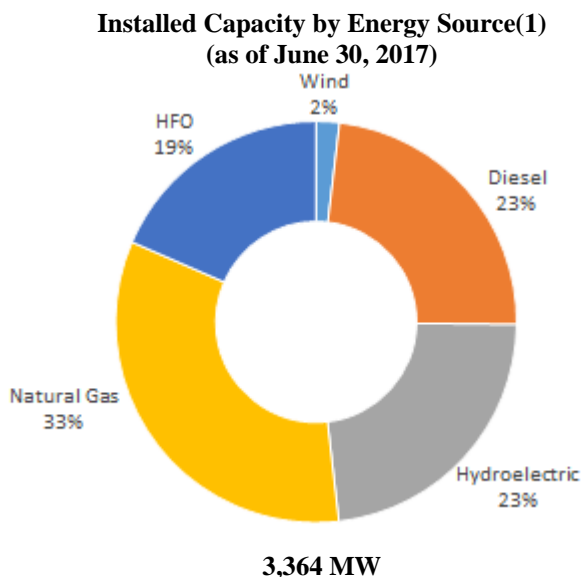
(4) On August 16, 2017, Kallpa merged with and into CDA. CDA, the surviving entity, was subsequently renamed Kallpa Generación S.A.

(5) Kallpa's thermal plant was developed as greenfield project in four different stages between 2005 and 2012, resulting in 870 MW of installed capacity. In addition, Kallpa acquired Las Flores' power plant in 2014, adding 193 MW to Kallpa's capacity.

(6) In April 2017, the Kanan power plant, which consisted of a 37 MW power barge and a 55 MW power barge, experienced a fire and, as a result, both power barges were placed off-line permanently. We expect that our subsidiary Puerto Quetzal will sell one of its two power barges, with an installed capacity of 124 MW, to Kanan and, following modification and maintenance works on this power barge, we currently expect Kanan to resume operations in the first quarter of 2018. For further information regarding insurance payments made in connection with this fire, see "Business—Generation Businesses Outside Peru—Panamanian Operations and Associated Companies – Kanan and Pedregal." For further information on our insurance policies, see "Business—Insurance."

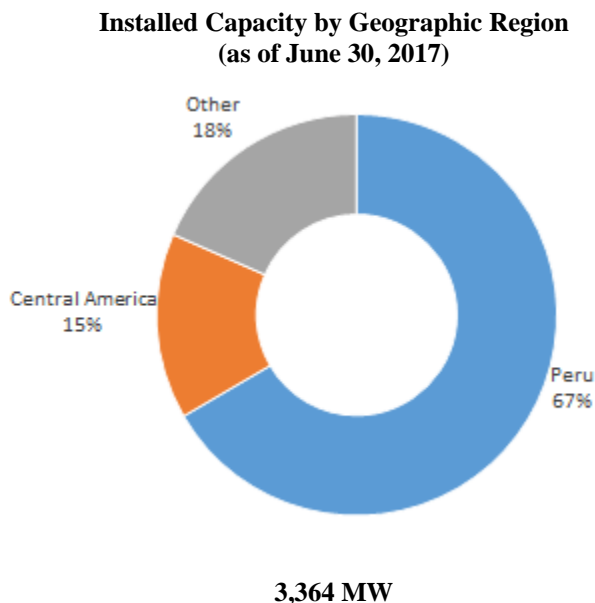
(7) Pedregal is a minority investment. Therefore, from an income statement perspective, it is only reflected as share of profit in associated companies.

The following chart sets forth the relative percentages of our generation business' installed capacity by energy source as of June 30, 2017:



(1) Our dual-fueled assets, COBEE, Samay I and Colmito are categorized as (i) hydroelectric and natural gas (COBEE), and (ii) diesel and natural gas (Samay I and Colmito).

The following chart sets forth the relative percentage of our generation business' installed capacity by geographic region as of June 30, 2017:



### Competitive Strengths

***Attractive footprint in Peru and other high growth Latin American markets.*** Our focus is on Latin American markets, which typically have higher growth rates of GDP and lower overall and per capita energy consumption, as compared with more developed markets. We expect continued growth in these key markets, providing us with the

opportunity to generate attractive, risk-adjusted returns through additional investments in power generation assets in those countries.

We are the second largest power producer in Peru in terms of installed capacity. Peru is one of the fastest growing economies in Latin America, with an average GDP growth of approximately 4.6% per year from 2011 through 2016, according to the International Monetary Fund, a mature regulatory framework, and a well-run power system. As of June 30, 2017, our aggregate installed capacity in Peru of 2,240 MW represented 18.7% of Peru's installed capacity. During the year ended December 31, 2016, we generated 14.3% of the gross energy generated (in GWh) in Peru using Kallpa's 870 MW combined cycle plant, Peru's largest power generation facility, Kallpa's Las Flores 193 MW thermal power generation plant, which we acquired in April 2014, our Samay I 632 MW cold-reserve thermoelectric plant, which began to operate in May 2016, and Kallpa's 545 MW hydroelectric CDA plant, which began to operate in August 2016. Our generation operations in Peru represented 109% and 122% of our net profit and 62% and 52% of our Adjusted EBITDA for the six-month period ended June 30, 2017 and the year ended December 31, 2016, respectively. Although energy and capacity prices in Peru have recently experienced downward pressure due to an oversupply of capacity in the market, we expect demand and spot prices to increase in the medium term as a result of large mining and industrial projects in Peru and sustained growth in underlying demand.

In addition to our position in Peru, we have also developed an attractive footprint in several other markets in Latin America and have development offices in Colombia, Mexico, Argentina and the United States, where we monitor and consider development and acquisition opportunities relating to generation or distribution throughout Latin America. We believe that our current platform, coupled with our agile and disciplined decision-making process, enables us to take advantage of opportunities as they arise.

***Long-term PPAs and supply agreements that limit exposure to market fluctuations.*** Most of our generation subsidiaries typically enter into long-term U.S. dollar-linked PPAs, which generally limit their exposure to fluctuations in energy spot market rates, generate stable and predictable margins and help to create stability and predictability in our cash flows. During the year ended December 31, 2016, we made 86% of our aggregate energy sales (in GWh) pursuant to long-term PPAs. As of December 31, 2016, the weighted average remaining life of our PPAs was 8 years, and we have historically sought, and will continue to seek, to renew our long-term PPAs as they expire.

As most of our power facilities utilize and are dependent upon natural gas, HFO, diesel or a combination of these energy sources, we seek to enter into long-term supply and transportation agreements to acquire the necessary fuel for our facilities. As of December 31, 2016, the majority of our PPAs were indexed to the price of the corresponding power plant's operating fuel prices in U.S. dollars (for plants that use fuel), and all of our PPAs provided for payment in, or were linked to, the U.S. dollar, thereby mitigating such plant's exposure to fuel price and exchange rate fluctuations, including the effect of such fluctuations on our margins. Additionally, the counterparties to our long-term PPAs are typically large local distribution companies or non-regulated customers, including subsidiaries of large multi-national corporations, which we believe have strong credit profiles, mitigating the risk of customer default. Some of our major non-regulated customers within Peru include Southern Copper Corporation, Sociedad Minera Cerro Verde S.A.A. (a subsidiary of Freeport-McMoRan) and Compañía Minera Antapaccay S.A. (a subsidiary of Glencore Xstrata), as well as governments and quasi-governmental entities.

We believe that the stable and predictable margins and cash flows which generally result from such PPAs help us to successfully secure significant project and bank/bond financings with no or limited recourse, from a diverse international lender base during the construction of our greenfield projects. This financing in turn helps us to successfully develop our project pipeline.

***Driving operational excellence through partnerships with leading OEMs and reliance on efficient technologies.*** We seek to optimize our power generation capacity by using leading technologies (e.g., turbines manufactured by Siemens, General Electric and Andritz) and entering into long-term service agreements with leading, multinational OEMs. Our technologies and long-term partnerships enable our power generation assets to perform more efficiently and at relatively high levels of reliability. Additionally, our experienced staff is committed to increasing our operating performance and ensuring the disciplined maintenance of our power generation assets. We believe that our generation plants' weighted average availability rate of 82% for the year ended December 31,

2016 was the result of our optimization efforts and our commitment to improving our operating efficiency and performance.

Additionally, our acquisition or construction of power generation assets that use efficient technologies (e.g., the conversion of Kallpa's thermal plant into a combined cycle operation in 2012) places our generation assets competitively in the dispatch merit order in certain of the countries in which we operate. For example, Kallpa's thermal plant, a base load plant and combined cycle gas turbine, is among the first power plants to be dispatched, due to its efficiency and competitiveness in the dispatch stack. Similarly, our hydroelectric CDA plant, which reached COD in August 2016, is also among the first power plants to be dispatched in Peru. Having a portfolio which includes efficient power plants with lower production costs allows us to potentially earn higher margins than companies that utilize certain other competing technologies in their plants and are therefore less competitive in the dispatch merit order.

***Strong track record in project development, with a disciplined approach to capital structure.*** We leverage our core competencies—project identification, evaluation, development, construction and operation—to develop power generation facilities using various technologies in attractive markets that typically have relatively high GDP growth rates and relatively low levels of per capita energy consumption. For example, in 2012, we completed our third expansion of Kallpa's thermal plant, which is the largest power generation facility in Peru in terms of capacity, by converting it into a combined cycle facility and thereby adding an additional 292 MW to the facility's capacity. This expansion was completed on time and under budget. In April, May and August 2016, we also completed the development of Kanan's 92 MW thermal generation project in Panama, the development of Samay I's 632 MW cold-reserve thermoelectric project in Peru and the development of the three generating units of our 545 MW run-of-the-river hydroelectric CDA plant in Peru, respectively.

Our projects have been developed with a disciplined capital structure, which reflects our commitment to develop projects in accordance with three key fundamental principles. First, we endeavor to construct projects by entering into turnkey EPC agreements that define the total project cost and transfer most of the risks of construction delays and cost overruns to our EPC contractors. For example, we constructed the Samay I and CDA plants pursuant to EPC contracts. Second, we seek to secure a revenue stream prior to the construction of our plants by sourcing and entering into long-term PPAs, which provide our development projects with predictable projected margins and cash flows, before construction has commenced. Finally, we leverage our EPC contracts and PPAs to secure long-term project financing agreements which are generally stand-alone, secured, project-specific, and with no or limited recourse. Over the course of our history, we have secured different types of financings (e.g., leases, local and international bonds, syndicated loans, etc.) during times of changing financial markets and in connection with our construction of various projects using a range of energy sources.

In Guatemala, Energuate's sizeable distribution base and limited exposure to fluctuations in the cost of energy (given the applicable tariff framework) allow us to generate predictable cash flows from our operations. The energy charge portion of tariffs is set annually and adjusted quarterly for effective cost of energy, capacity and transmission, and the VAD charge portion of the tariff is calculated and fixed for five-year periods and adjusted semi-annually for inflation and exchange rate fluctuations.

***Established and disciplined track record in acquiring generation and distribution assets.*** We have acquired numerous generation and distribution assets from 2007 through June 30, 2017, resulting in the expansion of our operations by 783 MW in five countries in Latin America. We believe our recognition as a regional generator and developer with a relatively strong balance sheet, and our ability to act quickly with respect to acquisitions has complemented our development capabilities by allowing us to strategically source and execute acquisitions. Furthermore, our positioning as a mid-sized regional market participant allows us to manage projects that are too small for large companies, as well as projects that are too large for small companies. Such acquisitions facilitate our entry into new markets and allow us to act as consolidators in the countries in which we already operate. Our acquisition of Central Cardones in 2011, for example, provided us with an initial footprint in Chile, a dynamic and important power market, and facilitated our acquisition of Colmito in October 2013. Similarly, our acquisition of certain Nicaraguan assets in 2014, representing 185 MW of installed capacity provided us with an entry into the Nicaraguan market and diversified our portfolio with operational wind generation assets.



In January 2016, we further expanded and diversified our portfolio by completing our acquisition of Energuate, which operates distribution companies in Guatemala, a country with a historically stable electricity sector framework. Our purchase of Energuate marks our initial entry into electricity distribution and we believe this purchase will provide us with a platform to further expand our distribution portfolio. As of June 30, 2017, we were the largest distribution company in Central America based on population served, providing electric service to approximately 1.7 million regulated customers in Guatemala (representing approximately 56.0% of Guatemala's population and 54.3% of Guatemala's regulated distribution customers) across a service area of 101,914 km<sup>2</sup> in Guatemala (representing approximately 93.6% of Guatemala's territory, primarily rural areas with a total population of approximately 11.8 million inhabitants). We expect that Energuate's sizeable distribution base and limited exposure to fluctuations in the cost of electricity (both as a result of Energuate's entry into PPAs and a compensation framework anchored on predefined distribution tariffs) will provide us with predictable cash flows from Energuate's operations, which we believe will contribute significantly to our further expansion within the distribution industry. We have also created a new corporate platform with highly experienced executives from the Latin American distribution sector to manage our distribution business. We believe that this will provide us with the required organizational support to operate Energuate, as well as a strong platform for future expansion in the distribution business in the region.

***Experienced management team with strong local presence.*** Our management team has extensive experience in the power generation business. Our executive officers have an average of approximately 20 years of experience in the power generation industry, and significant portions of our core management team have been working together in international large power generation companies since 1996. We believe that this overall level of experience contributes to our ability to effectively manage our existing operating companies and to identify, evaluate and integrate high-quality growth opportunities within Latin America. Furthermore, our hands-on management team utilizes a lean decision-making process, which allows us to quickly take advantage of strategic acquisitions and potential developments and opportunities as they materialize. Our managers are compensated, in part, on the basis of our financial performance, which incentivizes them to continue to improve our operating results. Additionally, our local management teams provide in-depth market knowledge and power industry experience. These teams consist primarily of local executives with significant experience in the local energy industry and with local government regulators. We believe that the market-specific experience of our local management provides us with insight into the local regulatory, political and business environment in each of the countries in which we operate.

In addition, in connection with our acquisition of Energuate in January 2016, we recruited an experienced management team for our distribution business' operations. This management team consists of officers, who work directly with our management team to oversee and manage the Energuate business with us, as well as local executives who manage Energuate's day-to-day operations. Additionally, this management team has extensive experience managing large distribution companies in various countries throughout Central and South America.

## **Business Strategies**

***Continue to successfully develop greenfield assets in attractive markets.*** One of our core competencies is identifying, evaluating, constructing, and operating greenfield development projects in our target markets. We will continue to seek to develop power generation assets in countries with relatively stable, growing economies, low levels of per capita energy consumption or developing private energy generation markets. We also seek to develop assets that can be expanded through further investment, or as additional fuels become available, which provides us with the ability to further develop an asset and increase its installed capacity in connection with market trends, industry developments, or changing fuel availability.

We place particular focus on our ability to complete the development of our greenfield projects on time and within budget and will continue to use extensive project planning and contracting mechanisms to minimize our development risk. For example, in connection with our development activities, we typically enter into lump-sum, turnkey EPC contracts to minimize our construction risks and mitigate construction cost overruns, while also entering into long-term PPAs to generate stable and predictable margins and cash flows; we believe this combination facilitates our access to long-term construction financing. Engaging in such practices has allowed us to successfully complete several generation projects, including the conversion of the Kallpa thermal plant, which added an additional 292 MW to the facility's capacity, and our development of the Samay I 632 MW cold-reserve thermoelectric project. Additionally, our first hydroelectric development, the CDA plant, is fully operational at a

cost of US\$1.8 million per MW, making the CDA plant among the most efficiently constructed hydroelectric facilities in Peru and Latin America in terms of cost per MW.

***Optimize portfolio to maximize returns while minimizing risk.*** We regularly assess our portfolio of operating companies and employ disciplined portfolio management principles to optimize our operations in light of changing industry dynamics in a particular country or region, create financing flexibility and address specific risk management and exposure concerns. Our strategy is to optimize the composition of our portfolio by focusing on profitable developments and acquisitions within key power generation markets typically in Latin America and the Caribbean.

For example, prior to Kallpa's 2014 acquisition of the Las Flores plant, a 193 MW thermal power generation plant, Las Flores had operated intermittently due to the lack of a long-term regular supply of natural gas. The Kallpa thermal plant, which is located near the Las Flores plant, had an excess supply of natural gas. We identified these and other potential synergies and, since our acquisition of the Las Flores facility, have been able to significantly improve the operations and generation activities of the Las Flores plant, while also maximizing the use of the Kallpa thermal plant's natural gas supply and transportation capabilities.

Additionally, in 2014, we divested our 21% indirect equity interest in Edegel, one of Peru's largest power generation companies. While the Edegel investment was a strong cash flow generator which helped to fund the initial stages of our growth, we opted to sell this investment in order to redeploy the proceeds from such sale into projects in which we have majority control, which we believe will provide a better risk and return profile for our business in the future. In addition, while continuing to maintain a majority interest in our key operating businesses, we may sell further minority interests in some of these assets, so as to raise additional capital to re-invest in the business.

***Complement organic development with dynamic and disciplined acquisitions.*** We seek to invest in countries and/or assets where we can significantly increase our cash flows and optimize our operations. Therefore, in addition to greenfield developments, we also seek to enter into and/or expand our presence in attractive markets by acquiring controlling interests in operating assets to anchor our geographical expansion. For example, we acquired power generation assets in Nicaragua, which represented our initial entry into this market, through our acquisition of ICPNH, which provided us with controlling interests in two HFO and two wind energy Nicaraguan generation companies. Chile represents an important part of our growth strategy. We continue to seek expansion in Chile, and we expect that our assets in this country will provide us with the initial footprint from which to carry out our organic development strategy in this market. Additionally, consistent with our strategy of maintaining controlling interests in our power generation assets, in May 2014, we increased our equity ownership in JPPC (which has an aggregate 60 MW of installed capacity in two HFO generation units in Jamaica) from 16% to 100%, and in January 2015, we increased our equity ownership in Nejapa (which has 140 MW of installed capacity at an HFO power generation facility in El Salvador) from 71% to 100%. We will continue to seek to leverage our acquisitions of assets in new markets and/or of assets utilizing a broad range of technologies (which may include new fuels, such as solar power) to generate attractive risk-adjusted returns.

***Continue to expand and optimize our operations within the electricity distribution sector.*** Our acquisition of Energuate's businesses represents our initial entry into the electricity distribution business. We intend to further expand our portfolio and diversify our revenue streams by applying our disciplined acquisition principles as we seek to purchase additional distribution assets in countries where we believe we can significantly increase our cash flows, optimize our operations and leverage the experience gained from our acquisition of Energuate. Additionally, we will endeavor to optimize Energuate's existing distribution operations by targeting Energuate's electricity losses (both commercial and technical) in the near- to medium-term. We intend to reduce Energuate's commercial losses (e.g., losses from illegal connections, fraud and billing errors) through increasing targeted inspections and meter replacements, implementing a communication program with local communities and modernizing Energuate's facilities to reduce tampering, especially in areas where electricity theft has been more prevalent, and reduce technical losses (i.e., losses occurring in the ordinary course of electricity distribution) by investing in the modernization of Energuate's transmission grid and distribution system. To this end, we invested US\$13 million in capital expenditures in respect of Energuate's tangible fixed assets during the six-months ended June 30, 2017 and US\$30 million during the year ended December 31, 2016, and we expect that our capital expenditures relating to Energuate will increase in the coming years.

***Continue to enter into long-term PPAs with credit-worthy counterparties.*** During the year ended December 31, 2016, we made 86% of our aggregate energy sales (in GWh) pursuant to long-term PPAs, most of which are denominated in, or linked to, the U.S. dollar. Our strategy of generating strong and predictable cash flows from long-term PPAs has enabled us to successfully secure financing for our greenfield projects from a diverse international lender base to fund our development and construction projects. Our generation companies seek to enter into long-term capacity PPAs prior to committing to a new project so as to predict expected cash flows and margins of a particular asset, which facilitates its financing. For example, Kallpa has sourced and entered into three long-term PPAs beginning in 2016, 2018 and 2022 for a significant portion of the capacity of our CDA plant, contracting most of the estimated firm energy we expect the CDA plant to generate between 2018 and 2027. As of June 30, 2017, the weighted average remaining life of the PPAs associated with the CDA plant based on contracted capacity was 11 years. The expected cash flows associated with such PPAs contributed to CDA's attractive credit profile, which supported the financing of the CDA plant's development. Similarly, prior to our construction of the Samay I project, the Peruvian government guaranteed capacity payments for 600 MW for a 20-year period at rates above regulated capacity rates, which also provided support for the financing of the plant's development. We also continue to seek to enter into, or renew, long-term PPAs for our currently operating generation assets. For example, Kallpa entered into two PPAs with Southern Copper Corporation, a 10-year PPA for 120 MW and a 12-year PPA for 70 to 85 MW, both starting in 2017. In addition to significantly improving our access to financing with no or limited recourse, our strategy of contracting our assets' energy and capacity significantly reduces our exposure to changes in spot prices.

### **Potential Projects**

We believe that our current platform, coupled with our agile and disciplined decision-making process, enables us to take advantage of opportunities as they arise. As such, we are constantly monitoring and considering development and acquisition opportunities relating to generation or distribution, and we are currently assessing projects in various Latin American countries, such as Chile, Colombia, Panama, Peru, the Dominican Republic, Argentina, Mexico, Nicaragua and Puerto Rico, relating to generation or distribution projects or companies. For example, through our subsidiary IC Power DR, we are developing a 50 MW wind project in the Dominican Republic, or Agua Clara, which is expected to reach COD by the first quarter of 2019. With respect to our potential generation projects, such projects range in size from small-scale power facilities (e.g., less than 40 MW) to large-scale power facilities (e.g., approximately 850 MW) and utilize different fuels and technologies, including natural gas, hydroelectric, wind, coal and solar. In some instances, we have acquired land, secured necessary licenses or rights (including temporary concessions and water rights), commissioned studies, made bids, or initiated similar actions, in connection with our assessment of the viability of the relevant project.

Projects under development involve a high degree of uncertainty, and there is no guarantee that we will proceed with these projects or execute them successfully if we do. However, notwithstanding the number of opportunities that we may consider over the long- and short-terms, we will only pursue those projects that we believe will generate attractive, risk-adjusted returns over the long-term and which we believe we have the management capacity to build and operate. For a discussion of our development project currently underway, see “—Recent Developments—Project Under Development – Agua Clara.”

### **Recent Financial Developments**

As a result of recent improvements in our operations and financing arrangements, we expect that our operating subsidiaries will be able to make increased distributions to Inkia. We believe this increase will be primarily due to:

***Increased revenue from new operations.*** Following the COD of several projects including the CDA and Samay I plants, we expect the revenue from our operating companies to continue to grow on the basis of already existing PPAs that are now entering into effect. For the six-months ended June 30, 2017, revenue from the CDA and Samay I plants contributed an additional US\$59 million and US\$58 million, respectively, to our consolidated revenue. For the year ended December 31, 2016, revenue from the CDA and Samay I plants contributed an additional US\$50 million and US\$40 million, respectively, to our consolidated revenue.

***Refinancing Activity.*** During 2017 and 2016, we have undertaken transactions such as the Energuate Loan Refinancing and the CDA Refinancing described below and Kallpa's issuance of US\$350 million of its 4.875%

Senior Notes due 2026, or the Kallpa 2026 Notes, the proceeds of which were primarily used to refinance outstanding notes and capital leases of Kallpa. The terms of these and other refinanced debt of our subsidiaries will provide our subsidiaries with greater flexibility to make distributions to Inkia. During the year ended December 31, 2016, dividend payments received by Inkia from our operating companies increased by 40% compared to the previous year.

***Merger of Subsidiary Operations.*** On August 16, 2017, Kallpa merged with and into CDA. CDA, the surviving entity, was subsequently renamed Kallpa Generación S.A. We expect this merger to generate important synergies and contribute to greater flexibility of the combined entity to make distributions to Inkia.

On the basis of these recent changes to our operations and financing arrangements, we expect the trend of increasing revenue and increasing distributions from our subsidiaries to Inkia to continue as our various operating companies record increased cash-flow from new operations and greater flexibility in making distributions.

## **Recent Developments**

### ***Project Under Development – Agua Clara***

We are developing a 50 MW wind project in the Dominican Republic, which is expected to reach COD by the first quarter of 2019. As part of the project, we have entered into a PPA with a government entity for a period of 20 years, for which the relevant concession has been granted. In October 2017, our subsidiary, IC Power DR, entered into an EPC contract with the selected EPC contractor, and we are selecting lenders for the project. The total project cost is estimated to be US\$100 million, of which 70% is expected to be debt-financed.

### ***Energuate Loan Refinancing***

In May 2017, DEOCSA and DEORSA entered into a 10-year loan agreement with an international financing institution under which DEOCSA and DEORSA, joint and severally, borrowed US\$330 million, or the Energuate Loan Agreement. In May 2017, DEOCSA and DEORSA entered into 10-year loan agreements with a Guatemalan financial institution under which DEOCSA and DEORSA borrowed Q529 million (approximately US\$72 million) and Q352 million (approximately US\$48 million), respectively, or the Energuate Guatemalan Loan Agreements. The proceeds of the Energuate Loan Agreement and the Energuate Guatemalan Loan Agreements were used in part to repay all obligations under syndicated loan agreements that had been entered into by DEOCSA and DEORSA and to repay all obligations under a US\$120 million credit agreement that had been entered into by our subsidiary ICPDH. For further information on the Energuate Loan Agreement, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments—Refinancing of Energuate Debt and Energuate Acquisition Debt.”

### ***CDA Refinancing***

On August 16, 2017, CDA issued US\$650 million 4.125% senior unsecured notes due 2027, which, as a result of the merger of Kallpa with and into CDA and the subsequent renaming of the surviving entity, we refer to as the “Kallpa 2027 Notes.” The proceeds of the notes were principally used to repay all amounts outstanding under the CDA Finance Facility, to unwind interest rate swap agreements associated with the CDA Finance Facility, and to repay certain loans made by us and our minority partner in CDA.

### ***Potential Sale of All of Inkia’s Business***

On July 24, 2017, our controlling shareholder, Kenon (NYSE: KEN; TASE: KEN), a Singapore company traded on the New York Stock Exchange and the Tel Aviv Stock Exchange, announced that it had been approached by, and received indicative, non-binding offers from, parties looking to acquire some or all of IC Power’s businesses in Latin America and the Caribbean. Kenon also announced that it was considering such a sale and was in discussions with such parties with a view to negotiating a transaction that would maximize value for Kenon’s shareholders.

The company has been informed by Kenon that it is in advanced negotiations with a top-tier financial investor, which currently owns Latin American power sector assets, with the intention of agreeing to the terms of sale of all of IC Power's assets in Latin America and the Caribbean to such investor. If such sale is agreed, it is contemplated that Inkia would enter into a share purchase agreement under which it will agree to sell such businesses to the financial investor, which we understand would also qualify as a "Qualified Transferee" as defined under "Description of the Notes—Certain Definitions." As a result, such sale would not constitute a Change of Control under the indenture governing the Notes even if such sale results in a ratings decline in respect of the Notes. See "Risk Factors—The sale of our parent company by our ultimate controlling shareholder, or a sale of our operating businesses by Inkia, may have a material adverse effect on us or the surviving entity" and "Description of the Notes—Certain Definitions."

While no agreement has been reached, it is currently contemplated that the transaction terms would provide for a sale by Inkia of all of Inkia's business, as follows:

- our subsidiary Inkia Americas Limited, a holding company that indirectly owns our interests in Kallpa, Samay I, COBEE, Central Cardones, Colmito, Nejapa, CEPP and Pedregal, to a newly established holding company owned by the potential purchaser that, as the surviving entity in the transaction, would assume the obligations of Inkia under the indenture governing the Notes upon the sale; and
- our subsidiary ICPDH, a holding company that indirectly owns our interests in Energuate, and the other subsidiaries of Inkia, which consist of holding companies that indirectly own our interests in Corinto, Tipitapa Power, Amayo I, Amayo II, Kanan, Puerto Quetzal, and JPPC, to one or more newly established holding companies owned by the potential purchaser. Each of these newly established holding companies would remain a Restricted Subsidiary under the indenture governing the Notes and become a co-issuer thereunder.

Under the contemplated share purchase agreement, Inkia will be required to make customary representations and warranties with respect to Inkia and its subsidiaries and enter into customary covenants with respect to its operations pending the closing of the proposed transaction, as well as undertakings by Inkia to cooperate with the potential purchaser with respect to actions required to consummate the transaction. Under the contemplated share purchase agreement, Inkia will not be required to pay any "break-up" fee in the event that the transaction is not consummated and, although it is expected that the share purchase agreement will contain customary indemnification obligations in favor of the potential purchaser, no indemnification obligations of Inkia will arise prior to the consummation of the transaction and none of Inkia's subsidiaries will be bound by any indemnification obligations to the potential purchaser in any event. In addition, the potential purchaser has indicated that it intends to retain existing management in the event that it acquires Inkia's business.

We cannot provide any assurance that the negotiations with the financial investor referred to above will result in the execution of the contemplated share purchase agreement, that the terms of such share purchase agreement will be as described above, that the conditions to the sale set forth in the contemplated share purchase agreement would be met, when or whether such transaction would be consummated, or, if consummated, whether such transaction will not result in a ratings downgrade of the Notes or ultimately be successful or positive for the continuing acquired businesses or for you as a holder of Notes. See "Risk Factors—Risks Related to Our Business—The sale of our parent company by our ultimate controlling shareholder, or a sale of our operating businesses by Inkia, may have a material adverse effect on us or the surviving entity."

### ***Merger of Kallpa and CDA***

On August 16, 2017, Kallpa merged with and into CDA with CDA as the surviving entity. CDA has assumed all of the outstanding debt obligations of Kallpa. In September 2017, CDA changed its corporate name to Kallpa Generación S.A.

## Tender Offer and Consent Solicitation for the Inkia 2021 Notes

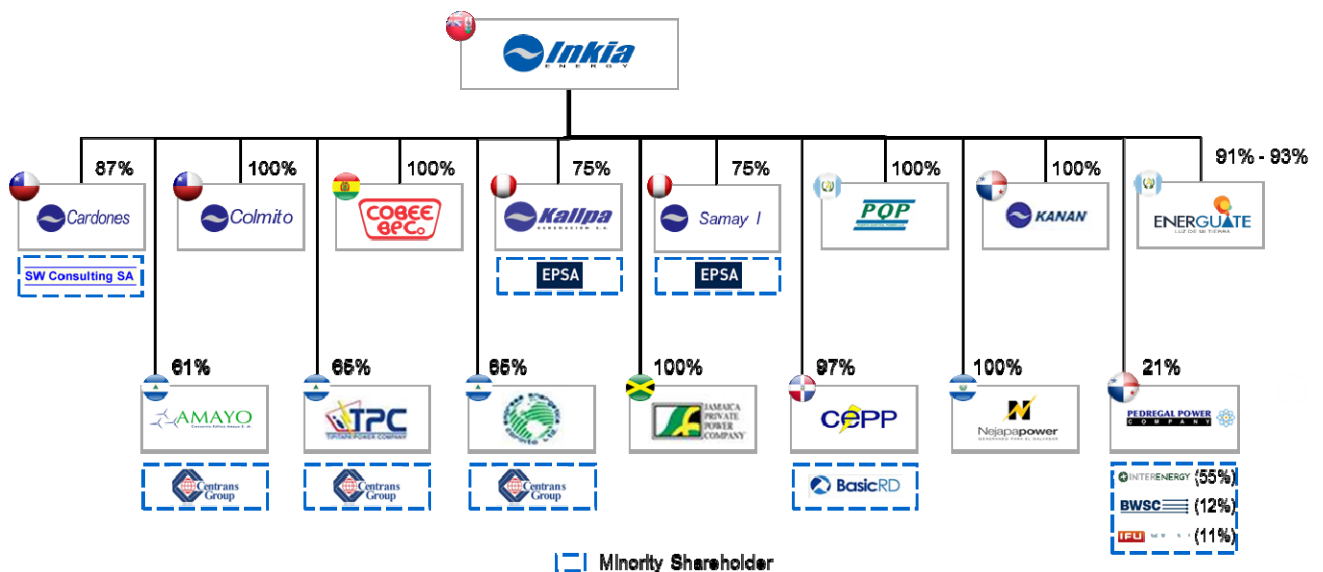
Concurrently with this offering, Inkia has commenced a cash tender offer and consent solicitation, or the tender offer, for any and all of its 8.375% Senior Notes due 2021, or the Inkia 2021 Notes, of which US\$450 million in aggregate principal amount is outstanding, subject to certain terms and conditions of the tender offer, including the consummation of this offering. The total consideration to be paid per US\$1,000 of the Inkia 2021 Notes validly tendered and accepted for purchase in the tender offer (including an early tender payment of US\$30.00) is US\$1,031.67 plus accrued and unpaid interest to, but excluding, the date of repurchase. The deadline for holders of the Inkia 2021 Notes to validly tender their notes, deliver consents and be eligible to receive the total consideration (including the early tender payment), will be at 5:00 pm, New York City time, on November 8, 2017, unless extended by us. Holders who tender their Inkia 2021 Notes after the early tender deadline but at or prior to the expiration date will be eligible to receive the tender consideration, which is equal to the total consideration minus the early tender payment. As of the date of this offering memorandum, Inkia intends to issue a redemption notice on the early settlement date to redeem any and all notes not purchased in the tender offer following the early settlement date. The tender offer is scheduled to expire at 11:59 p.m., New York City time, on November 22, 2017, unless extended by us. Inkia intends to fund the purchase of the Inkia 2021 Notes validly tendered and accepted for purchase in the tender offer with a portion of the net proceeds from this offering.

## Ownership Structure

Inkia's sole shareholder is I.C. Power Asia Development Ltd. (formerly I.C. Power Ltd.), or ICP, an Israeli holding company with electricity generation and distribution operations in Latin America, the Caribbean and Israel. ICP is a wholly-owned subsidiary of IC Power, a Singaporean corporation, in turn owned by Kenon. Kenon was formed in 2014 by Israel Corporation Ltd., or IC, an Israeli corporation traded on the Tel Aviv Stock Exchange, to serve as the holding company of certain interests received by Kenon in connection with IC's January 2015 spin-off of Kenon to IC's shareholders. The companies Kenon owns, in whole or in part, are at various stages of development, ranging from established, cash generating businesses to early stage companies.

## Corporate Structure

The following chart presents our simplified corporate structure and principal subsidiaries as of the date of this offering memorandum:



## Corporate Information

Inkia is an exempted company having limited liability incorporated under the laws of Bermuda on June 7, 2007. Inkia's registered office is located at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda, and its

telephone number is +1 (441) 294 8049. Inkia is registered with the Registrar of Companies in Bermuda under registration number 40155. Our principal executive offices are located at Av. Santo Toribio 115, 7<sup>th</sup> floor, San Isidro, Lima 27, Peru, and our telephone number at this address is +51 (1) 708 2270.

## The Offering

*The following summary contains basic information about the Notes and is not intended to be complete. It does not contain all of the information that is important to you. For a more complete understanding of the Notes, please refer to the section of this offering memorandum entitled “Description of the Notes.”*

|  |   |
|--|---|
| Issuer .....                             | Inkia Energy Limited.   |
| Notes Offered .....                      | US\$450,000,000 in aggregate principal amount of 5.875% Senior Notes due 2027.  |
| Maturity Date .....                      | November 9, 2027.   |
| Interest .....                           | The Notes will bear interest from November 9, 2017 at the rate of 5.875% per annum, payable semi-annually in arrears on each May 9 and November 9 of each year, beginning on May 9, 2018.   |
| Issue Price .....                        | 100.000% plus accrued interest from November 9, 2017.   |
| Ranking .....                            | <p>The Notes will be our senior unsecured obligations and will rank equally in right of payment with all of our existing and future unsubordinated indebtedness. The Notes will be effectively junior to all of our future secured indebtedness to the extent of the assets securing that indebtedness and to all of the existing and future liabilities of our subsidiaries.</p> <p>As of June 30, 2017, Inkia had total consolidated debt of US\$2,526 million, of which US\$448 million was unsecured debt of Inkia and US\$2,078 million was debt of Inkia’s subsidiaries. As of June 30, 2017, none of Inkia’s debt was secured.</p> |
| Optional Redemption .....                | <p>On or after November 9, 2022, we may redeem the Notes, in whole or in part, at the redemption prices set forth in “Description of the Notes—Optional Redemption.”</p> <p>Before November 9, 2022, we may also redeem the Notes, in whole or in part, at a redemption price based on a “make-whole” premium.</p> <p>In addition, prior to or on November 9, 2020, we may redeem up to 35% of the original principal amount of the Notes with the net proceeds from certain equity offerings by us, at a price of 105.875% of the aggregate principal amount thereof, plus accrued and unpaid interest.</p>                              |
| Change of Control Offer.....             | Upon the occurrence of a Change of Control that results in a Ratings Event (as defined in “Description of the Notes”), we will be required to make an offer to purchase the Notes at a purchase price equal to 101% of the principal amount thereof plus accrued and unpaid interest. See “Description of the Notes—Change of Control” and “—Certain Definitions.”  |
| Optional Redemption upon Tax Event ..... | The Notes are redeemable at our option, in whole but not in part, at any time, at the principal amount thereof plus accrued and unpaid interest and any additional amounts due thereon if certain changes in applicable tax laws occur. See “Description of the Notes—Optional Redemption—Optional Redemption for Changes in Withholding Taxes.”  |
| Covenants .....                          | The indenture governing the Notes contains covenants that will limit our and our restricted subsidiaries’ ability to, among other things:   |



- incur additional indebtedness;
- pay dividends on our capital stock or redeem, repurchase or retire our capital stock or subordinated indebtedness;
- make investments;
- create liens;
- create limitations on the ability of our restricted subsidiaries to pay dividends, make loans or transfer property to us;
- engage in transactions with affiliates;
- sell assets, including capital stock of our subsidiaries; and
- consolidate, merge or transfer assets.

These covenants are subject to a number of important limitations and exceptions. See “Description of the Notes—Certain Covenants.” In particular, although the indenture governing the Notes will contain restrictions on the incurrence of additional debt, these restrictions are subject to a number of important qualifications and exceptions, and the debt incurred in compliance with these restrictions could be substantial.

Events of Default.....

For a discussion of certain events of default that will permit acceleration of the principal of the Notes plus accrued and unpaid interest, if any, and any other amounts due with respect to the Notes, see “Description of the Notes—Events of Default.”

Book-Entry System; Delivery and Form and Denomination of the Notes.....

The Notes will be issued only in fully registered form, without coupons, in the form of beneficial interests in respect of one or more global securities in denominations of US\$200,000 and integral multiples of US\$1,000 thereof. Beneficial interests in respect of the global securities will be shown on, and transfers thereof will be effected only through, the book-entry records maintained by DTC and its participants, including Euroclear and Clearstream. The Notes will not be issued in definitive form except under certain limited circumstances.

Use of Proceeds.....

We intend to use the net proceeds from this offering, together with cash on hand, (1) to purchase any and all of the outstanding Inkia 2021 Notes that are validly tendered and accepted for purchase in the tender offer that we have commenced concurrently with this offering and to pay the expenses of such tender offer, and (2) to redeem any outstanding Inkia 2021 Notes that are not validly tendered and accepted for purchase in the tender offer and to pay expenses of the redemption.

For more information about the Inkia 2021 Notes and the tender offer, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Material Indebtedness—Long-Term Debt—Inkia 2021 Notes” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments—Tender Offer for the Inkia 2021 Notes,” respectively.

Governing Law.....

The Notes and the indenture will be governed by the laws of the State of New York.

Listing.....

Inkia has received approval in principle for the listing and quotation of the Notes on the SGX-ST. The Notes will be traded on the SGX-ST in a

minimum board lot size of US\$200,000 as long as any of the Notes are listed on the SGX-ST and the rules of the SGX-ST so require.

Trustee, Registrar, Paying Agent and  
Transfer Agent .....

Citibank, N.A.

Singapore Listing Agent.....

Allen & Gledhill LLP

Transfer Restrictions .....

The Notes have not been registered under the Securities Act and are subject to restrictions on transfer and resale. See “Transfer Restrictions” and “Plan of Distribution.”

Risk Factors.....

Investing in the Notes involves substantial risks and uncertainties. See “Risk Factors” and other information included in this offering memorandum for a discussion of factors you should carefully consider before deciding to invest in the Notes.

## Summary Consolidated Financial and Other Information

The following tables present our summary consolidated financial information and operating statistics. The summary consolidated financial information as of June 30, 2017 and for the six months ended June 30, 2017 and 2016 have been derived from our unaudited condensed consolidated interim financial statements and the notes thereto included elsewhere in this offering memorandum. The summary consolidated financial information as of and for the years ended December 31, 2016, 2015 and 2014 have been derived from our audited consolidated financial statements and the notes thereto included elsewhere in this offering memorandum. Our historical results for any prior period are not necessarily indicative of results expected in any future period. Additionally, the summary consolidated interim financial and operating information as of and for the six months ended June 30, 2017 are not necessarily indicative of the results expected as of or for any future date or period.

You should read the summary consolidated financial and operating information set forth below in conjunction with the sections entitled “Use of Proceeds,” “Capitalization,” “Selected Consolidated Financial and Other Data,” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” as well as in conjunction with our unaudited condensed consolidated interim financial statements, and our audited financial statements, and the notes thereto included elsewhere in this offering memorandum.

|  | <b>For the Six-Month Period</b> |               | <b>For the Year Ended December 31,</b> |               |                |
|--|---------------------------------|---------------|--|---------------|----------------|
|  | <b>Ended June 30,</b>           |               | <b>2016</b>                            | <b>2015</b>   | <b>2014</b>    |
|  | <b>2017</b>                     | <b>2016</b>   | <b>2016</b>                            | <b>2015</b>   | <b>2014</b>    |
|  | (in millions of U.S. dollars)   |               |  |               |                |
| <b>Summary Statement of Profit or Loss Information:</b>      |                                 |               |  |               |                |
| Revenue .....  | US\$882                         | US\$696       | US\$1,517                              | US\$963       | US\$959        |
| Cost of sales .....  | (693)                           | (557)         | (1,210)                                | (752)         | (794)          |
| Gross profit .....   | 189                             | 139           | 307                                    | 211           | 165            |
| Selling, general and administrative expenses .....           | (56)                            | (46)          | (104)                                  | (60)          | (58)           |
| Other income .....   | 63                              | 6             | 20                                     | 10            | 16             |
| Other expenses .....   | (7)                             | (1)           | (5)                                    | (6)           | (10)           |
| Profit from operating activities .....                       | 189                             | 98            | 218                                    | 155           | 113            |
| Finance costs, net .....                                     | (77)                            | (58)          | (135)                                  | (80)          | (76)           |
| Share of profit in associates .....                          | 1                               | —             | 1                                      | —             | 2              |
| Measurement to fair value of pre-existing share .....        | —                               | —             | —                                      | —             | 3              |
| Gain on bargain purchase .....                               | —                               | —             | —                                      | —             | 68             |
| Profit before income taxes and discontinued operations ..... | 113                             | 40            | 84                                     | 75            | 110            |
| Income taxes expense .....                                   | (47)                            | (20)          | (57)                                   | (41)          | (34)           |
| Profit from continuing operations .....                      | 66                              | 20            | 27                                     | 34            | 76             |
| Profit from discontinued operations, net of tax ..           | —                               | —             | —                                      | 4(1)          | 128(2)         |
| Net profit for the period .....                              | <u>US\$66</u>                   | <u>US\$20</u> | <u>US\$27</u>                          | <u>US\$38</u> | <u>US\$204</u> |

- (1) Reflects (a) the results of Inkia Holdings (Acter) Limited, or Acter Holdings, a Cayman Islands corporation through which we held our interest in Southern Cone Power Perú S.A., or Southern Cone, a Peruvian corporation through which we held our interest in Generandes Perú S.A., or Generandes, a Peruvian corporation through which we held our indirect interest in Edegel, which consists of our US\$18 million proportionate share of Generandes’ results of operations during the period and (b) US\$110 million net gain on sale of discontinued operations as a result of the sale of our interest in Generandes, through which we held our indirect interest in Edegel.
- (2) Reflects the results of Acter Holdings, which primarily consists of our proportionate share of Edegel’s results for the period.

|   | <b>As of<br/>June 30,</b>     | <b>As of December 31,</b> |             |             |
|---|-------------------------------|---------------------------|-------------|-------------|
|   | <b>2017</b>                   | <b>2016</b>               | <b>2015</b> | <b>2014</b> |
|   | (in millions of U.S. dollars) |                           |             |             |
| <b>Summary Statement of Financial Position Information:</b> |                               |                           |             |             |
| Cash and cash equivalents.....                              | US\$170                       | US\$173                   | US\$239     | US\$424     |
| Short-term deposits and restricted cash.....                | 29                            | 42                        | 209         | 151         |
| Trade receivables .....                                     | 245                           | 250                       | 92          | 140         |
| Total current assets .....                                  | 707                           | 665                       | 679         | 864         |
| Income tax receivables and tax claims .....                 | 107                           | 100                       | 20          | 7           |
| Intangible assets and goodwill, net .....                   | 362                           | 376                       | 146         | 138         |
| Property, plant and equipment .....                         | 2,942                         | 3,002                     | 2,503       | 2,046       |
| Total assets.....   | 4,210                         | 4,231                     | 3,394       | 3,127       |
| Short-term credit from banks and others.....                | 198                           | 361                       | 274         | 143         |
| Trade payables .....  | 184                           | 253                       | 110         | 88          |
| Other payables, including derivative instruments .....      | 80                            | 77                        | 97          | 104         |
| Guarantee deposits from customers .....                     | 61                            | 57                        | —           | —           |
| Total current liabilities .....                             | 541                           | 756                       | 485         | 340         |
| Long-term loans from banks and others.....                  | 1,157                         | 1,329                     | 1,144       | 994         |
| Debentures .....  | 1,171                         | 857                       | 656         | 687         |
| Total liabilities .....                                     | 3,166                         | 3,241                     | 2,447       | 2,180       |
| Total equity .....  | 1,044                         | 990                       | 947         | 947         |

|   | <b>For the Six-Month Period<br/>Ended June 30,</b> |                | <b>For the Year Ended December 31,</b> |                |                 |
|---|--|----------------|--|----------------|-----------------|
|   | <b>2017</b>  | <b>2016</b>    | <b>2016</b>                            | <b>2015</b>    | <b>2014</b>     |
|   | (in millions of U.S. dollars)                      |                |  |                |                 |
| <b>Summary Cash Flow Information:</b>                                       |  |                |  |                |                 |
| Net cash provided by operating activities .....                             | US\$170  | US\$67         | US\$172                                | US\$244        | US\$232         |
| Net cash used in investing activities .....                                 | (40)   | (202)          | (252)                                  | (551)          | (301)           |
| Net cash provided by (used in) financing<br>activities .....                | (143)  | 67             | 10                                     | 135            | 80              |
| Net increase (decrease) in cash and cash<br>equivalents .....               | (13)   | (68)           | (70)                                   | (172)          | 11              |
| Cash and cash equivalents at beginning of the<br>period .....               | 173  | 239            | 239                                    | 424            | 414             |
| Effect of changes in the exchange rate on cash<br>and cash equivalents..... | 10   | 1              | 4                                      | (13)           | (1)             |
| <b>Cash and cash equivalents at end of the<br/>period .....</b>             | <b>US\$170</b>                                     | <b>US\$172</b> | <b>US\$173</b>                         | <b>US\$239</b> | <b>US\$ 424</b> |

|   | As of and for the Six-Month<br>Period Ended June 30, |       | As of and for the Year Ended<br>December 31, |       |        |
|---|--|-------|--|-------|--------|
|   | 2017   | 2016  | 2016   | 2015  | 2014   |
| (in millions of U.S. dollars, except as indicated)  |  |       |  |       |        |
| <b>Operating Information:</b>   |  |       |  |       |        |
| Installed capacity of operating companies and associated companies at end of period (MW)..... | 3,364  | 2,926 | 3,487  | 2,207 | 2,202  |
| Weighted average availability during the period (%) .....                                     | 90   | 93    | 82   | 95    | 96     |
| Gross energy generated (GWh).....   | 4,832  | 5,072 | 10,355                                       | 9,272 | 9,691  |
| Energy sold under PPAs (GWh) .....  | 5,731  | 5,073 | 10,586                                       | 9,773 | 10,247 |

|  | As of and for<br>the Twelve-<br>Month Period<br>Ended<br>June 30, | As of and for the Year Ended December 31, |      |      |
|--|---|---|------|------|
|  | 2017  | 2016                                      | 2015 | 2014 |
| (in millions of U.S. dollars, except as indicated) |   |   |      |      |

**Other Financial and Operating Information:**

*Adjusted EBITDA and Ratios for Twelve-Month Periods*

|                                  |         |         |         |         |
|----------------------------------|---------|---------|---------|---------|
| Adjusted EBITDA(1).....          | US\$478 | US\$363 | US\$253 | US\$246 |
| Net debt(2) .....                | 2,327   | 2,332   | 1,626   | 1,249   |
| Net leverage ratio(3) .....      | 4.87x   | 6.42x   | 6.43x   | 5.08x   |
| Interest coverage ratio(4) ..... | 3.12x   | 2.84x   | 3.51x   | 3.32x   |

- (1) We define “Adjusted EBITDA” for each period as profit (loss) for the period before depreciation and amortization, finance costs, net, income tax expense and impairment, excluding share of (profit) loss of associates, gain on bargain purchase, capital gains (excluding capital gains from sales of fixed assets), and profit from discontinued operations, net of tax (excluding dividends received from discontinued operations).

Adjusted EBITDA is not recognized under IFRS or any other generally accepted accounting principles as a measure of financial performance and should not be considered as a substitute for profit or loss, cash flow from operations or other measures of operating performance or liquidity determined in accordance with IFRS. Adjusted EBITDA is not intended to represent funds available for dividends or other discretionary uses because those funds may be required for debt service, capital expenditures, working capital and other commitments and contingencies. Adjusted EBITDA presents limitations that impair its use as a measure of our profitability since it does not take into consideration certain costs and expenses that result from our business that could have a significant effect on our profit, such as finance expenses, taxes and depreciation.

The following table sets forth a reconciliation of our profit to our Adjusted EBITDA for the periods presented. Other companies may calculate Adjusted EBITDA differently, and therefore this presentation of Adjusted EBITDA may not be comparable to other similarly titled measures used by other companies:

|   | <b>For the<br/>Twelve-Month<br/>Period Ended<br/>June 30,<br/>2017(i)</b> | <b>For the Six-<br/>Month Period<br/>Ended<br/>June 30,<br/>2017</b> | <b>For the Six-<br/>Month Period<br/>Ended<br/>June 30,<br/>2016</b> | <b>For the Year Ended<br/>December 31,</b> |                |                |
|---|---|--|--|--|----------------|----------------|
|   |   |  |  | <b>2016</b>                                | <b>2015</b>    | <b>2014</b>    |
|   | (in millions of U.S. dollars)   |  |  |  |                |                |
| Profit for the period.....  | US\$73  | US\$66   | US\$20   | US\$27                                     | US\$38         | US\$204        |
| Depreciation and amortization .....   | 157   | 76   | 64   | 145  | 94             | 83             |
| Finance costs, net.....   | 154   | 77   | 58   | 135  | 80             | 76             |
| Income tax expense.....   | 84  | 47   | 20   | 57   | 41             | 34             |
| Net gain on Kanan write-off.....  | (8)   | (8)  | —  | —  | —              | —              |
| Impairment.....   | 20  | 20   | —  | —  | —              | 35             |
| Share of (profit) loss of associates .....  | (2)   | (1)  | —  | (1)  | (0)            | (2)            |
| Gain on bargain purchase.....   | —   | —  | —  | —  | —              | (71)(ii)       |
| Profit from discontinued operations, net<br>of tax (excluding dividends received<br>from discontinued operations) ..... | —   | —  | —  | —  | 0(iii)         | (113)(iv)      |
| <b>Adjusted EBITDA.....</b>   | <b>US\$478</b>  | <b>US\$277</b>   | <b>US\$162</b>   | <b>US\$363</b>                             | <b>US\$253</b> | <b>US\$246</b> |

- (i) Represents the sum of items for the year ended December 31, 2016 *plus* the sum of the items for the six-month period ended June 30, 2017 *minus* the sum of the items for the six-month period ended June 30, 2016.
- (ii) Includes US\$68 million of income from gain on bargain purchase and US\$3 million of income from the measurement to fair value of pre-existing share.
- (iii) Profit from discontinued operations, net of tax for the year ended December 31, 2015 consists solely of US\$4 million in dividends received from Edegel post-equity method accounting, which is included in profit for the period and, as a result, is included in Adjusted EBITDA for the period (reducing the amount presented as “Profit from discontinued operations, net of tax” in the table above).
- (iv) Profit from discontinued operations, net of tax of US\$128 million for the year ended December 31, 2014 includes US\$15 million in dividends received from Edegel post-equity method accounting, which is included in profit for the period and, as a result, is included in Adjusted EBITDA for the period (reducing the amount presented as “Profit from discontinued operations, net of tax” in the table above).
- (2) Net debt is calculated as total debt, minus cash and short term deposits and restricted cash. Net debt is not a measure recognized under IFRS.  
For a reconciliation of the net debt to our total debt and cash, short term deposits and restricted cash, derived from the financial data used in the preparation of our audited consolidated financial statements, see the footnotes to the table presented in “Selected Consolidated Financial and Other Data.”
- (3) Net leverage ratio represents our net debt divided by our Adjusted EBITDA.
- (4) Interest coverage ratio represents our Adjusted EBITDA divided by our interest expenses on loans and bonds.

## Summary Financial and Operating Information of Inkia:

The following table presents summary unconsolidated financial information relating to distributions received by Inkia from its subsidiaries. The financial information as of June 30, 2017 and December 31, 2016, 2015 and 2014, for the six months ended June 30, 2017 and 2016, and for the years ended December 31, 2016, 2015 and 2014 have been derived from our consolidated accounting records and were prepared and are presented on the same basis as our unaudited condensed consolidated interim financial statements and our audited financial statements. The historical results of Inkia for any prior period are not necessarily indicative of results expected in any future period.

|  | For the Six-Month Period      |        | For the Year Ended December 31, |        |        |
|--|-------------------------------|--------|---------------------------------|--------|--------|
|  | Ended June 30,                |        | 2016                            | 2015   | 2014   |
|  | 2017                          | 2016   | 2016                            | 2015   | 2014   |
|  | (in millions of U.S. dollars) |        |                                 |        |        |
| <b>Inkia Unconsolidated:</b>                   |                               |        |                                 |        |        |
| <b>Financial Information:</b>                  |                               |        |                                 |        |        |
| Distributions received from:(1)                |                               |        |                                 |        |        |
| Kallpa .....                                   | US\$28                        | US\$19 | US\$48                          | US\$22 | US\$22 |
| CDA(2).....                                    | —                             | —      | —                               | —      | —      |
| Samay(3) .....                                 | —                             | —      | —                               | —      | —      |
| Energuate(4).....                              | 104                           | 25     | 25                              | —      | —      |
| ICPNH.....                                     | 2                             | 4      | 7                               | 8      | 11     |
| COBEE.....                                     | 12                            | —      | 10                              | 14     | 23     |
| Central Cardones.....                          | —                             | —      | —                               | —      | —      |
| Colmito.....                                   | —                             | —      | —                               | —      | —      |
| Nejapa and Cenérgica.....                      | 3                             | 3      | 6                               | 31     | 4      |
| Kanan(5).....                                  | —                             | 50     | 50                              | —      | —      |
| Pedregal.....                                  | —                             | —      | 1                               | 1      | 2      |
| Puerto Quetzal.....                            | —                             | —      | —                               | 1      | 15     |
| CEPP.....                                      | —                             | —      | —                               | 11     | 18     |
| JPPC.....                                      | —                             | —      | —                               | —      | —      |
| Surpetroil.....                                | —                             | —      | —                               | —      | —      |
| Southern Cone Power Limited(6).....            | —                             | —      | —                               | 4      | 29     |
| Total distributions received.....              | 149                           | 101    | 147                             | 92     | 124    |
| Operating expenses.....                        | (6)                           | (3)    | (8)                             | (9)    | (19)   |
| Unconsolidated operating cash flows(7).....    | 143                           | 98     | 139                             | 83     | 105    |
| Unconsolidated interest expense(7).....        | 19                            | 19     | 38                              | 38     | 38     |
| Unconsolidated interest coverage ratio(7)..... | 7.6                           | 5.2    | 3.7                             | 2.2    | 2.8    |

- (1) Distributions represent dividends, capital reductions and net repayments of loans to shareholders of the respective entity.
- (2) The CDA plant reached its COD in August 2016.
- (3) The Samay I plant reached its COD in May 2016.
- (4) Represents receipt of US\$36 million of dividends in May 2017 and US\$68 million in connection with intercompany loans from DEOCSA and DEORSA to Inkia made in May 2017.
- (5) Represents repayment of intercompany loan.
- (6) Represents dividends received from Edegel post-equity method accounting.
- (7) The indenture governing the Notes will prohibit Inkia (and certain of its holding company subsidiaries) from issuing debt (other than certain specified permitted debt baskets) unless Inkia's unconsolidated interest coverage ratio is equal to or greater than 2.0 to 1.0. See "Description of the Notes—Certain Covenants—Limitation on Incurrence of Additional Indebtedness." In calculating our unconsolidated interest expense in accordance with the indenture, our interest expense would be increased from the amount included in our unconsolidated financial statements (as presented above) to treat as interest expense all payments made in respect of capitalized lease liabilities, if any, a portion of which is capitalized in the preparation of our consolidated financial statements. As a result, if Inkia were to enter into any such leases in the future, the unconsolidated interest coverage ratio calculated in accordance with the indenture would be lower than if the ratio were calculated based on our

unconsolidated financial statements (as presented above). As of the date of this offering memorandum, Inkia is not a signatory to any such lease.

**Summary Financial and Operating Information of Principal Subsidiaries:**

The following table presents summary unconsolidated financial and operating information of certain of our material subsidiaries. The summary unconsolidated financial information of these subsidiaries as of June 30, 2017 and December 31, 2016, 2015 and 2014, for the six months ended June 30, 2017 and 2016, and for the years ended December 31, 2016, 2015 and 2014 have been derived from our consolidated accounting records and were prepared and are presented on the same basis as our unaudited condensed consolidated interim financial statements and our audited financial statements. The historical results of these subsidiaries for any prior period are not necessarily indicative of results expected in any future period. Additionally, the summary unconsolidated interim financial information of these subsidiaries as of and for the six months ended June 30, 2017 are not necessarily indicative of the results expected as of or for any future date or period.

|  | <b>As of and for the Six-Month Period Ended June 30,</b>     |             | <b>As of and for the Year Ended December 31,</b> |             |             |
|--|--|-------------|--|-------------|-------------|
|  | <b>2017</b>  | <b>2016</b> | <b>2016</b>                                      | <b>2015</b> | <b>2014</b> |
|  | (in millions of U.S. dollars, except as otherwise indicated) |             |  |             |             |
| <b><i>Kallpa:</i></b>                                |  |             |  |             |             |
| <i>Financial Information:</i>                        |  |             |  |             |             |
| Revenue .....  | 225  | 228         | 438  | 448         | 437         |
| Profit (loss) .....                                  | 31   | 16          | 32   | 43          | 50          |
| Adjusted EBITDA(1) .....                             | 75   | 72          | 139  | 152         | 154         |
| Net debt(2) .....                                    | 372  | 402         | 393  | 388         | 428         |
| Capital expenditures.....                            | 6  | 8           | 15   | 10          | 19          |
| Distributions(3) .....                               | 28   | 19          | 48   | 22          | 22          |
| <i>Operating Information:</i>                        |  |             |  |             |             |
| Installed capacity at period-end (MW)(4) ..          | 1,063  | 1,063       | 1,063  | 1,063       | 1,063       |
| Gross energy generated during the period (GWh) ..... | 1,878  | 2,997       | 6,015  | 5,166       | 5,920       |
| Availability during the period (%) .....             | 93   | 93          | 96   | 97          | 97          |
| <b><i>CDA(5):</i></b>                                |  |             |  |             |             |
| <i>Financial Information:</i>                        |  |             |  |             |             |
| Revenue .....  | 59   | —           | 50   | —           | —           |
| Profit (loss) .....                                  | 36   | 2           | —  | (8)         | (5)         |
| Adjusted EBITDA(1) .....                             | 77   | —           | 31   | —           | —           |
| Net debt(2) .....                                    | 568  | 582         | 556  | 519         | 338         |
| Capital expenditures.....                            | 29   | 63          | 72   | 187         | 259         |
| Distributions(3) .....                               | —  | —           | —  | —           | —           |
| <i>Operating Information:</i>                        |  |             |  |             |             |
| Installed capacity at period-end (MW)(4) ..          | 545  | —           | 545  | —           | —           |
| Gross energy generated during the period (GWh) ..... | 1,124  | —           | 693  | —           | —           |
| Availability during the period (%) .....             | 76   | —           | 33   | —           | —           |
| <b><i>Samay I(6):</i></b>                            |  |             |  |             |             |
| <i>Financial Information:</i>                        |  |             |  |             |             |
| Revenue .....  | 58   | 8           | 40   | —           | —           |
| Profit (loss) .....                                  | 5  | 2           | 1  | (4)         | —           |
| Adjusted EBITDA(1) .....                             | 20   | 4           | 19   | —           | —           |



|   | As of and for the Six-Month Period Ended June 30,            |       | As of and for the Year Ended December 31, |       |       |
|---|--|-------|---|-------|-------|
|   | 2017   | 2016  | 2016                                      | 2015  | 2014  |
|   | (in millions of U.S. dollars, except as otherwise indicated) |       |   |       |       |
| Net debt(2) .....   | 314  | 324   | 321                                       | 253   | 11    |
| Capital expenditures.....   | 3  | 66    | 66  | 225   | 84    |
| Distributions(3).....   | —  | —     | —   | —     | —     |
| <i>Operating Information:</i>                                     |  |       |   |       |       |
| Installed capacity at period-end (MW)(4) ..                       | 632  | 632   | 632                                       | —     | —     |
| Gross energy generated during the period (GWh).....               | 255  | 51    | 103                                       | —     | —     |
| Availability during the period (%).....                           | 96   | 100   | 33  | —     | —     |
| <b>Energuate:</b>   |  |       |   |       |       |
| <i>Financial Information (since the date of the acquisition):</i> |  |       |   |       |       |
| Revenue .....   | 280  | 232   | 509                                       |       |       |
| Profit (loss) .....   | 16   | 15    | 35  |       |       |
| Adjusted EBITDA(1).....   | 48   | 39    | 82  |       |       |
| Net debt(2) .....   | 427  | 250   | 302                                       |       |       |
| Capital expenditures.....   | 13   | 10    | 28  |       |       |
| Distributions(3).....   | 104  | 25    | 25  |       |       |
| <i>Operating Information:</i>                                     |  |       |   |       |       |
| Energy sales (GWh).....   | 1,123  | 1,220 | 2,316                                     | 2,315 | 2,184 |
| Number of customers at period-end (in thousands) .....            | 1,712  | 1,658 | 1,679                                     | 1,635 | 1,580 |
| Energy losses (% of energy purchased) .....                       | 20.0   | 18.0  | 19.6                                      | 16.9  | 16.9  |

- (1) We define “Adjusted EBITDA” for each period as profit (loss) for the period before depreciation and amortization, finance costs, net, income tax expense and impairment, excluding share of (profit) loss of associates, gain on bargain purchase, capital gains (excluding capital gains from sales of fixed assets), and profit from discontinued operations, net of tax (excluding dividends received from discontinued operations).

Adjusted EBITDA is not recognized under IFRS or any other generally accepted accounting principles as a measure of financial performance and should not be considered as a substitute for profit or loss, cash flow from operations or other measures of operating performance or liquidity determined in accordance with IFRS. Adjusted EBITDA is not intended to represent funds available for dividends or other discretionary uses because those funds may be required for debt service, capital expenditures, working capital and other commitments and contingencies. Adjusted EBITDA presents limitations that impair its use as a measure of our profitability since it does not take into consideration certain costs and expenses that result from our business that could have a significant effect on our profit, such as finance expenses, taxes and depreciation.

The following table sets forth a reconciliation of the profit of each of Kallpa, CDA, Samay I and Energuate to its respective Adjusted EBITDA for the periods presented. Other companies may calculate Adjusted EBITDA differently, and therefore this presentation of Adjusted EBITDA may not be comparable to other similarly titled measures used by other companies:

|                                     | For the Six<br>Months Ended |      | For the Year Ended December 31, |      |
|-------------------------------------|-----------------------------|------|---------------------------------|------|
|                                     | June 30,<br>2017            | 2016 | 2015                            | 2014 |
| (in millions of U.S. dollars)       |                             |      |                                 |      |
| <b>Kallpa:</b>                      |                             |      |                                 |      |
| Profit (loss) .....                 | 31                          | 32   | 43                              | 50   |
| Depreciation and amortization ..... | 19                          | 45   | 50                              | 46   |
| Finance expenses, net .....         | 12                          | 37   | 36                              | 35   |
| Income tax expense (benefit) .....  | 13                          | 25   | 23                              | 23   |
| Adjusted EBITDA .....               | 75                          | 139  | 152                             | 154  |
| <b>CDA:</b>                         |                             |      |                                 |      |
| Profit (loss) .....                 | 36                          | —    | (8)                             | (5)  |
| Depreciation and amortization ..... | 9                           | 7    | —                               | —    |
| Finance expenses, net .....         | 20                          | 17   | 3                               | —    |
| Income tax expense (benefit) .....  | 12                          | 7    | 5                               | (5)  |
| Adjusted EBITDA .....               | 77                          | 31   | —                               | —    |
| <b>Samay I:</b>                     |                             |      |                                 |      |
| Profit (loss) .....                 | 5                           | 1    | (4)                             | —    |
| Depreciation and amortization ..... | 7                           | 8    | —                               | —    |
| Finance expenses, net .....         | 7                           | 9    | 3                               | —    |
| Income tax expense (benefit) .....  | 1                           | 1    | 1                               | —    |
| Adjusted EBITDA .....               | 20                          | 19   | —                               | —    |
| <b>Energuate(i):</b>                |                             |      |                                 |      |
| Profit (loss) .....                 | 16                          | 35   |                                 |      |
| Depreciation and amortization ..... | 11                          | 19   |                                 |      |
| Finance expenses, net .....         | 7                           | 15   |                                 |      |
| Income tax expense (benefit) .....  | 14                          | 13   |                                 |      |
| Adjusted EBITDA .....               | 48                          | 82   |                                 |      |

(i) For the year ended December 31, 2016, represents the portion of the year following our acquisition of Energuate.

- (2) Net debt is defined as total debt attributable to a company, excluding debt owed to a parent company, less the cash, short term deposits and restricted cash of the relevant company. Net debt is not a measure recognized under IFRS. The following table sets forth a reconciliation of the total debt of each of Kallpa, CDA, Samay I and Energuate to its respective net debt for the periods indicated.

|   | As of June 30, |      | As of December 31, |      |
|---|----------------|------|--------------------|------|
|   | 2017           | 2016 | 2015               | 2014 |
| (in millions of U.S. dollars)                           |                |      |                    |      |
| <b>Kallpa:</b>  |                |      |                    |      |
| Loans from banks and others, and<br>debentures(i) ..... | 412            | 414  | 416                | 453  |
| Cash, short term deposits and<br>restricted cash .....  | (40)           | (21) | (28)               | (25) |
| Net debt .....  | 372            | 393  | 388                | 428  |
| <b>CDA:</b>   |                |      |                    |      |
| Loans from banks and others, and<br>debentures(i) ..... | 585            | 593  | 536                | 444  |

|  | <u>As of June 30,</u>         | <u>As of December 31,</u> |             |             |
|--|-------------------------------|---------------------------|-------------|-------------|
|  | <u>2017</u>                   | <u>2016</u>               | <u>2015</u> | <u>2014</u> |
|  | (in millions of U.S. dollars) |                           |             |             |
| Cash, short term deposits and restricted cash.....   | (17)                          | (37)                      | (17)        | (106)       |
| Net debt.....  | 568                           | 556                       | 519         | 338         |
| <b>Samay I:</b>                                      |                               |                           |             |             |
| Loans from banks and others, and debentures(i) ..... | 349                           | 339                       | 285         | 145         |
| Cash, short term deposits and restricted cash.....   | (35)                          | (18)                      | (32)        | (134)       |
| Net debt.....  | 314                           | 321                       | 253         | 11          |
| <b>Energuate:</b>                                    |                               |                           |             |             |
| Loans from banks and others, and debentures(i) ..... | 441                           | 317                       |             |             |
| Cash, short term deposits and restricted cash.....   | (14)                          | (16)                      |             |             |
| Net debt.....  | 427                           | 301                       |             |             |

(i) Includes short-term and long-term debt.

- (3) Represents dividends, capital reductions and net repayments of loans to shareholders of the respective entity.
- (4) Reflects 100% of the capacity of each asset, regardless of Inkia's ownership interest in the entity that owns each such asset.
- (5) The CDA plant reached its COD in August 2016.
- (6) The Samay I plant reached its COD in May 2016.

## RISK FACTORS

*Our business, financial condition, results of operations and liquidity can suffer materially as a result of any of the risks described below. You should carefully consider the risks described below with all of the other information included in this offering memorandum. If any of the following risks actually occurs, it may materially harm our business, financial condition, results of operations and liquidity. While we have described the risks we consider material, these risks are not the only ones we face. We are also subject to the same risks that affect many other companies, such as technological obsolescence, labor relations, geopolitical events, climate change and risks related to the conducting of international operations. Additional risks not known to us or that we currently consider immaterial may also impair our business operations. Additionally, this offering memorandum contains forward-looking statements. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks faced by us described below and elsewhere in this offering memorandum.*

### **Risks Related to Our Company**

#### *We are significantly leveraged.*

As of June 30, 2017 and December 31, 2016, we had US\$2,526 million and US\$2,546 million of outstanding indebtedness on a consolidated basis, respectively. Some of our debt agreements include financial covenants, affirmative and negative covenants and/or events of default or mandatory prepayments for contractual breaches, change of control events and/or material mergers and divestments, among other provisions. For example, in connection with the consummation of our sale of our indirect equity interest in Edegel in 2014, we were required to repay the aggregate principal amount of debt outstanding under a then-existing credit facility.

We use a substantial portion of our cash flow from operations or investing activities to make debt service payments, reducing our ability to use cash flow to fund our operations, capital expenditures or future business opportunities. Many of our debt agreements provide for bullet payments (the repayment of the entire principal amount of the loan at final maturity), which repayments may require substantial portions of our cash flow. For further information on the final maturity and amortization of certain of our debt agreements, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Material Indebtedness.” In addition, a number of our credit facilities are secured. For information on the final maturity and amortization of certain of our debt agreements, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Material Indebtedness.” The pledge of a significant percentage of our assets to secure our debt has reduced the amount of collateral that is available for future secured debt or credit support as well as our flexibility in dealing with these secured assets. This level of indebtedness and related security, as well as the terms governing such indebtedness, could have other important consequences for us, including:

- increasing our vulnerability to general adverse economic and industry conditions;
- limiting our flexibility in planning for, or reacting to, changes in our business and the industry;
- limiting our ability to enter into long-term power sales or fuel purchases which require credit support;
- limiting our ability to adjust to changing market conditions and placing us at a competitive disadvantage compared to our competitors that are not as highly leveraged;
- limiting our ability to distribute dividends or other payments to our shareholders without leading to a downgrade of our outstanding indebtedness or long-term corporate ratings, if at all; and
- limiting, along with the financial and other restrictive covenants relating to such indebtedness, among other things, our ability to borrow additional funds for working capital including collateral postings, capital expenditures, acquisitions and general corporate or other purposes.

We also provide performance, and other, guarantees, from time to time, in support of the financing and development of certain of our operating companies. As of June 30, 2017 and December 31, 2016, we had provided performance or other guarantees in an aggregate amount of US\$59 million and US\$57 million, respectively.

In addition, any potential acquirer that acquires us or our business may also cause us to incur additional indebtedness which may be substantial in amount in connection with any such transaction. Any such incurrence of additional indebtedness may, in conjunction with the other factors referenced above, further affect the ability of our company or the surviving entity to make payments under the Notes or result in a potential ratings downgrade of the Notes. For further information on the potential acquisition, see “Summary—Recent Developments—Potential Sale of All of Inkia’s Business.”

***We may be unable to refinance our existing indebtedness or raise additional indebtedness on favorable terms, or at all.***

We may need to refinance all, or a portion of, our indebtedness on or before the respective maturity dates. The ability to refinance any such indebtedness, obtain additional financing or comply with our existing lenders’ requirements will depend on, among other things:

- our financial condition, or the financial condition of our relevant subsidiaries, at the time of the proposed refinancing;
- the amount of financing outstanding and lender requirements outstanding at the time of the proposed refinancing;
- restrictions in any of our credit agreements, indentures, or other outstanding indebtedness; and
- other factors, including the condition of the financial markets.

If we do not have adequate access to credit, we may be unable to refinance our existing borrowings and credit facilities on commercially reasonable terms and may be forced to raise financing at a higher cost or on less favorable terms (e.g., by providing collateral, security or guarantees to lenders and/or accepting higher interest rates) when our existing indebtedness matures. Additionally, if we are not able to refinance any of our indebtedness and do not generate sufficient cash flow from operations, and additional borrowings or refinancings or proceeds of asset sales are not available to us, we may not have sufficient cash to enable us to meet all of our obligations. Should future access to capital be unavailable to us, we may have to sell assets or decide not to build new plants or expand or improve existing facilities, any of which could affect our future growth.

***If we are unable to manage our interest rate risks effectively, our cash flows and operating results may suffer.***

As we continue to draw down on our credit facilities with third parties and raise additional third party financing to fund our capital expenditures (e.g., for use in our development projects and/or acquisitions), we may experience an increase in interest costs. Many of the debt agreements of our operating companies have floating interest rates (e.g., many of the debt instruments are tied to London Interbank Offered Rate, or LIBOR) and a continued increase in interest rates could increase the cost of the capital required to continue to fund our development and expansion efforts. We may also incur further indebtedness in the future that bears interest at a variable rate or at a rate that is linked to fluctuations in a currency other than the U.S. dollar, either of which could increase our capital costs and affect our expansion efforts.

Although our businesses attempt to manage their interest rate risk by entering into interest rate swaps, there can be no assurance that they will hedge such exposure, in full, effectively or at all in the future. Accordingly, increases in interest rates could have a material adverse effect on our business, financial condition, results of operations or liquidity.

***We face risks in connection with our expansion, development and acquisition strategy and the financing thereof.***

Our growth strategy contemplates (1) the expansion, construction or development of power generation facilities and (2) the acquisition, expansion and development of generation and distribution companies in key growth markets. The ability to pursue such growth opportunities successfully will depend upon our ability to identify projects and properties suitable for expansion, construction or acquisitions, identify qualified partners for future projects and negotiate purchase or EPC agreements on commercially reasonable terms. Due to growing environmental restrictions, transmission line saturation, obstacles for fuel transportation and a scarcity of sites in which new plants may be located, the development of new assets in the countries in which we operate and in the countries in which we may operate in the future, are subject

to increased developmental competition and involve higher development costs than in the past, which could have an adverse impact on our strategy and business.

Our expansion and acquisition strategy also relies significantly on our ability to successfully access the capital markets as a source of liquidity and such reliance may be increased to the extent that we utilize cash from our operations to distribute funds to our shareholders or repay loans. Our ability to arrange financing with no or limited recourse, which is the principal way in which we seek to finance new projects and the costs of such capital, are dependent upon numerous factors, some of which are beyond our control. Similarly, commercial lending institutions sometimes refuse to provide financing in certain less developed economies, and in these situations we may seek direct or indirect (through credit support or guarantees) project financing from a limited number of multilateral or bilateral international financial institutions or agencies. As a precondition to making such project financing available, the lending institutions may also require sponsor guarantees for completion risks and governmental guarantees of certain business and sovereign related risks. However, the financing from international financial agencies or governmental guarantees required to complete projects may not be available when needed. If so, we may have to abandon potential projects or invest more of our own funds, which may not be in line with our investment objectives and would leave less funds for other investments and projects.

An inability to identify and source appropriate projects and/or acquisitions, negotiate the agreements relating to such projects and/or acquisitions, or secure the necessary funding, could have an adverse impact on our strategy and, as a result, could have a material adverse effect on our business.

***Future expansion into new markets or businesses involves significant costs and risks, and may be unsuccessful.***

We are constantly monitoring and assessing development and acquisition opportunities in new markets which may entail additional and unforeseen risks. In particular, we may seek to diversify and expand our operations to certain countries in which we do not currently have an operating presence, such as Argentina and Mexico, through greenfield development projects and acquisitions. Either market may present financial and regulatory risks as well as significant investment costs. For example, in January 2016, we expanded our portfolio by entering into the electricity distribution business through our acquisition of Energuate, although we had not previously operated a distribution business, and doing so required creating a new line business and incorporating new management. In entering into new markets and operating in new businesses, we could face managerial, commercial, technological and regulatory risks. The business strategies, managerial expertise and institutional knowledge that we utilize and have developed over time with regard to power generation in the countries in which we currently operate may not be applicable to the distribution business, or to the energy sectors of the countries in which we are considering expansion.

As expansion into a new market or business will require significant investment of capital and management resources, such expansions will involve many risks, including risks related to:

- obtaining the necessary government and regulatory licenses and authorizations to operate;
- the significant capital expenditures required to establish a footprint in these businesses and markets;
- competition from experienced market participants;
- an inability to attract customers, create brand awareness and establish brand credibility;
- an inability to establish relationships with regulators, stakeholders and other market participants; and
- barriers to entry.

If we acquire companies or assets in new markets, we cannot provide assurance that such expansion efforts will be successful, or that we will be able to successfully execute our business plan. If we are unsuccessful in the attempt to expand into new businesses or markets, this could have a material adverse effect on our business, financial condition, results of operations or liquidity.

***Acquisitions may not perform as expected.***

We have completed several acquisitions and plan to continue to develop our portfolio through acquisitions in certain attractive markets, including those in which we do not currently operate. For example, in January 2016, we completed our acquisition of Energuate and two smaller, related companies (Guatemel and RECSA).

Acquisitions require us to spend significant sums on legal, financial advisory and other expenses and consume a portion of our management's focus. Acquisitions may increase our leverage or reduce our profitability. Future acquisitions may be large and complex, and we may not be able to complete them successfully or, if completed, such acquisitions may not be completed at the cost or in the time-frame in which they were initially expected.

Once completed, such acquisition also entails additional performance risks, such as:

- the acquired businesses may not perform as expected;
- we may incur unforeseen obligations or liabilities, which may entail significant expense;
- the fuel supply needed to operate an acquired generation business at full capacity may not be available;
- the acquired businesses may not generate sufficient cash flow to support the indebtedness existing at the time of the acquisition, or otherwise incurred in connection therewith, or the capital expenditures needed to operate them;
- the rate of return from acquired businesses may be lower than anticipated in our investment decision;
- any synergies or benefits gained may not offset the cost of diverting resources from our operations in order to achieve those benefits; and
- we may not be able to expand as planned, manage the acquired company's activities and achieve the economies of scale and any expected efficiency or other gains, which often drive such acquisition decisions.

Although acquired businesses may have significant operating histories at the time we acquire them, we will have no history of owning and operating these businesses and, potentially, limited or no experience operating in these particular lines of business, or operating businesses in the countries in which these acquired businesses are located. For example, prior to our acquisition of Energuate, we had not previously operated or owned companies within the distribution sector, and this may affect our ability to effectively operate Energuate. Future growth in revenues, earnings and cash flow will be partly dependent on our ability to successfully operate within the energy distribution industry. The acquisition of Energuate may not improve, and may even adversely affect, our results of operations, and may expose us to additional risks, liabilities and losses. Moreover, operating the recently-acquired Energuate business will initially involve significant costs and absorb management time and resources and may otherwise distract management from other opportunities or problems in our primary business of power generation and our primary markets, such as Peru.

We cannot assure you that our acquisition of the Energuate business, or any future acquisitions which we undertake, will not be subject to significant performance risk or otherwise distract our management's time and resources from our principal operations.

***Certain of our facilities are affected by climate conditions, and changes in the climates or the occurrence of other natural phenomena or catastrophic events in the countries in which these facilities operate could have a material adverse effect on us.***

Certain of our generation facilities are based on hydroelectric power generation. As a result, their operating results are directly impacted by water sources which are, in turn, affected by the amount of rainfall and snowmelt. The occurrence of natural phenomena, such as El Niño and La Niña, two climactic phenomena that influence rainfall regularity in some of the Latin American countries in which we operate, may result in droughts, severe rains or flooding, which affect our results of operations. A prolonged drought in a country in which our generation facilities rely on hydroelectric energy may reduce our ability to operate our hydroelectric plants at full capacity. In addition, a prolonged

drought may result in disputes with governments, regulators, local communities, farmers and other stakeholders over water use. As a result of such disputes, we may be forced to enter into agreements which restrict our ability to use water for hydroelectric generation.

Droughts and excessive rainfall also affect the operation of our thermal plants, including those facilities which use natural gas or HFO as fuel, in the following manner:

- During periods of drought, our reliance on thermal plants to produce electricity increases. As the operating costs of thermal plants can be considerably higher than those of hydroelectric plants, our operating expenses may increase during these periods.
- Our thermal plants require water for cooling and a drought not only reduces the availability of water, but also increases the concentration of chemicals, such as sulfates in the water. The high concentration of chemicals in the water we use for cooling increases the risk of damage to the equipment at our thermal plants as well as increasing the likelihood of our violating relevant environmental regulations. As a result, we may have to purchase water from areas that are also experiencing shortages of water, which may increase our operating costs and the costs relating to our social responsibility commitments.
- Thermal power plants burning gas generate emissions such as sulfur dioxide (SO<sub>2</sub>) and nitrogen oxide (NO<sub>x</sub>) gases. When operating with diesel, they also release particulate matter into the atmosphere. Therefore, greater use of thermal plants during periods of drought increases the risk of unsatisfactory performance of the abatement equipment used to control pollutant emissions.
- During excessive rainfall periods, hydroelectric plants increase their generation, which reduces the spot prices in the system, and also reduces the dispatch rate of thermal power plants. As a result, our thermal plants selling energy to the spot market may face a reduction in their margins due to their lower dispatch or due to sales occurring at the lower spot prices.

Additionally, certain of our facilities are also exposed to other climate change risk and to the specific natural phenomena occurring in their respective countries of operation, including earthquakes (due to heightened seismic activity), hurricanes and flooding, landslides, volcanic eruptions, fire, and other natural disasters. For example, in 2007, Peru experienced a 7.9 magnitude earthquake that struck the central coast of Peru. Peru also experienced flooding in 2015 and again in early 2017, the latter resulting from the El Niño Costero climate pattern that brought heavy rainfall and flooding to northern and central Peru. The occurrence of any of the natural calamities listed above may cause significant damage to our power stations and facilities.

Furthermore, the production of wind energy depends heavily on suitable wind conditions, which are variable and difficult to predict. Operating results for such plants vary significantly from period to period depending on the wind resource during the periods in question. For example, our Amayo I and Amayo II wind farms generated less energy in 2016 than 2015 due to lower wind levels. Therefore, the electricity generated by our wind energy plants may not meet our anticipated production levels or the rated capacity of the turbines located there, which could adversely affect our business.

Moreover, fires and other catastrophic events may result in unexpected equipment failures and/or render our plants inoperable. Our HFO-powered barges and generators, such as the ones located at our Corinto, Tipitapa Power, Nejapa, Kanan, JPPC and Puerto Quetzal plants, are particularly susceptible to fires given the combustible nature of the fuel. For example, in April 2017, the Kanan power plant experienced a fire and, as a result, its power barges have been placed off-line permanently. The occurrence of any fire or other catastrophic event may cause significant damage to our power stations and facilities, may further increase the costs of our insurance coverage, and may have a material adverse effect on our business.

We could experience severe business disruptions, significant decreases in revenues based on lower demand arising from climate changes or catastrophic events, or significant additional costs that are not otherwise covered by business interruption insurance policies. There may be an important time lag between a major climate change event, accident or catastrophic event and our recovery from any insurance policies, which typically carry non-recoverable deductible amounts, and in any event, are subject to caps per event. Furthermore, many of our supply agreements, including our



natural gas supply agreements and transportation services agreements, contain force majeure provisions that allow for the suspension of performance by our counterparties for the duration of certain force majeure events. If a force majeure event were to occur and our counterparties were to temporarily suspend performance under their contracts, we may be forced to find alternative suppliers in the market on short notice (which we may be unable to do) and incur additional costs. Additionally, any of these events could cause adverse effects on the energy demand of some of our customers and of consumers generally in the affected market, the occurrence of which could have a material adverse effect on our business, financial condition, results of operations or liquidity.

***The interests of our sole shareholder may conflict with those of the holders of the Notes.***

Our sole shareholder, ICP, is a wholly-owned indirect subsidiary of Kenon. Pursuant to our organizational documents and share-ownership structure, Kenon has indirect power, through its wholly-owned subsidiary ICP, to appoint a majority of our board members, thereby having significant influence on our policies and operations, including the appointment of management, future issuances of our securities, the incurrence of debt by us and the amendments to our organizational documents. Kenon's interests may not in all cases be aligned with your interests as a holder of the Notes offered hereby. Kenon may have an interest in pursuing acquisitions, divestitures and other transactions that, in its judgment, could enhance its business, even though such transactions might involve risks to you. For example, Kenon could acquire or develop other generation companies that are more efficient than ours, cause us to make acquisitions that increase our indebtedness, or cause us to sell any or all of our revenue-generating assets.

***A sale of our parent company by our ultimate controlling shareholder, or a sale of our operating business by Inkia, may have a material adverse effect on us or the surviving entity.***

On July 24, 2017, Kenon announced that it had been approached by, and received indicative, non-binding offers from, parties seeking to acquire some or all of IC Power's businesses in Latin America and the Caribbean. Kenon also announced that it is considering such a sale and is in discussions with such parties with a view to negotiating a transaction that would maximize value for Kenon's shareholders.

As described under "Summary—Recent Developments—Potential Sale of All of Inkia's Assets," we were informed by Kenon that it is in advanced negotiations with a top-tier financial investor, which currently owns Latin American power sector assets with the intention of agreeing to the terms of sale of IC Power's assets in Latin America and the Caribbean. If such sale is agreed, it is contemplated that Inkia would enter into a share purchase agreement under which it will agree to sell such businesses to the financial investor, which we understand would qualify as a "Qualified Transferee" as defined under "Description of the Notes—Certain Definitions." We cannot provide any assurance that the negotiations with the financial investor will result in the execution of the contemplated share purchase agreement, that the conditions to the sale set forth in the contemplated share purchase agreement would be met, when or whether such transaction would be consummated, or, if consummated, whether such transaction will not result in a ratings downgrade of the Notes or ultimately be successful or positive for the continuing acquired businesses or for you as a holder of the Notes.

If an agreement with respect to the sale of Inkia or its businesses in Latin America and the Caribbean is entered into, Inkia may be required to comply with certain customary restrictive covenants until the date of the completion of the transaction, including prohibitions against Inkia or its subsidiaries disposing of assets or investing in new assets outside the ordinary course of business. Complying with such covenants may at times necessitate that we forego opportunities, such as using available cash to grow our business or disposing of less profitable assets.

Any sale of IC Power's businesses in Latin America and the Caribbean, if it occurs, may result in IC Power no longer being the controlling shareholder of our company or the surviving entity, and another company becoming the controlling shareholder of our company or the surviving entity. We cannot assure you as to when any such sale would take place, or if it will take place at all, and we cannot assure you as to the effect that the announcement by Kenon, the negotiations for any such sale, the consummation of any such sale, or the terms, timing or structural features of any such sale will have on our strategy, business, financial condition, results of operations or liquidity. For example, to date, IC Power has had the ability to indirectly direct our strategy through, among others, the appointment of the majority of our directors, who, in turn, appoint our senior management. As of the date of this offering memorandum, our five directors are also officers of IC Power. These individuals have extensive experience in the power generation industry. Although the potential investor has indicated that it intends to retain our management, we cannot assure you as to whether our

current directors or management will continue to be directors or managers of our company or the surviving entity after any such sale.

Any new controlling shareholder would also have the indirect power to appoint a majority of the board members of our company or the surviving entity, thereby having significant influence on the policies and operations of our company or the surviving entity, including the appointment of the management of our company or the surviving entity, the payments of dividends on common stock of our company or the surviving entity, the incurrence of debt by our company or the surviving entity and amendments to the organizational documents of our company or the surviving entity. In the event that any new controlling shareholder causes our company or the surviving entity to incur additional indebtedness—in particular if the amount of any such indebtedness is significant—the consequences of any such incurrence could potentially be negative for our company or the surviving entity and result in a material adverse effect on the business, financial condition, results of operation or liquidity of our company or the surviving entity. For further information, see “Risk Factors—Risks related to our Company—We are significantly leveraged.” In addition, the interests of such new controlling shareholder may not in all cases be aligned with your interests as a holder of the Notes offered hereby.

Finally, any new controlling shareholder may have an interest in pursuing acquisitions, divestitures and other transactions that, in its judgment, could enhance its equity investment, even though such transactions might involve risks to you. For example, any new controlling shareholder could acquire or develop other generation companies that are more efficient than ours in the countries in which we operate that may not be owned by our company or the surviving entity, or cause our company or the surviving entity to make acquisitions that require our company or the surviving entity to incur additional indebtedness or to sell revenue-generating assets.

In addition, any sale of IC Power’s businesses in Latin America and the Caribbean may result in a change of control under the indenture governing the Notes and the indentures governing any remaining Inkia 2021 Notes, the Kallpa 2026 Notes and the Kallpa 2027 Notes, the Energuate Loan Agreement and the Energuate Guatemalan Loan Agreements, although such a change of control would not require Inkia, Kallpa or Energuate to offer to purchase these notes or prepay these loan agreements unless such change of control were also accompanied by a ratings downgrade. However, under the Indenture governing the Notes, any such sale to a “Qualified Transferee” meeting the requirements set forth in the indenture, such as the potential sale to a financial investor as described above which we understand to be a Qualified Transferee, would not constitute a change of control. See “Description of the Notes—Certain Definitions.” Accordingly, upon such a sale to a Qualified Transferee, Inkia would not be required to offer to repurchase the Notes offered hereby at 101%. However, Kallpa may be required, pursuant to the terms of its indentures, to offer to purchase all of the notes issued thereunder at a price of 101% in the event of certain ratings downgrades, and Energuate may also be required to prepay its loans upon the occurrence of similar ratings downgrades. Inkia (if sold to an entity that was not a Qualified Transferee), Kallpa and Energuate may not be able to repurchase such notes or prepay those loans, as applicable, upon a change of control event, because the applicable company may not have sufficient financial resources to purchase all such notes that may be tendered or prepay those loans upon a change of control event.

***We have granted rights to the minority shareholders of certain of our subsidiaries.***

Although we own a majority of the voting equity in most of our businesses, we have entered into, and may continue to enter into, shareholders’ agreements granting minority rights to the minority shareholders of certain of those entities. For example, we have entered into shareholders’ agreements with, among others, Energía del Pacífico, the minority shareholder in each of Kallpa and Samay I, as well as with Centrans Energy Services Inc. the minority shareholder of our Nicaraguan assets. Among other things, our shareholders’ agreements generally grant the applicable minority shareholder veto rights over significant acquisitions and dispositions as well as the incurrence of significant debt. Therefore, our ability to develop and operate any of our businesses governed by a shareholders’ agreement may be limited if we are unable to obtain the approval of a minority shareholder for certain corporate actions. In addition, such shareholders’ agreements may limit our ability to dispose of our interests in any of these businesses. Our operation of our subsidiaries may also subject us to litigation initiated by the minority shareholders of our subsidiaries. For example, we were involved in litigation proceedings initiated by Crystal Power Corporation Limited, or Crystal Power, which previously held a non-controlling interest in Nejapa, which proceedings resulted in our acquisition of the remaining 29% stake in Nejapa from Crystal Power. For further information on our shareholders’ agreements, see “Business—Shareholders’ Agreements.”

***We could face risks, or barriers to exit, in connection with the disposals or transfers of our businesses or their assets.***

We continually assess the strategic composition of our power generation portfolio and may, as a result of our assessments, divest our interests in businesses whose operations are inconsistent with our long-term strategic plan. Divestitures can generate organizational and operational efficiencies, cash for use in our capital investment program and operations, and cash to repay outstanding debt. However, divestitures may also result in a decline in our profit or profitability.

Additionally, we may face exit barriers, including high exit costs or objections from various stakeholders, in connection with dispositions of certain of our operating companies or their assets. For example, the Peruvian Antitrust and Competition Laws for the Electricity Sector (*Ley Antimonopolio y Antioligopolio en el Sector Eléctrico*) provides that the Antitrust Commission within INDECOPI approve of divestments of assets representing 15% or more of the Peruvian distribution, generation and transmission markets. In addition, pursuant to the Samay I finance facility, Samay I's lenders must consent to our transfer of control of Samay I to a third party. Such restrictions, as well as similar restrictions contained in other shareholders' agreements or financing agreements in respect of our other operating companies, may prohibit us from disposing of our interests in our businesses, and such prohibitions may have a material adverse effect on our development and growth strategy. Furthermore, although we have exported power generation barges (from Guatemala and the Dominican Republic to Panama), we may face opposition from local governments in connection with any decision to sell and/or export any of the power generation barges we have installed or may install from one country to another country.

***Our growth may be limited by antitrust laws.***

We have acquired a number of operating power generation companies. In the future, we may seek to expand our operations within any of the countries in which we currently, or may in the future, operate. Government policies, specifically antitrust and competition laws in these relevant countries, can impact our ability to execute this strategy successfully.

In Peru, for example, INDECOPI reviews acquisition agreements that may result in vertical or horizontal market concentration in the electricity sector and, in connection with such review, may impose conditions upon the parties to such agreements, according to relevant legislation.

Additionally, we may consider disposing of certain assets, or equity interests in certain of our operating assets, to further our development and operational expansion. Such dispositions may also be impacted by antitrust and competition laws in the countries in which we operate, if the acquirers of such interest have significant interests in the power generation market, or the purported transaction may cross any of the applicable legal thresholds. For example, our 2014 sale of our 21% indirect interest in Edegel to Edegel's indirect controlling shareholder was subject to regulatory approval from INDECOPI.

***We require qualified personnel to manage and operate our various businesses and projects and may face difficulty in retaining or recruiting this personnel in the markets in which we operate.***

As a result of our decentralized structure, we require qualified and competent management to independently direct the day-to-day business activities of each of our businesses, execute their respective business and/or project development plans, and service their respective customers, suppliers and other stakeholders, in each case across numerous geographic locations. The services offered by our businesses are highly technical in nature and require specialized training and/or physically demanding work. Therefore, we must be able to retain employees and professionals with the skills necessary to understand the continuously developing needs of our customers, to maximize the value of each of our businesses, and to ensure the timely and successful completion of any expansion or development projects. This includes developing talent and leadership capabilities in the emerging markets in which certain of our businesses operate, where the depth of skilled employees may be limited. Changes in demographics, training requirements and/or the unavailability of qualified personnel could negatively impact the ability of each of our businesses to meet these demands. Unpredictable increases in the demand for our services, or the geographical diversity of our businesses, may exacerbate the risk of not having a sufficient number of trained personnel.

In addition, our operating companies could experience strikes, industrial unrest or work stoppages. In June and November 2015, COBEE's facilities in Bolivia experienced a brief strike. Although neither of the strikes at our COBEE facilities resulted in a work stoppage nor had a material effect on our results of operations, there can be no assurance that future strikes or industrial unrest will not occur or lead to a work stoppage which could have an adverse effect on our results of operations. A significant percentage of our employees in Guatemala, Bolivia and Jamaica are members of labor unions, and, as of December 31, 2016, approximately 31% of all of our employees were unionized. These and other unions comprised of our employees are subject to collective bargaining agreements that are subject to renegotiation from time to time. For example, 62% of Energuate's employees were unionized and subject to a collective bargaining agreement that expired in December 2016 and is currently under negotiation for renewal. For further information on our unionized employees, see "Business—Employees."

If any of our businesses fail to train and retain qualified personnel, or if they experience excessive turnover, strikes or work stoppages, we may experience declining production, maintenance delays or other inefficiencies, increased recruiting, training or relocation costs and other difficulties, any of which could have a material adverse effect on our business, financial condition, results of operations or liquidity.

Our success will also be dependent upon the decision-making of our directors and executive officers as well as the directors and executive officers of our businesses. The loss of any or all of our directors and executive officers could affect the creation or implementation of our short-term plans or long-term strategies or divert our directors and executive officers' attention from our operations, which could result in a delay in the completion of a project, affect our ability to enter into PPAs, or otherwise have a material adverse effect on our business, financial condition, results of operations or liquidity.

***The interruption or failure of our information technology, communication and processing systems or external attacks and invasions of these systems could have an adverse effect on us.***

We depend on information technology, communication and processing systems to operate our businesses. Such systems are vital to each of our operating companies' ability to monitor our power plants' operations, maintain generation and network performance, adequately generate invoices to customers, achieve operating efficiencies and meet our service targets and standards. Damage to our networks and backup mechanisms may result in service delays or interruptions and limit our ability to provide customers with reliable service over our networks. Some of the risks to our networks and infrastructure include:

- physical damage to access lines, including theft, vandalism, terrorism or other similar events;
- energy surges or outages;
- software defects;
- scarcity of network capacity and equipment;
- disruptions beyond our control;
- breaches of security, including cyber-attacks and other external attacks; and
- natural disasters.

The occurrence of any such event could cause interruptions in service or reduce our generation capacity, either of which could reduce our revenues or cause us to incur additional expenses.

Although we have operational insurance with business interruption coverage that may protect us against specific insured events, we may not be insured for all events or for the full amount of the lost margin or additional expense. In addition, the occurrence of any such event may subject us to penalties and other sanctions imposed by the applicable regulatory authorities. The occurrence of damages to our networks and systems could have a material adverse effect on our business, financial condition, results of operations or liquidity.

***Our equipment, facilities, operations and new projects are subject to numerous environmental, health and safety laws and regulations.***

We are subject to a broad range of environmental, health and safety laws and regulations which require us to incur ongoing costs and capital expenditures and expose us to substantial liabilities in the event of non-compliance. These laws and regulations require us to, among other things, minimize risks to the natural and social environment while maintaining the quality, safety and efficiency of our facilities. Furthermore, as our operations are subject to various operational hazards, including personal injury and the loss of life, we are subject to laws and regulations that provide for the health and safety of our employees.

These laws and regulations also require us to obtain and maintain environmental permits, licenses and approvals for the construction of new facilities or the installation and operation of new equipment required for our business. Some of these permits, licenses and approvals are subject to periodic renewal. Government environmental agencies could take enforcement actions against us for any failure to comply with applicable laws and regulations. Such enforcement actions could include, among other things, the imposition of fines, revocation of licenses, suspension of operations or imposition of criminal liability for non-compliance. Environmental laws and regulations can also impose strict liability for the environmental remediation of spills and discharges of hazardous materials and wastes and require us to indemnify or reimburse third parties for environmental damages. As fuel leaks may occur when fuel is received from container ships at sea (as is the case for fuel received in El Salvador and the Dominican Republic), sea water may be inadvertently polluted at the time of fuel receipt; our primary operational environmental risk relates to the potential leaking of such fuel. Although we have operating procedures in place to minimize these, and other, environmental risks, there is no assurance that such procedures will prove successful in avoiding inadvertent spills or discharges.

We expect the enforcement of environmental, health and safety rules applicable to our business to become more stringent over time, making our ability to comply with the applicable requirements and obtain permits and licenses in a timely fashion more difficult. Additionally, compliance with changed or new environmental, health and safety regulations could require us to make significant capital investments in additional pollution controls or process modifications. These expenditures may not be recoverable and may consequently divert funds away from planned investments in a manner that could have a material adverse effect on our business, financial condition, results of operations or liquidity.

The nature of our operations means that legal and compliance risks will continue to exist and additional legal proceedings and other contingencies, the outcome of which cannot be predicted with certainty, will arise from time to time. No assurances can be made that we will be found to be operating in compliance with, or be able to detect violations of, any existing or future laws or regulations. A failure to comply with or properly anticipate applicable laws or regulations could have a material adverse effect on our business, financial condition, results of operations or liquidity.

In the case of new project developments, environmental or other regulations may change during the course of our development of such projects, potentially increasing the costs of such projects or making them inviable projects for completion.

***We are exposed to material litigation and/or administrative proceedings***

We are involved in various litigation proceedings, including judicial proceedings related to fines and penalties imposed by government regulators, and we may be subject to future litigation proceedings, any of which could result in unfavorable decisions or financial penalties against us, and we will continue to be subject to future litigation proceedings, which could have material adverse consequences on our business. In addition, we could be subject to judicial interventions and orders by judges seeking to secure the results of judicial proceedings, including but not limited to freezing bank accounts. Such actions may not be of a permanent nature and can be lifted following the statutory procedures established by law. However, those measures could temporarily impair our ability to meet our debt obligations.

For example, since 2010, the Peruvian Tax Authority (*Superintendencia Nacional de Administración Tributaria*), or SUNAT, has issued tax assessments to Kallpa and its then-lenders (as lessors under the Kallpa leases) for payment of import taxes allegedly owed by Kallpa and its lenders in connection with the engineering services of the EPC contractors for the Kallpa I, II, III and IV turbines. These assessments were issued on the basis that Kallpa did not include the value

of the engineering services rendered by the contractor of the project in the project's tax base to determine the import taxes. Kallpa disagrees with the assessment on the grounds that the engineering services rendered include the design of the plant itself as opposed to the design of the imported equipment. Kallpa and its lenders disputed the tax assessments before SUNAT and, after SUNAT confirmed the assessments, appealed before the Peruvian Tax Administrative Court, or the Tribunal Fiscal. In January 2015, the Tribunal Fiscal rejected Kallpa and its lenders' appeal in respect of the Kallpa I assessment, and Kallpa subsequently challenged the decision in the Peruvian courts. In order to challenge the administrative ruling of the Tribunal Fiscal in the judicial system, Kallpa and its lenders were required to pay the tax assessment of Kallpa I, plus related interest and fines. In September 2016, the court of first instance denied the challenge brought by Kallpa and its lenders in respect of the Kallpa I assessment, and Kallpa and its lenders appealed the decision. In June 2017, the court of appeals overruled the decision of the court of first instance and ordered the judge in the court of first instance to render a new opinion that takes into consideration a certain technical independent report presented by Kallpa. A decision of the Tribunal Fiscal of the Kallpa appeals in respect of the Kallpa II and III assessments is still pending. In January 2016, SUNAT issued a ruling in favor of Kallpa, releasing Kallpa from substantially all claims and associated fines related to Kallpa IV. As of June 30, 2017, the total amount set aside for our contingent liability related to claims by SUNAT against Kallpa and its lenders in connection with the importation of equipment related to the Kallpa II, III and IV projects equaled approximately US\$14.2 million, including interest and fines. For further information on these proceedings, see "Business—Legal Proceedings—Kallpa—Import Tax Assessments."

Furthermore, in July 2016, the Guatemalan Tax Administrator (*Superintendencia de Administración Tributaria*), or the SAT, filed a criminal complaint against DEOCSA and DEORSA before a criminal court for the alleged commission of tax fraud relating to back taxes for the fiscal years 2011 and 2012, alleging that, under DEOCSA and DEORSA's previous ownership, these companies had implemented a structure to improperly deduct interest and amortization of goodwill relating to the acquisition of these companies in 2011 by their prior owner in a leveraged buy-out. In August 2016, as ordered by the court, Energuate paid US\$17.1 million in alleged back taxes for fiscal years 2011 and 2012, excluding fines and interest. In addition, in December 2016, following discussions with, and upon the instruction of, the SAT, and in order to avoid other potential measures by the SAT, Energuate paid US\$25.7 million to the SAT in full satisfaction of the interest and fines assessed by the SAT in connection with the alleged 2011 and 2012 back taxes. In light of the SAT's actions, and in order to avoid the initiation of complaints by the SAT concerning fiscal years 2013, 2014 and 2015 and any fines and interest, upon instruction of the SAT, DEOCSA and DEORSA revised their tax returns for these years and voluntarily made the following payments: (1) on August 9, 2016, Energuate made a payment of US\$18.1 million for the years fiscal 2014 and 2015, and (2) on August 19, 2016, Energuate paid US\$13.1 million for the year fiscal 2013. In addition, during 2016, Energuate made pre-payments of income taxes of US\$5.4 million for the first three quarters of fiscal year 2016, and in January 2016 Energuate made an additional prepayment of income taxes of US\$2.8 million for the last quarter of fiscal year 2016. Finally, in May 2017, DEOCSA and DEORSA made an additional payment of US\$1.9 million corresponding to the first quarter of 2017.

Energuate is disputing the SAT's claims and has made all payments subject to a broad reservation of rights, including but not limited to seeking restitution of such payments. We have recognized these payments as a non-current tax asset in our financial statements (recorded on our balance sheet as income tax receivable). Energuate and its legal advisors are considering all available remedies with respect to this matter. The non-current tax asset we recorded in connection with Energuate's payments to the SAT may be subject to impairment. Such impairment may have a material adverse effect on our financial position and results of operation. To the extent that such asset is impaired, this may affect our financial statements. Furthermore, although Energuate is pursuing legal remedies through the Guatemalan legal system to determine its ability to deduct interest and amortization relating to the 2011 acquisition, Energuate may not be able to deduct such historical amounts or take similar deductions in the future. In light of the court orders referred to above, at this time, Energuate is not currently deducting and does not plan to deduct such items, which could result in our recording of a higher effective tax rate. In addition, our management has expended, and will continue to expend, expenses and time to pursue the remedies in connection with these claims. For more information on these claims, see "Business—Legal Proceedings—Energuate Tax Claims."

Separately, ElectroPerú S.A., or ElectroPerú, a state-owned generation company whose primary generation facilities are hydroelectric plants, the counterparty to one of CDA's PPAs, notified the COES on September 26, 2016 of its intention to initiate an arbitration proceeding to challenge the COES's decision to approve CDA's operational study (*estudio de operatividad*) that allows CDA's connection to the Peruvian grid through the Campo Armiño Substation, owned by ElectroPerú, arguing that the modifications introduced by CDA in its facilities between the approval of its pre-operational study and the approval of the aforementioned operational study obliged CDA to modify its pre-operational

study. Although CDA was not named as a party to the arbitration, CDA nonetheless requested its incorporation into the arbitration given that ElectroPerú seeks to invalidate the COES's approval of CDA's operational study. As of the date of this offering memorandum, the arbitral tribunal has been installed, but the arbitral proceeding will be suspended until January 20, 2018 pursuant to a mutual agreement reached between the COES and ElectroPerú. For more information on these claims, see "Business—Legal Proceedings—CDA—Arbitration with ElectroPerú."

In addition, litigation and/or regulatory proceedings are inherently unpredictable, and excessive verdicts do occur. Adverse outcomes in lawsuits and investigations could result in significant monetary damages, including indemnification payments, or injunctive relief that could adversely affect our ability to conduct our business and may have a material adverse effect on our financial condition and results of operations. For example, the administrative decision of the Tribunal Fiscal with respect to the Kallpa I turbine, if upheld by the Peruvian judicial courts, could have a negative impact on the outstanding rulings and assessments in respect of the Kallpa II and III turbines or other plants or projects. In addition, such investigations, claims and lawsuits could involve significant expense and diversion of our management's attention and resources from other matters, each of which could also have a material adverse effect on our business, financial condition, results of operations or liquidity.

***Our insurance policies may not fully cover damage, and we may not be able to obtain insurance against certain risks.***

We maintain insurance policies intended to mitigate our losses due to customary risks. These policies cover our assets against loss for physical damage, loss of revenue and also third-party liability. However, we cannot assure you that the scope of damages suffered in the event of a natural disaster or catastrophic event would not exceed the policy limits of our insurance coverage. In addition, we may be required to pay insurance deductibles, which are not recoverable, in order to utilize our insurance policies. We maintain all-risk physical damage coverage for losses resulting from, but not limited to, fire, explosions, floods, windstorms, strikes, riots, mechanical breakdowns and business interruption. Our level of insurance may not be sufficient to fully cover all losses that may arise in the course of our business, or insurance covering our various risks may not continue to be available in the future. In addition, we may not be able to obtain insurance on comparable terms in the future. We may be materially and adversely affected if we incur losses that are not fully covered by our insurance policies and such losses could have a material adverse effect on our business, financial condition, results of operations or liquidity. For further information on our insurance policies, see "Business—Insurance."

***Tax regulations and examinations could have a material adverse effect on us and we may be subject to challenges by tax authorities.***

We operate in a number of countries and are therefore regularly examined by and remain subject to numerous tax regulations. Changes in our global mix of earnings could affect our effective tax rate. Furthermore, changes in tax laws could result in higher tax-related expenses and payments. Legislative changes in any of the countries in which our businesses operate could materially impact our tax receivables and liabilities as well as deferred tax assets and deferred tax liabilities. Additionally, the uncertain tax environment in some regions in which our businesses operate could limit our ability to enforce our rights. Some of our businesses operate in countries with complex tax rules, which may be interpreted in a variety of ways and could affect our effective tax rate. For more information about our ongoing tax proceeding in Guatemala, see "Business—Legal Proceedings—Energuate Tax Claims." Future interpretations or developments of tax regimes or a higher than anticipated effective tax rate could have a material adverse effect on our tax liability, return on investments and business operations.

In addition, we operate in, and our businesses are incorporated in and are tax residents of, various jurisdictions. The tax authorities in the various jurisdictions in which we operate or are incorporated, may disagree with and challenge our assessments of our transactions (including any sales or distributions), tax position, deductions, exemptions, where we or our subsidiaries or businesses are tax resident, or other matters. If we are unsuccessful in responding to any such challenge from a tax authority, we may be unable to proceed with certain transactions, be required to pay additional taxes, interest, fines or penalties, and may be subject to taxes for the same business in more than one jurisdiction or may also be subject to higher tax rates, withholding or other taxes. Even if we are successful, responding to such challenges may be expensive, consume time and other resources, or divert management's time and focus from our operations or businesses. Therefore, a challenge as to our tax position or status or transactions, even if unsuccessful, may have a material adverse effect on our business, financial condition, results of operations or liquidity.

***We could be adversely affected by violations of the U.S. Foreign Corrupt Practices Act and similar anti-bribery laws outside of the United States.***

The U.S. Foreign Corrupt Practices Act, or the FCPA, and similar anti-bribery laws in other jurisdictions, such as the UK Bribery Act, or the Bribery Act, generally prohibit companies and their intermediaries from making improper payments to government officials or other persons for the purpose of obtaining or retaining business. Recent years have seen a substantial increase in anti-bribery law enforcement activity, with more frequent and aggressive investigations and enforcement proceedings by the U.S. Department of Justice, increased enforcement activity by non-U.S. regulators, and increases in criminal and civil proceedings brought against companies and individuals. Our policies mandate compliance with these anti-bribery laws. We operate, through our businesses, in countries that are recognized as having governmental and commercial corruption. Additionally, because many of our customers and end users are involved in infrastructure construction and energy production, they are often subject to increased scrutiny by regulators. We cannot assure you that our internal control policies and procedures will protect us from reckless or criminal acts committed by our employees, the employees of any of our businesses, or third party intermediaries. In the event that we believe or have reason to believe that our employees or agents have or may have violated applicable anti-corruption laws, including the FCPA or the Bribery Act, we may be required to investigate or have outside counsel investigate the relevant facts and circumstances, which can be expensive and require significant time and attention from senior management. Violations of these laws may result in criminal or civil sanctions, inability to do business with existing or future business partners (either as a result of express prohibitions or to avoid the appearance of impropriety), injunctions against future conduct, profit disgorgements, disqualifications from directly or indirectly engaging in certain types of businesses, the loss of business permits or other restrictions which could disrupt our business and have a material adverse effect on our business, financial condition, results of operations or liquidity.

In addition, we have made acquisitions in recent years, including the acquisition of Energuate in January 2016. We face risks with respect to compliance with the FCPA, the Bribery Act and similar anti-bribery laws through our acquisition of new companies, and the due diligence we perform in connection with an acquisition may not be sufficient to enable us fully to assess an acquired company's historic compliance with applicable regulations. Furthermore, our post-acquisition integration efforts may not be adequate to ensure our system of internal controls and procedures are fully adopted and adhered to by acquired entities, resulting in increased risks of non-compliance with applicable anti-bribery laws.

### **Risks Related to Our Generation Business**

***Current, proposed and potential construction or development projects may not be completed or, if completed, may not be completed on time or perform as expected.***

We plan to expand our operations through projects constructed on unused land, or greenfield projects. Greenfield projects require us to spend significant sums on engineering, permitting, legal, financial advisory and other expenses in preparation for competitive bids that we may not win or before we determine whether a development project is even feasible, economically attractive or capable of being financed. These activities consume a portion of our management's focus and could increase our leverage or reduce our consolidated profitability.

Furthermore, once we decide to proceed with a project and, if applicable, enter into a turnkey agreement to commence the construction of a project, its development and construction still involve numerous additional risks, including:

- unanticipated cost overruns;
- claims from contractors;
- an inability to obtain financing at affordable rates or at all;
- delays in obtaining necessary permits and licenses, including environmental permits;
- design, engineering, equipment manufacturing, environmental and geological problems and defects;



- adverse changes in the political and regulatory environment in the country in which the project is located;
- opposition by political, environmental and other local groups;
- shortages or increases in the price of equipment, materials or labor;
- work stoppages or other labor disputes;
- adverse weather conditions, natural disasters, accidents or other unforeseen events; and
- an inability to perform under PPAs as a result of any delays in the plants becoming operational or material defects to the plants after reaching COD.

Any of these risks could result in our financial returns on our projects being lower than expected, or could cause us to operate below expected capacity or availability levels. This, in turn, could result in our experiencing lost revenues and/or increased expenses. Although we maintain insurance to protect against some of these risks, our insurance coverage may not be sufficient and may not cover some of the costs incurred or profits lost as a result of these risks. As a result, projects may cost more than anticipated and we may be unable to fund principal and interest payments underlying our construction financing obligations, if any. In addition, a default under such a financing obligation could result in us losing our interest in a power generation facility.

***Our generation companies may not be able to enter into or renew existing, long-term contracts for the sale of energy and capacity—contracts which reduce volatility in our results of operations.***

Our generation companies sell a substantial majority of their energy under long-term PPAs. Most of our generation companies rely upon PPAs with a limited number of customers for the majority of their energy sales and revenues over the term of such PPAs, which typically range from one to 15 years. Some of our generation companies' long-term PPAs are at prices above current spot market prices. Depending on market conditions and regulatory regimes, it may be difficult for our generation companies to secure long-term PPAs with new customers, renew existing long-term PPAs as they expire, or enter into long-term PPAs to support the development of new projects. Furthermore, in the case of our generation companies with power plants which are less competitive in the relevant dispatch order (such as older power plants), it may be difficult for these generation companies to enter into long-term PPAs or renew expiring PPAs. As a result, our generation companies have been, and may continue to be, required to sell capacity and energy on the spot market at the rates dictated by such market. For example, following the expiration of CEPP's PPA in September 2014, and certain of Puerto Quetzal's PPAs in 2015, a significant percentage of CEPP and Puerto Quetzal's respective energy sales have been made on the spot market. The loss of commitments under PPAs may reduce the volume of energy sold by our generation companies and expose these generators to the volatility of the spot market in their respective jurisdictions.

In addition, in December 2011, the Bolivian government amended the applicable law to prohibit generation companies from entering into new PPAs. As a result, we will be unable to extend or replace COBEE's current PPA, under which we have contracted 18.9% of COBEE's installed capacity, when it expires in October 2017.

Moreover, when the distribution companies in El Salvador organize tenders under the supervision of the General Superintendency of Electricity and Telecommunications (*Superintendencia General de Electricidad y Telecomunicaciones*), or SIGET, for new long-term PPAs, the bidding rules generally do not permit the participation of HFO-fired generators, such as Nejapa, in tenders for PPAs with terms in excess of five years. An increase in the availability of, and demand for, renewable energy in the other countries in which our generation companies operate could lead to similar prohibitions in those countries and a further reduction in their ability to enter into long-term PPAs.

Furthermore, the introduction of a more efficient energy generation technology could adversely affect the competitiveness of our gas-fired energy plants, such as the Kallpa thermal plant, Las Flores plant and Samay I plant in the dispatch order, which could affect our ability to enter into long-term PPAs. Similarly, our other generation assets face potential displacements in dispatch merit orders as new, more efficient technologies became available in their markets. Any displacement of dispatch merit orders could affect the competitiveness of our generation assets and thereby impact their ability to enter into long-term PPAs. If our generation companies are unable to enter into long-term PPAs, they may

be required to sell electricity into spot markets at prices that may be below the prices established in their PPAs, including in those countries which are, or may be, experiencing an oversupply in capacity in the short- to medium-term. Because of the volatile nature of power prices, if our generation companies are unable to secure long-term PPAs, they could face increased volatility in their earnings and cash flows and could experience substantial losses during certain periods which could have a material adverse effect on our business, financial condition, results of operations or liquidity.

***We are exposed to counterparty risks.***

Our cash flows and results of operations are dependent upon the continued ability of our generation customers to meet their obligations under their relevant PPAs. Additionally, a small number of customers purchase a significant portion of our output under PPAs that account for a substantial percentage of the anticipated revenue of our generation companies. Although our generation companies evaluate the creditworthiness of their various counterparties, our generation companies may not always be able to, if at all, fully anticipate, detect, or protect against deterioration in a counterparty's creditworthiness and overall financial condition. The deterioration of creditworthiness or overall financial condition of a material counterparty (or counterparties) could expose us to an increased risk of non-payment or other default under our contracts with them. For example, CEPP has experienced significant payment delays under its PPAs.

Furthermore, if any of the counterparties to our PPAs were to become insolvent, we may be unable to recover payment under local insolvency laws. For example, under Peruvian insolvency laws, if a private counterparty under any of our PPAs were to become insolvent, our claims with respect to payments due by such counterparty under its relevant contract will rank junior to, among others, the counterparty's labor, social security, taxes, pension fund and secured obligations. In such a case, our ability to recover payments due on our existing PPAs in Peru may be limited. Any default by any of our key customers could have a material adverse effect on our business, financial condition, results of operations or liquidity.

***We operate in highly competitive markets.***

The worldwide markets for power generation are highly competitive in terms of pricing, quality, development and introduction time, customer service and financing terms. In many of the markets in which we operate, we face downward price pressure and we are or could be exposed to market downturns or slower growth, which may increase in times of declining investment activities, government incentives and/or consumer demand. We face strong competitors, some of which are larger and may have greater resources in a given business area than we have, as well as competitors from emerging markets, which may have better, more efficient cost structures.

For example, in May 2016, Samay I (our cold-reserve thermoelectric project) reached its COD on schedule, providing an additional 632 MW of installed capacity to the Peruvian market. In August 2016, we provided an additional 545 MW of installed capacity to the Peruvian market with the completion of the construction of the CDA plant. As a result of the completion of the various plants in Peru in recent years (including the Samay I and CDA plants), the generation capacity in Peru increased at a faster rate than the demand for such electricity, resulting in a temporary oversupply of capacity in the Peruvian market and therefore a corresponding downward pressure on energy and capacity prices. For the next few years, we expect renegotiations under existing PPAs and spot market sales to be conducted in this soft energy price environment.

Additionally, in recent years, the power production industry has been characterized by strong and increasing competition with respect to obtaining long-term and short-term PPAs—which provide for the sale of electricity, independent of actual generation allocations or provisions of availability, to financially stable distribution companies or other non-regulated consumers—and acquiring existing power generation assets. In certain markets, these factors have caused reductions in the prices negotiated in PPAs and, in many cases, have caused higher acquisition prices for existing assets through competitive bidding processes. The evolution of competitive electricity markets and the continued development of highly efficient gas-fired power plants have also caused, or are anticipated to cause, price pressure in certain power markets where we sell or intend to sell power. Certain competitors might be more effective and faster in capturing available market opportunities, which in turn may negatively impact our market share.

Currently, certain companies in Peru are operating both as power generators and as electricity distributors. This market structure, which allows the same company to operate as both a power generator and electricity distributor, is being challenged in the courts. The structure also allows these competitors to directly offer the ultimate clients flexible

options to contract electricity supply. Further vertical integration of participants in the power generation and electricity distribution industry may result in more direct access to the ultimate client, which could affect our ability to remain competitive and may affect our financial condition and results of operations.

Any of these factors alone, or in combination, may negatively impact one or more of our businesses and thereby have a material adverse effect on our business, financial condition, results of operations or liquidity.

***Our generation businesses rely on power transmission facilities that we do not own or control and that are subject to transmission constraints. If these facilities fail to provide us with adequate transmission capacity, we may be restricted in our ability to deliver wholesale electric power and we may either incur additional costs or forego revenues.***

Our generation businesses depend upon transmission facilities owned and operated by others to deliver the wholesale power we sell from our power generation plants. If transmission is disrupted, or if the transmission capacity infrastructure is inadequate, our ability to sell and deliver wholesale power may be adversely impacted. If the power transmission infrastructure in one or more of the markets that we serve is inadequate, our recovery of wholesale costs and profits may be limited. If restrictive transmission price regulation is imposed, the transmission companies may not have sufficient incentive to invest in expansion of transmission infrastructure. We cannot predict whether transmission facilities will be expanded in specific markets to accommodate competitive access to those markets, a failure of which could have a material adverse effect on our business, financial condition, results of operations or liquidity. In addition, in some of the markets in which we operate, different spot prices may occur within the grid as a result of a transmission constraint. As a result, we may need to purchase energy in the spot market in order to fulfill a PPA obligation in one part of the grid, even if we are generating energy in another part of the grid, and such purchase may occur at a spot market price which is higher than our own generation cost. Moreover, the specific constraints of the transmission infrastructure located near our facilities could affect our ability to generate electricity. Such constraints could result from lack of infrastructure planning, maintenance, or failures, among other factors.

***We are exposed to electricity spot market, fuel and other commodity price volatility.***

Our generation companies purchase and sell electricity in the wholesale spot markets. During the six months ended June 30, 2017 and the years ended December 31, 2016, 2015 and 2014, our generation companies purchased 34%, 18%, 21% and 19% of the electricity that they sold (in GWh) from the spot market, respectively. As a result, we are exposed to spot market prices, which tend to fluctuate substantially. Unlike most other commodities, electric power can only be stored on a very limited basis and generally must be produced concurrently with our use. As a result, power prices are subject to significant volatility from supply and demand imbalances, especially within the spot markets in which we may purchase and sell electricity. Typically, spot market prices for electricity are volatile and the demand for such electricity often reflects the cyclical fluctuating cost of coal, natural gas and oil, rain volumes or the conditions of hydroelectric reservoirs. The Peruvian and Chilean electricity markets are also indirectly affected by the price of copper, as a result of the electricity-intensive mining industry, which represents a significant source of the electricity demand in these markets. Therefore, a decline in such mining activity could adversely affect us, and any changes in the supply and cost of coal, natural gas and oil, rain volumes, the conditions of hydroelectric reservoirs, the unexpected unavailability of other generating units, or the supply and cost of copper, may impact the volume of electricity demanded by the market. Volatility in market prices for fuel and electricity may result from many factors which are beyond our control, and we do not generally engage in hedging transactions to minimize such risks. For further information on the effects of fluctuations in oil prices on our results of operations, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Material Factors Affecting Results of Operations—Fluctuations in Oil Prices and Currency Exchange Rates.”

***If any of our generation units are unable to generate energy as a result of a breakdown or other failure, we may be required to purchase energy on the spot market to meet our contractual obligations under the relevant PPAs.***

The breakdown or failure of one of our generation facilities may require us to purchase energy in the spot market to meet our contractual obligations under our PPAs, while simultaneously resulting in an increase in the spot market price of energy, resulting in a contraction, or loss, of our margins. In addition, the failure or breakdown of one of our generation units may prevent that particular facility from performing under applicable PPAs which, in certain situations, could result in termination of the PPA or liability for liquidated damages, the occurrence of which could have a material

adverse effect on our business, financial condition, results of operations or liquidity. For example, due to unscheduled maintenance of one of its turbines in the first half of 2013, Kallpa was required to make energy purchases on the spot market to meet its obligations under its PPAs, which increased its cost of sales during this period. In addition, in April 2017, the Kanan power plant experienced a fire and, as a result, its power barges were placed off-line permanently. We expect that our subsidiary Puerto Quetzal will sell one of its two power barges, with an installed capacity of 124 MW, to Kanan and, following modification and maintenance works on this power barge, we currently expect Kanan to resume operations in the first quarter of 2018. We expect that Kanan will make energy purchases on the spot market to meet its obligations under its PPA until it is able to resume generation operations, which could increase its cost of sales during the period during which the plant remains off-line.

***Supplier concentration may expose us to significant financial credit or performance risk, particularly with respect to those agreements which may expire during the life of our power plants.***

We rely on natural gas and HFO to fuel most of our power generation facilities. The delivery of these fuels to our various generation facilities is dependent upon a number of factors, including the continuing financial viability of contractual counterparties and the infrastructure (including barge facilities, roadways and natural gas pipelines) available to serve each generation facility. Any disruption in the fuel delivery infrastructure or failure of a counterparty to perform, may lead to delays, disruptions or curtailments in the production of power at one or more of our generation facilities. This risk of disruption is compounded by the supplier concentration that characterizes many of our operating companies.

We source most of our HFO from a limited number of suppliers. In the event of shipping delays which may affect our suppliers, we may experience delays in the receipt and transportation of our HFO. Additionally, many of our gas suppliers are sole or monopolistic suppliers, and may exercise monopolistic control over their supply of natural gas to us. The generation facilities of the Kallpa thermal plant and the Las Flores plant, for example, rely on a consortium, composed of Pluspetrol Peru Corporation S.A., Pluspetrol Camisea S.A., Hunt Oil Company of Peru L.L.C. Sucursal del Perú, SK Corporation Sucursal Peruana, Sonatrach Peru Corporation S.A.C., Tecpetrol del Perú S.A.C. and Repsol Exploración Perú Sucursal del Perú, which we collectively refer to as the Camisea Consortium, for the provision of natural gas and on sole suppliers for the transportation and distribution of such natural gas.

If these suppliers cannot perform under their contracts, the Kallpa thermal plant and Las Flores plant would be unable to generate electricity at their facilities, and such a failure could prevent Kallpa from fulfilling its contractual obligations, which could have a material adverse effect on our business and financial results. Continued supply of natural gas to the Kallpa thermal plant and Las Flores plant is dependent upon a number of factors, over which we have no control, including:

- levels of exploration, drilling, reserves and production of natural gas in the Camisea fields and other areas in Peru and the price of such natural gas;
- accessibility of the Camisea fields and other gas production areas in Peru, which may be affected by weather, natural disasters, geographic and geological conditions, environmental restrictions and regulations, activities of terrorist group or other impediments to access;
- the capacity of the facilities Kallpa uses for natural gas transportation and distribution;
- the availability, price and quality of natural gas from alternative sources;
- market conditions for the renewal of such agreements before their expiration and our ability to renew such agreements and the terms of any renewal; and
- the regulatory environment in Peru.

Upon the commencement of Samay I's second operational stage, Samay I's plant will operate as a natural gas-fired power plant, and will be dependent on the provision of natural gas to it by the Camisea Consortium and will also depend upon gas transportation services rendered by the operator of a natural gas pipeline that will be constructed to deliver gas to southern Peru, or the Gasoducto Sur Peruano. The construction of the Gasoducto Sur Peruano was suspended in

January 2017, following the termination of the corresponding concession agreement. For further information about the Gasoducto Sur Peruano, see “Business—Peruvian Generation Business—Samay I.”

Furthermore, since the Camisea Consortium is the principal supplier of natural gas, and since the transportation and distribution suppliers are the principal suppliers of natural gas transportation and distribution services to substantially all generation facilities in Peru fueled by natural gas, a change in the terms of their respective agreements with us or other power generators, or a failure by either of these suppliers to meet their contractual obligations, could have a significant effect on Peru’s entire electricity supply and, therefore, prompt the Peruvian governmental authorities to undertake certain remedial actions. Any such actions could adversely affect the operations of the Kallpa thermal plant or Las Flores plant, or the expected operations of the Samay I plant’s second operational stage.

A change in the commercial terms of these agreements could increase Kallpa’s generation costs, because, for instance, higher levels of take-or-pay in natural gas supply could force Kallpa to pay more for its gas supply without either of the Kallpa plant or the Las Flores plant generating additional electricity. This situation could occur, for example, during rainy seasons, when hydroelectric power plants dispatch more energy than they do in the dry seasons; conversely, thermal power plants tend to generate less energy. As a result, while our Kallpa thermal plant may generate less energy during the rainy season, it may continue to pay the same amount for its natural gas supply under a take-or-pay contract despite not generating as much energy.

Moreover, certain of our contracts for natural gas are scheduled to expire during the life of the power plants which they service. These contracts have not yet been extended or replaced with one or more contracts on comparable terms. For example, Kallpa, our largest asset, purchases its natural gas requirements for its thermal generation facilities from the Camisea Consortium pursuant to a natural gas supply agreement which expires in June 2022 and which has not yet been extended. If we are unable to renew, or enter into supply contracts and, in particular, enter into long-term supply contracts, we may be required to purchase our natural gas on spot markets at prices that may be significantly greater than the prices we previously paid for such commodities, or may be unable to purchase such commodities on competitive prices at all. As a result, we could face increased volatility in our earnings and cash flows and could experience substantial losses during certain periods which could have a material adverse effect on our business, financial condition, results of operations or liquidity.

***Our business and profitability may be adversely affected if water rights are limited or denied.***

Certain of our generation facilities rely on hydroelectric power generation. For example, we recently developed the CDA plant, a 545 MW run-of-the-river hydroelectric project in Peru. In addition, in Bolivia, our COBEE facilities generate power from, among others, 10 run-of-the-river hydroelectric plants in the Zongo river valley and four run-of-the-river hydroelectric plants in the Miguillas river valley.

We own water rights in Bolivia granted by the Bolivian Ministry of Energy and Hydrocarbons and in Peru, granted by the ANA. From time to time, local governments and regulators may amend regulations and impose charges pertaining to water rights. Furthermore, we may be unable to obtain, or otherwise experience difficulty in obtaining, water rights in connection with the construction of new hydroelectric plants, which may impact the viability, design, timing or profitability of a project. Local governments may also try to impose a royalty or tariff for water use on our hydroelectric plants. In addition, several plants are required to leave a percentage of the water available in the river and therefore may not utilize such water in their generation activities (this reserve is commonly referred to as the “ecological waterflow”). Local governments may decide to enact a change in the regulation or in the calculation of the ecological waterflow, thereby reducing available volumes of water for power generation in our plants. Any limitations on our current water rights, our ability to obtain additional water rights, or our ability to effectively utilize our existing rights, could have a material adverse effect on our current hydroelectric plants and our hydroelectric projects.

**Risks Related to Our Distribution Business**

***Energuate is subject to comprehensive regulation of its business, which may affect our financial performance.***

Energuate’s business is subject to extensive regulation by various Guatemalan regulatory authorities, particularly the CNEE. The CNEE regulates and oversees Guatemala’s electricity sector, regulates companies engaged in the generation,

transmission and distribution business, enforces the General Electricity Law and energy regulations (including the quality and delivery standards set forth in our authorizations), imposes fines and penalties, and establishes tariffs, including Energuate's distribution tariffs. Such regulations may affect many aspects of Energuate's business and, to a certain extent, may limit management's ability to independently make and implement decisions regarding Energuate's operations. Changes in the electricity regulatory framework may affect energy prices, Energuate's ability to recuperate its costs through tariffs, its suppliers, the availability of sources of power, Energuate's authorizations to operate, and other aspects of its business, which may have an adverse effect on our financial performance. In 2016, a new president was elected in Guatemala and in 2017 new members of the CNEE were appointed, and the new administration may seek to modify the energy regulatory framework. Both the implementation of Energuate's strategy for growth and our day-to-day business may be adversely affected by changes in regulation and other governmental actions, including changes to current legislation, the termination of national and local authorization licenses or permits, the forced sale of Energuate's distribution assets in a public auction, the creation of more rigid criteria for qualification in public energy auctions, a delay in the revision and implementation of new tariffs, or a modification of the tariff regime.

Under current regulations, Energuate may only make energy purchases through public bids regulated by the CNEE or in the spot market if (1) authorized by the CNEE, or (2) a PPA authorized by the CNEE provides that we are able to purchase energy in the spot market if the price in the spot market is more advantageous to Energuate than the PPA price. If Energuate's contracted capacity and energy under its PPAs are insufficient to meet customer demand, Energuate will either have to purchase energy on the spot market or there would be rolling blackouts. If Energuate purchase energy in the spot market without the CNEE's authorization or authorized under its PPAs, Energuate would be subject to a fine imposed by the CNEE and could not be permitted to pass through the costs associated with the spot market purchases to its customers.

In addition, if Energuate is either obligated by the CNEE or makes the decision to make additional and unexpected capital expenditures and is not allowed to recuperate such investments through the VAD accordingly, Energuate will have to bear the cost of these purchases, which may have an adverse effect on Energuate's business, financial condition and results of operations.

***The CNEE may impose fines or require Energuate to reimburse its customers if it fails to meet the quality and delivery standards of service set forth in its authorizations.***

Under the terms of Energuate's authorizations, Energuate is required to meet certain standards of service quality and delivery. Energuate has been, and in the future may continue to be, subject to significant fines and penalties by regulatory authorities for, among other reasons, failure to meet those quality and delivery standards, some of which may be due to causes outside of Energuate's control, such as service disruptions attributable to problems at transmission facilities' grids. Fines relating to Energuate's failure to meet any quality or delivery standards related to services rendered to customers may be payable either, as determined by the CNEE, as a fine payable to the CNEE or by granting credits to Energuate's customers to offset a portion of their energy charges. During the six months ended June 30, 2017 and the year ended December 31, 2016, Energuate paid fines and penalties of US\$642 thousand and US\$265 thousand, respectively. In addition, Energuate is currently subject to ongoing proceedings with respect to fines and penalties for failure to meet quality and delivery standards, which may have a material adverse effect on our business, financial condition and results of operations. If Energuate fails to comply with any of the conditions imposed under the terms of its authorizations, under the current regulations, the Guatemalan government may seek to impose fines and penalties on Energuate, terminate its authorizations, and require the sale of its assets in satisfaction of any fines and penalties imposed on it, each of which could have a material adverse effect on our business, financial condition and results of operations. For further information on claims against Energuate relating to its service standards, see "Business—Legal Proceedings—Claims Relating to Energuate's Technical Service Quality."

***The tariffs that Energuate charges for the distribution of electricity are determined by CNEE, and unfavorable changes to the distribution tariffs could have a material adverse effect on our results of operations.***

The base tariff that Energuate charges its regulated customers for energy distributed is set by the CNEE and consists of an energy charge and a VAD charge. There are seven different tariffs that are applicable to Energuate's regulated customers, and each of Energuate's regulated customers purchases energy at one of these tariff rates, additionally there are two toll tariffs for large users that receive their energy purchased from a third-party supplier through Energuate's distribution lines. The energy charge component of the tariff is set annually by the CNEE based on the projected cost of

energy and capacity purchases, and adjusted quarterly based on any variation between projected costs and actual costs in each quarter. The VAD charge of the distribution tariff is determined on the basis of legal and regulatory proceedings by the CNEE and set every five years with semi-annual adjustments for inflation in Guatemala and for the Guatemalan Quetzal/U.S. dollar exchange rate. The CNEE will reassess our Energuate's VAD charges in January 2019.

The process of establishing the distribution tariffs involves several parties, including distribution companies, and takes place over several stages. While the tariffs are intended to be set on the basis of objective criteria, the CNEE has exercised discretion. In addition, under article 87 of the General Electricity Law, if there is a temporary change in conditions that has a temporary effect on a component of the tariffs, the CNEE and the relevant distributor may agree to defer an adjustment to the tariffs to avoid frequent significant changes in the tariffs. The difference between the tariff charged to customers and the tariff that should have been charged if the adjustment mechanism had been applied, is subsequently set off against future adjustments based on permanent changes in market conditions. Such amount accrues interest until it is set off against future adjustments. As of July 31, 2017, Energuate had collected approximately US\$25 million in excess of the amounts due to these tariffs adjustments deferrals, of which US\$7 million will be applied to reduce Energuate's energy charges during the period from August 1, 2017 to October 31, 2017. The excess amount collected is not recorded in our financial statements; however, we must record the interest accrual on these amounts. Therefore, the CNEE may determine in the future to defer increases in Energuate's tariffs that would otherwise apply until such balance is paid.

The CNEE will reassess the VAD charge in January 2019. If the CNEE revises the distribution tariff in a manner that is not satisfactory to us, due to, among other things, political pressure or an economic crisis, such a revision may have a material adverse effect on our business, financial condition or results of operations. In addition, if the semi-annual adjustments to the VAD component of the distribution tariff are insufficient to fully account for inflation or exchange rate fluctuations, these adjustments may have a material adverse effect on our business, financial condition or results of operations. For more information about the tariff adjustment process, see "Regulatory Overview—Regulation of the Guatemalan Electricity Distribution Market—Distribution and Transmission Tariffs and Tolls."

***Energuate's authorizations can be terminated if its service levels fall below those required by its authorization agreements with the MEM.***

Energuate conducts its energy distribution business pursuant to authorization agreements which were entered into between each of DEOCSA and DEORSA and the MEM. Energuate's authorizations are for a fixed term (until 2048) and renewal is neither automatic nor guaranteed. The authorization agreements require Energuate to comply with certain service and quality standards, among other obligations. If Energuate fails to meet these levels of service, quality, or customer satisfaction standards pursuant to its authorizations, the CNEE may impose fines on Energuate, or these failures may result in the MEM's revocation of Energuate's authorizations pursuant to the regulations under the General Electricity Law. In the event that Energuate's authorizations are terminated, Energuate's distribution assets may, after a series of proceedings, be sold in a public auction, as provided for in the General Electricity Law. A termination of Energuate's authorizations would have immediate negative effects on Energuate's business and results of operations, which could have a material adverse effect on our business, financial condition and results of operations.

***Energuate's authorizations to provide energy distribution services are non-exclusive. Therefore, Energuate may face more competition from other distributors in certain departments.***

Energuate has authorizations to provide energy distribution services within its service area until 2048. However, Energuate's authorizations are non-exclusive and the MEM has historically granted and may in the future grant authorizations to one or more competing distribution companies in Energuate's service area. In addition, Energuate is facing competition within certain of the departments in which it operates from other distribution companies, which hold authorizations to operate in certain departments located in Energuate's service area. Competition from other distribution companies within Energuate's service area may have a material adverse effect on our business, financial condition, results of operations or liquidity.

***We will be required to make significant capital expenditures to improve Energuate's transmission grid and service quality and reduce electricity losses.***

We believe that additional capital expenditures will be required to, among other things, modernize and expand Energuate's distribution lines, improve service quality and customer satisfaction levels, reduce energy losses and improve Energuate's billing and collection systems. Accordingly, we have invested US\$30 million in capital expenditures (in respect of tangible fixed assets) during the year ended December 31, 2016, and we expect that the amount of our capital expenditures will increase in the coming years. In addition, from time to time, the CNEE may require Energuate to make certain capital expenditures. A failure to make the necessary capital expenditure to improve service quality and customer satisfaction levels may result in further fines and penalties from the CNEE which, in turn, could have a material adverse effect on our business, financial condition, results of operations or liquidity. We cannot assure you that these strategies will be effective to improve Energuate's quality of customer satisfaction levels.

Energuate may finance this capital expenditure program through cash on hand, internally generated funds, bank financings or financing from the domestic and international capital markets. Energuate's ability to make these capital expenditures depends on a variety of factors, including its access to domestic and international capital markets, its ability to access and operate its distribution network, especially in the conflict zones, and a variety of operating, regulatory or other contingencies. Energuate may not have the financial resources to make the necessary capital expenditures in a timely manner. In addition, should the CNEE's revision to the distribution tariffs Energuate charges to its regulated customers be unfavorable, Energuate may be unable to recoup the costs of its capital expenditures program. A failure to make the necessary capital expenditures in a timely manner or recoup the cost of such program could have a material adverse effect on our business, financial condition, results of operations or liquidity.

***A slowdown in the growth of energy electricity demand in Guatemala could adversely affect Energuate's business, financial condition and results of operations.***

In times of economic crisis, energy demand in Guatemala has grown at lower rates due to declines in overall levels of economic activity and has resulted in the deterioration of the ability of many consumers to pay their electricity bills. A slowdown in the growth of demand for energy distributed through our transmission grid and distribution system or a decline in collection rates from customers due to a deterioration of Guatemalan economic conditions may have a material adverse effect on our business, financial condition, results of operations or liquidity. Any such slowdown could also result in a decrease in energy demand leading to Energuate having more contracted capacity than is actually needed, resulting in higher tariffs that could trigger social unrest and/or political pressures, or an increase in customer defaults.

***If Energuate is unable to successfully control energy losses and improve collection rates, our results of operations could be adversely affected.***

The percentage of the energy that Energuate purchases, but is unable to distribute to customers, represents Energuate's energy losses. Energuate experiences two types of energy losses: technical energy losses and commercial energy losses. Technical energy losses occur in the ordinary course of Energuate's distribution of energy and include losses due to energy dissipation in conductors and magnetic losses in transformers, while commercial energy losses result from customers' illegal connections, fraud and billing errors. Energuate's total losses (comprising technical and commercial losses) in the six months ended June 30, 2017 and the years ended December 31, 2016, 2015 and 2014 were 20.0%, 19.6%, 16.9% and 16.9% of its total energy received, respectively. The distribution tariffs that Energuate charges its regulated customers include a VAD charge, which provides for an allowance determined by the CNEE for losses incurred in the distribution of energy. To the extent that Energuate's energy losses exceed the allowance (currently approximately 15.0% of Energuate's costs associated with energy losses, which includes both technical and commercial energy losses) contemplated in the current formula of the VAD charge component of the distribution tariff, Energuate will bear the cost of such losses.

We intend to reduce commercial energy losses through increasing targeted inspections and meter replacements, implementing a communication program with local communities and modernizing Energuate's facilities to reduce tampering, especially in areas where energy theft has been more prevalent, such as in the conflict zones. We intend to reduce technical losses by investing in the modernization of Energuate's transmission grid and distribution system. However, we cannot assure you that these strategies will be effective to control or decrease Energuate's energy losses.



Should Energuate's energy losses remain above the allowance contemplated in the VAD or increase, this could have a material adverse effect on our business, financial condition, results of operations or liquidity.

***Defaults by Energuate's consumers due to, among other causes, a reduction in subsidies, could adversely affect our business, results of operations and/or financial condition.***

Energuate records a provision for doubtful accounts for past due accounts owed by its customers. Energuate has been, and may continue to be, unable to collect amounts payable from numerous consumers in arrears. Our collection rate (which reflects the amounts collected divided by the total billed amounts) was 95.4% and 95.9% for the six-month period ended June 30, 2017 and the year ended December 31, 2016, respectively. If the number of delinquent customers increases or their debts are not totally or partially settled, this may have a material adverse effect on our business, financial condition and results of operations or liquidity. Additionally, the amount of receivables that Energuate is unable to collect may exceed the provision that it has constituted. Should the amount of debts in arrears from Energuate's consumers exceed the amounts it has provisioned, this could have a material adverse effect on our business, financial condition, results of operations or liquidity.

In addition, pursuant to the applicable regulation, Energuate is authorized to pass-through the cost of energy and capacity purchased to its customers. Moreover, a significant proportion of Energuate's customers also rely on government subsidies. For further information on this reliance, see "—A reduction of the subsidies granted by the Guatemalan government to Energuate's customers could adversely affect our business, results of operations and/or financial condition." Therefore, should the energy and capacity prices (and therefore, the applicable tariff) increase, Energuate's customers may be unable to bear the cost of their energy, leading to a decrease in collection rates and an increase in doubtful accounts, which could have a material adverse effect on our business, financial condition, results of operations or liquidity.

***A reduction of the subsidies granted by the Guatemalan government to Energuate's customers could adversely affect our business, results of operations and/or financial condition.***

The Guatemalan government, through the INDE, currently provides energy rate subsidies for certain low-income customers who pay the social tariff to assist in their payment of their energy bills. Approximately 78.3% of our regulated customers as of December 31, 2016 benefited from such subsidies from the INDE, which are paid directly to Energuate based on calculations performed by the INDE. During the six months ended June 30, 2017 and the year ended December 31, 2016, the subsidies that the INDE granted to Energuate's customers represented 5.1% and 6.2% of our revenue, respectively. If the operating income generated by the INDE is not sufficient to fund the subsidies or the Guatemalan government suffers from other budgetary constraints, the INDE may be required to reduce the subsidies it provides to low-income customers. Should the INDE reduce energy rate subsidies in the future, Energuate's customers may be unable to bear the cost of their energy, leading to a decrease in consumption and/or collection rates and an increase in doubtful accounts, which could have a material adverse effect on our business, financial condition, results of operations or liquidity. For further details on the risk of default by Energuate's customers, see "—Defaults by Energuate's consumers due to, among other causes, a reduction in subsidies, could adversely affect our business, results of operations and/or financial condition."

## **Risks Related to the Countries in Which We Operate**

***Our results of operations and financial condition are dependent upon the economic, environmental, social and political conditions in those countries in which we operate.***

Following our sale of our assets in Colombia, we have operating assets in nine countries, including emerging markets, and we expect to complete construction programs and secure additional development projects in these or other countries. As a result, our results of operations are dependent upon the economic, social and political conditions in each of the countries in which we operate, and we are exposed to a variety of risks, including risks related to:

- heightened economic volatility;
- difficulty in enforcing agreements, collecting receivables and protecting assets;

- difficulty in obtaining authorizations, permits and licenses required for the operation of our assets;
- the possibility of encountering unfavorable circumstances from host country laws or regulations;
- fluctuations in revenues, operating margins and/or other financial measures due to currency exchange rate fluctuations and restrictions on currency and earnings repatriation;
- trade protection measures, import or export restrictions, licensing requirements and environmental, local fire and security codes and standards;
- increased costs and risks of developing, staffing and simultaneously managing a number of foreign operations as a result of language and cultural differences;
- issues related to occupational safety, work hazard, and adherence to local labor laws and regulations;
- potentially adverse tax developments or interpretations;
- changes in political, social and/or economic conditions;
- the threat of nationalization and expropriation;
- the presence of corruption in certain countries;
- fluctuations in the availability of funding;
- a potential deterioration in our relationships with the different stakeholders in the communities surrounding our facilities;
- terrorist or other hostile activities; and
- changes in the regulatory and environmental legal framework, including the costs of complying with environmental and energy regulations.

Additionally, our revenue is derived primarily from the sale of electricity, and the demand for electricity is largely driven by the economic, political and regulatory conditions of the countries in which we operate. Therefore, our results of operations and financial condition are, to a large extent, dependent upon the overall level of economic activity in these emerging market countries. Should economic or political conditions deteriorate in Peru, or in any of the other countries in which we operate, or in emerging markets generally, such an occurrence could have a material adverse effect on our business, financial condition, results of operations or liquidity.

***We primarily operate, and expect to continue to primarily operate, in emerging economies.***

We have operations in a number of emerging economies, including Peru, Guatemala and Nicaragua. Investing in the securities of a company with operations in emerging economies generally involves a higher degree of risk than investing in the securities of a company with operations in a more developed market. For example, we are subject to increased political, social and economic instability, which may affect the economic results of the emerging economies in which we operate and which stems from many factors, including:

- high interest rates;
- abrupt changes in currency values;
- high levels of inflation;
- exchange controls;
- wage and price controls and increased employment-related regulations;

- regulations on imports of equipment and other necessities (goods and services) relevant to operations;
- changes in governmental, economic or tax policies; and
- social and political tensions,

any of which could have a material adverse effect on our financial condition, results of operations or liquidity or the value of your investment in our securities.

A significant portion of all of our operations and the customers of our subsidiaries are located in Peru. Accordingly, our financial condition and results of operations will be dependent on the level of economic activity in Peru. Our financial condition and results of operations could be affected by changes in economic and other policies of the Peruvian government (which has exercised and continues to exercise substantial influence over many aspects of the private sector) and by other economic and political developments in Peru, including devaluation, currency exchange controls, inflation, economic downturns, corruption scandals, social unrest and terrorism. In the past, Peru has experienced terrorist activity targeting, among others, both the government and the private sector, which could disrupt the economy of Peru and our business. Furthermore, some of the measures proposed by the current administration may generate political and social opposition, which may in turn prevent the new government from adopting such measures as proposed. Political parties opposed to the current administration retained a majority of the seats in the Peruvian Congress in the last elections, which will require the current administration to seek political support from such opposition parties for its economic proposals. This creates further uncertainty in the ability of the current administration to pass measures that it expects to implement.

In addition, our distribution business, which is located in Guatemala, accounts for a significant portion of our Adjusted EBITDA. Accordingly, our financial condition and results of operations will be dependent on the level of economic activity in Guatemala. Guatemala has suffered significant economic, political and social crises in the past, including civil strife and a significant level of violence and criminal activities, and severe weather and natural disasters, and these events may occur again in the future. We cannot predict whether changes in administrations will result in changes in governmental policies and/or the government adopting measures or changes in laws in response to such crises or natural disasters and whether such changes will affect our business.

***Governments have a high degree of influence in the countries in which we operate.***

Following our sale of our assets in Colombia, we operate in nine countries and therefore are subject to significant and diverse government regulation. The laws and regulations affecting our operations are complex, dynamic and subject to new interpretations or changes. Such regulations affect almost every aspect of our businesses, have broad application and, to a certain extent, limit management's ability to independently make and implement decisions regarding numerous operational matters. Additionally, governments in many of the markets in which we operate frequently intervene in the economy and occasionally make significant changes in monetary, credit, industry and other policies and regulations. Government actions to control inflation and other policies and regulations have often involved, among other measures, price controls, currency devaluations, capital controls and limits on imports. We have no control over, and cannot predict, what measures or policies governments may enact in the future. The results of operations and financial condition of our businesses may be adversely affected by changes in governmental policy or regulations in the jurisdictions in which we operate if those changes impact, among other things:

- consumption of electricity and natural gas;
- supply of electricity and natural gas;
- operation and maintenance of generation, transmission or distribution facilities, including the receipt of provisional and/or permanent operational licenses;
- tariffs or royalties on the use of water for hydroelectric or thermal plants;
- energy policy;

- rules governing the dispatch merit order;
- key permits or operating licenses that we currently hold;
- calculations of marginal costs or spot prices;
- subsidies and incentives;
- regulated rates and tariffs, including under PPAs where tariffs are based on regulated rates;
- labor or other laws;
- the regulatory and environmental legal framework, including the costs of complying with environmental and energy regulations;
- mandatory salary increases;
- public consultations for new projects;
- social responsibility obligations;
- economic growth;
- currency fluctuations and inflation;
- fiscal policy and interest rates;
- capital control policies and liquidity of domestic capital and lending markets;
- tax laws, including the effect of tax laws on distributions from our subsidiaries;
- import/export restrictions;
- acquisitions, construction, or dispositions of power assets; and
- other political, social and economic developments in or affecting the countries in which our operating companies are based.

Uncertainty over whether governments will implement changes in policy or regulations affecting these or other factors in the future may also contribute to economic uncertainty and heightened volatility in the securities markets or local economies including, for example, increasing volatility in local exchange rates.

Existing or future legislation and regulation or future audits could require material expenditures by us or otherwise have a material adverse effect on our operations. For example, Peruvian regulators have increased their reviews of permitting, licensing and concession applications and have recently imposed time limits on newly-granted licenses and concessions. Additionally, a regulation that provides that non-regulated customers shall be granted access to the spot market was published in July 2016. This regulation establishes that large non-regulated customers can access the spot market only to cover up to 10% of their maximum demand registered in the last 12 months. However, this statute will not become effective until January 1, 2018, pursuant to Supreme Decree No. 033-2017-EM. The provision of such access could result in increased competition in the Peruvian generation sector and/or result in increased pressures to reduce contractual prices in Peru. Furthermore, the current discussions between the executive and legislative branches in Peru may impact the development of certain industries, affect the interpretation of existing legislation, or result in the enactment of additional regulations, actions or agencies, which may result in changes in regulations in Peru that adversely affect our business. Peruvian regulators may also enact processes to expand generation capacity in Peru in excess of the rate of demand growth, which expansion could therefore have a negative impact on spot and contractual prices in Peru, which in turn could reduce the margins of our Peruvian assets. Moreover, Peruvian regulators may amend the rules that govern how natural gas prices in Peru are determined and such prices are used to determine the variable

fuel cost of thermal generation units that burn such fuel. As a result, any such amendment may affect the order of dispatch of thermal generation units in the Peruvian system (such as Kallpa's thermal plants or Samay I plant), which may have a material adverse effect on our margins or results of operations.

Additionally, government agencies could take enforcement actions against us and impose sanctions or penalties on us for failure to comply with applicable regulations. Depending on the severity of the infraction, enforcement actions could include the closure or suspension of operations, the imposition of fines or other remedial measures, and the revocation of licenses. Compliance with enhanced regulations could force us to make capital expenditures and divert funds away from planned investments in a manner that could have a material adverse effect on our business, financial condition, results of operations or liquidity.

Due to populist political trends that have become more prevalent in certain of the countries in which we operate over recent years, some of the governments or authorities in countries where we operate might seek to promote efforts to increase government involvement in regulating economic activity, including the energy sector, which could result in the introduction of additional political factors in economic decisions. For example, Bolivia has nationalized natural gas and petroleum assets, as well as generation companies that compete with us. Bolivia has also dictated mandatory salary increases for both public and private companies, affecting the profitability of our company in Bolivia, COBEE. For further information on the risks related to the Bolivian government's recent nationalization of certain generation companies, see "—The Bolivian government has nationalized energy industry assets, and our remaining operations in Bolivia may also be nationalized."

If we fail to comply with existing regulations and legislation, or reinterpretations of existing regulations and new legislation or regulations, such as those relating to the reduction of anti-competitive conduct, air and water quality, ecological waterflow for hydroelectric plants, noise avoidance, electromagnetic radiation, fuel and other storage facilities, volatile materials, renewable portfolio standards, cybersecurity, emissions or air quality social responsibility, obligations or public consultations, performance standards, climate change, hazardous and solid waste transportation and disposal, protected species and other environmental matters, or changes in the nature of the energy regulatory process, this may have a significant adverse impact on our financial results.

We are also subject to regulatory risks as a result of our acquisition of Energuate in January 2016. For further information on the regulatory risks related to Energuate, see "—Risks Related to Our Distribution Business—Energuate is subject to comprehensive regulation of its business, which may affect our financial performance."

***Foreign exchange rate fluctuations and controls could have a material adverse effect on our earnings and the strength of our statement of financial position.***

Through our businesses, we have facilities and generate costs and revenues in a number of countries in Latin America and the Caribbean, which costs and revenues generally have a direct or indirect link to the U.S. dollar, the effects of the indexation may materialize on a delayed basis or may require a minimum threshold to be triggered; inflationary pressures, which impact exchange rate fluctuations, may also impact our margins to the extent that cost increases driven by inflation are not accompanied by corresponding increases in the price of electricity or capacity sold. In addition, some costs, such as payroll and taxes, are normally denominated in local currency, and this denomination exposes us to the foreign exchange fluctuations of the relevant local currency vis-a-vis the U.S. dollar. Furthermore, Energuate operates, in part, in Guatemalan Quetzales. Therefore, significant fluctuations in the Guatemalan Quetzal against the U.S. dollar could have a material adverse effect on our earnings and financial condition.

Additionally, our businesses may pay distributions or make payments to us in currencies other than the U.S. dollar. Foreign exchange controls in countries in which our businesses operate may further limit our ability to repatriate funds or otherwise convert local currencies into U.S. dollars. Although exchange rates within Peru, for example, are determined by market conditions, with regular purchase and sale operations by the Peruvian Central Reserve Bank (*Banco Central de Reserva del Perú*) in the foreign exchange market in order to reduce volatility in the value of Peru's currency against the U.S. dollar, this has not always been the case. Should the relevant regulatory bodies in any of the countries in which we operate institute protectionist and interventionist laws and policies or restrictive exchange rate policies in the future, such policies could have a material adverse effect on our operating companies or our financial condition, results of operations or liquidity.

Consequently, as with any international business, our liquidity, earnings, expenses, asset book value, and/or amount of equity may be materially affected by short-term or long-term exchange rate movements or controls. Such movements may give rise to, among other risks, translation risk, which exists where the currency in which the results of a business are reported differs from the underlying currency in which the business' operations are transacted, which could have a material adverse effect on our business, financial condition, results of operations or liquidity. For further information on the effect of the exchange rates on our results of operations see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Material Factors Affecting Results of Operations—Fluctuations in Oil Prices and Currency Exchange Rates."

***Inflation in any of the countries in which we currently, or will, operate could adversely affect us.***

If any of the countries in which we currently operate, or in which we may operate in the future, experiences substantial inflation, the costs of our operations could increase and our operating margins could decrease, which could materially and adversely affect our results of operations. A number of the countries in which we operate have experienced significant inflation in prior years, including Peru, our primary country of operation. Inflationary pressures may also impact our margins to the extent that cost increases driven by inflation are not accompanied by corresponding increases in the price of electricity or capacity sold, or limit our ability to trigger the minimum thresholds set forth in the price adjustment mechanisms in our PPAs or long-term supply agreements or access foreign financial markets, and may also prompt government intervention in the economy of the affected country, including the introduction of government policies that may adversely affect the overall performance of such economy. Any of the foregoing could have a material adverse effect on our business, financial condition, results of operations or liquidity.

***Energuate operates in certain conflict zones which have been and may continue to be subject to high levels of electricity theft and other illicit activity, low collection rates and violent protest.***

Energuate's service area includes "conflict zones," which are areas characterized by high levels of electricity theft and low collection rates. In certain of the "conflict zones" in which Energuate operates, particularly along the border with Mexico, there is little government control and presence. In such areas, Energuate's ability to conduct its operations has been, and may continue to be, affected by illicit activities, such as drug trafficking and violent crime.

Furthermore, Energuate has faced opposition in such areas from a variety of organizations, some of whom promote violent protests and energy theft. In recent years, local organizations in Energuate's service area have conducted violent protests to challenge electricity prices. Energuate has undertaken efforts to improve its relationships with the communities in the service areas in which it operates; however, these efforts may be unsuccessful. Electricity theft and other illicit activity, low collection rates and social protests in certain of the "conflict zones" in which Energuate operates may have a material adverse effect on our business, financial condition and results of operations.

***The Bolivian government has nationalized energy industry assets, and our remaining operations in Bolivia may also be nationalized.***

Bolivia has experienced political and economic instability that has resulted in significant changes in its general economic policies and regulations and the adoption of a new constitution in 2006 that, among other things, prohibits private ownership of certain oil and gas resources. In May 2010, the Bolivian government nationalized Empresa Eléctrica Guaracachi S.A., or Guaracachi, Empresa Eléctrica Valle Hermoso S.A., or Valle Hermoso and Empresa Eléctrica Corani S.A., or Corani, each a significant generation company in Bolivia. In May 2012, the Bolivian government nationalized Transportadora de Electricidad S.A., a transmission company that had previously operated as a subsidiary of Red Eléctrica de España. In December 2012, Electricidad de La Paz S.A. (Electropaz) and Empresa de Luz y Fuerza de Oruro S.A. (Elfeo)—companies which had no previous ownership relationship with the Bolivian government—were also nationalized.

The last elections in Bolivia occurred in 2014, and the next elections have been scheduled for 2019. It is unclear whether the Bolivian government will continue nationalizing entities involved in its power utility market. It is also unclear whether such nationalization (if any) would be adequately compensated for by the Bolivian government. Our subsidiary COBEE is one of the few remaining privately-held generation companies in Bolivia. Although we believe our circumstances differ from those of the nationalized generation companies (because COBEE was not previously owned by the Bolivian government), there is a risk that COBEE will be subject to nationalization. Such nationalization may

include the expropriation or nullification of our existing concessions, licenses, permits, agreements and contracts, as well as effective nationalization resulting from changes in Bolivian regulatory restrictions or taxes, among other things, that could have an adverse impact on COBEE's profitability. If COBEE were indeed nationalized, we cannot assure you that we would receive fair compensation for our interests in COBEE.

We could face nationalization risks in other countries as well. The nationalization of any of our operating companies or power generation plants, even if fair compensation for such nationalization is received, could have a material adverse effect on our business, financial condition, results of operations or liquidity.

***Some of the countries in which we operate, or may operate in the future, have experienced terrorist activity and social unrest in the past, and it is possible that a resurgence of terrorism in any of these countries could occur in the future.***

Some of the countries in which we operate, or may operate in the future, have experienced terrorist activity and social unrest in the past. For example, Peru, the country in which we have our largest operations, experienced terrorist activity that reached its peak of violence against the government and private sector in the late 1980s and early 1990s. In addition, Energuate has experienced violent protests and other hostile activity within its service area from organizations in Guatemala. During the six months ended June 30, 2017, our Peruvian businesses (Kallpa, CDA and Samay I) and Energuate represented 109% and 24% of our net profit and 62% and 17% of our Adjusted EBITDA, respectively. For the year ended December 31, 2016, our Peruvian businesses (Kallpa, CDA and Samay I) and Energuate represented 122% and 130% of our net profit and 52% and 23% of our Adjusted EBITDA, respectively. Any terrorist activities or other hostile actions in Peru, Guatemala or other countries in which we operate could have a material adverse effect on our business, financial condition and results of operations. Adjusted EBITDA is a non-IFRS measure. For a reconciliation of the profit of Kallpa, CDA, Samay I and Energuate to their respective Adjusted EBITDA, see "Selected Consolidated Financial and Other Data."

#### **Risks Related to the Notes**

***Inkia is a holding company with no independent operations or generation or distribution assets and it is dependent on cash flow generated by its subsidiaries.***

Inkia is a holding company of various operating companies and, as a result, does not conduct independent operations or possess significant assets other than investments in its businesses. Therefore, Inkia depends upon the receipt of sufficient funds from its businesses (via dividends, loans or other distributions) to meet its obligations, including to repay its indebtedness, including the Notes, contribute committed capital to its businesses, and to pay dividends or other distributions to its shareholders. However, as Inkia's corporate structure includes several intermediate holding companies which, along with its operating subsidiaries and investees, are legally distinct from Inkia and will generally be required to service their debt obligations before making distributions to Inkia, Inkia's ability to access such cash flow from its subsidiaries and investees may be limited in some circumstances and it may not have the ability to cause entities in which it owns an interest to make distributions to it, even if they are able to do so. Additionally, the terms of existing and future joint ventures, financings, or cooperative operational agreements, ratings considerations, and/or the laws and jurisdictions under which each of Inkia's subsidiaries and investees is incorporated may also limit the timing and amount of any dividends, other distributions, loans or loan repayments to Inkia.

Additionally, as dividends are generally taxed and governed by the relevant authority in the jurisdiction in which the company is incorporated or where the company is a tax resident, there may be numerous and significant tax or other legal restrictions on the ability of Inkia's subsidiaries and investees to remit funds to it, or to remit such funds without our subsidiaries and investees incurring significant tax liabilities.

Inkia's subsidiaries do not have any obligation to pay amounts due on the Notes or to make funds available for that purpose. While the indenture governing the Notes limits the ability of Inkia's subsidiaries to incur consensual restrictions on their ability to pay dividends or make intercompany payments to Inkia, these limitations are subject to certain qualifications and exceptions. In the event that Inkia does not receive distributions from its subsidiaries, Inkia may be unable to make required payments on its indebtedness, including the Notes.

***Payments on the Notes will be junior to any Inkia secured debt and effectively junior to the debt obligations of Inkia's subsidiaries.***

The Notes will constitute senior unsecured obligations of Inkia and will rank equal in right of payment with all of Inkia's other existing and future senior unsecured indebtedness.

As of June 30, 2017, Inkia had total consolidated debt of US\$2,526 million, of which US\$448 million was unsecured debt of Inkia and US\$2,078 million was debt of Inkia's subsidiaries. As of June 30, 2017, none of Inkia's debt was secured.

The Notes will be subordinated to secured debt of Inkia to the extent of the assets and property securing such debt. Payment on the Notes will also be structurally subordinated to the payment of secured and unsecured debt and other creditors of Inkia's subsidiaries. Any right of the holders of the Notes to enforce upon the assets of Inkia, including the capital stock of its subsidiaries, and the assets of Inkia's subsidiaries upon any liquidation or reorganization will be subject to the prior claims of Inkia's secured creditors and the creditors of its subsidiaries. The indenture relating to the Notes includes a limitation on Inkia's ability and the ability of Inkia's subsidiaries to incur certain indebtedness, although this limitation is subject to certain significant exceptions, and the debt incurred in compliance with these restrictions could be substantial.

***We may be able to distribute to our shareholders the proceeds of certain asset sales and other corporate transactions.***

For purposes of the covenant under "Description of the Notes—Certain Covenants—Limitation on Incurrence of Additional Indebtedness," the indenture governing the Notes will treat all cash flows distributed to us from our subsidiaries in the form of dividends, loan payments and capital reductions as Unconsolidated Operating Cash Flows regardless of the source and regardless of whether there is a gain or loss. In addition, for purposes of the covenant under "Description of the Notes—Certain Covenants—Limitation on Restricted Payments," the indenture will increase our restricted payments capacity by 100% of dividends or distributions to Inkia, minus interest expense and other expenses. As result, certain assets sales and other corporate transactions can generate Unconsolidated Operating Cash Flows and restricted payments capacity, even if those proceeds are reinvested in our company. If we were to engage in any such transactions, such transactions could improve our Unconsolidated Interest Coverage Ratio and increase our restricted payments capacity, thereby allowing us to incur additional debt and make additional distributions to our shareholders. See "Description of the Notes—Certain Covenants" and "—Certain Definitions."

***Inkia may not be able to obtain the funds required to purchase the Notes upon a specified Change of Control event.***

Upon the occurrence of a specified Change of Control event, Inkia will be required to offer to purchase each holder's Notes at a price equal to 101% of their principal amount plus accrued and unpaid interest. The source of funds for any such purchase of the Notes will be our available cash or cash generated from our operations or other sources, including borrowings, sales of assets or sales of equity. At the time of any specified Change of Control event, Inkia may not have sufficient funds available and may not be able to obtain the funds necessary to purchase the Notes that holders may tender in connection with any such Change of Control offer. Our failure to repurchase the Notes upon a specified Change of Control event would cause a default under the indenture governing the Notes. Our future debt agreements may contain similar provisions.

***Developments in other emerging markets may adversely affect the market value of the Notes.***

The market price of the Notes may be adversely affected by declines in the international financial markets and world economic conditions. The market for securities of companies doing substantially all of their business in Latin American markets, such as our company, is influenced, to varying degrees, by economic and market conditions in other emerging market countries, especially those in Latin America. Although economic conditions are different in each country, investors' reaction to developments in one country may affect the securities markets and the securities of issuers in other countries. We cannot assure you that the market for our securities will not be affected negatively by events in countries in which we do not operate, particularly in emerging markets, or that such developments will not have a negative impact on the market value of the Notes.



***The rating of the Notes may be lowered, suspended or withdrawn depending on various factors, including the rating agencies' assessments of our financial strength and sovereign risk of the countries in which we operate.***

The credit ratings of the Notes may change after issuance. Such ratings are limited in scope, and do not address all material risks relating to an investment in the Notes, but rather reflect only the views of the rating agencies at the time the ratings are issued. An explanation of the significance of such ratings may be obtained from the rating agencies. The ratings of the Notes address the likelihood of payment of principal at their maturity. The ratings also address the timely payment of interest on each scheduled payment date. The ratings of the Notes are not recommendations to purchase, hold or sell the Notes, and the ratings do not address market price or suitability for a particular investor. We cannot assure you that the rating of the Notes will remain in effect for any given period of time or that the rating will not be lowered, suspended or withdrawn entirely by one or more of the rating agencies, if, in the judgment of such rating agencies, circumstances so warrant. An assigned rating may be raised or lowered depending, among other things, on the respective rating agency's assessment of our financial strength, as well as its assessment of the sovereign risk of the countries in which we operate generally. Any lowering, suspension or withdrawal of such ratings may have an adverse effect on the market price and marketability of the Notes.

***We cannot assure you that a judgment of a U.S. court for liabilities under U.S. securities laws would be enforceable in Bermuda, or that an original action can be brought in Bermuda against Inkia or our management for liabilities under U.S. securities laws.***

Inkia is an exempted company having limited liability incorporated under the laws of Bermuda. Substantially all of Inkia's assets are located outside the United States. In addition, most of the directors and officers of Inkia and some of the advisors named in this offering memorandum reside in Peru or elsewhere outside the United States, and all or a significant portion of the assets of such persons are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon such persons, or to enforce against such persons judgments predicated upon the civil liability provisions of the U.S. federal securities laws. In addition, it may not be possible to bring an original action in Bermuda to enforce liabilities against Inkia, its directors or its officers based solely upon the U.S. federal securities laws.

***There is no existing market for the Notes and we cannot assure the future development of a market for them.***

The Notes are a new issue of securities and there is no established trading market for the Notes. The holders of Notes will not have any right to require Inkia to register the resale of the Notes pursuant to the Securities Act. Although we have received approval in principle for the listing and quotation of the Notes on the SGX-ST, we cannot provide you with any assurances that the Notes will be or will remain listed. The initial purchasers have advised us that they currently intend to make a market with respect to the Notes but they are not under any obligation to do so, and any market-making with respect to the Notes may be discontinued at any time without notice at the sole discretion of the initial purchasers. We cannot assure you whether a market will develop for the Notes, or of the liquidity of any such market should it develop, the ability of the holders of the Notes to sell them or the price at which the Notes may be sold. The liquidity of any market for the Notes will depend on many factors, including the number of holders of the Notes, prevailing interest rates, the market's performance and prospects, as well as recommendations of securities analysts. The Notes may trade at prices that are higher or lower than the initial offering price depending on many factors, including prevailing interest rates, our results of operations and financial condition, prospects for other companies in our industry, political and economic developments in and affecting the countries in which we operate, and the market for similar securities. If an active trading market for the Notes is interrupted, the market price and liquidity of the Notes may be materially adversely affected.

The liquidity of, and trading market for, the Notes may also be adversely affected by declines in the market for high yield or emerging markets securities generally. Such a decline may affect any liquidity and trading of Notes independent of our financial performance and prospects.

***There are restrictions on your ability to transfer or resell the Notes without registration under applicable securities laws.***

The Notes have not been, and will not be, registered under the Securities Act or any state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state

securities laws. Such exemptions include offers and sales that occur outside the United States in compliance with Regulation S under the Securities Act and in accordance with any applicable securities laws of any other jurisdiction and sales to qualified institutional buyers as defined under Rule 144A under the Securities Act.

## EXCHANGE RATE INFORMATION

Notwithstanding the fact that we maintain our books and records in U.S. dollars, the functional currency of our Guatemalan operations are the *quetzales*.

Since 1994, the Monetary Board has allowed the exchange rate for the *quetzal* to be determined predominantly by market forces. The Central Bank intervenes in the foreign exchange market by buying or selling U.S. dollars to counter drastic fluctuations in the exchange rate caused by speculative, cyclical or seasonal factors that affect the balance of payments.

Since 1996, the Central Bank has intervened in the foreign exchange market through the *Sistema Electrónico de Negociación de Divisas* (Electronic Currency Negotiation System), a privately owned and operated electronic system used for buying and selling foreign exchange. Currently, there are no restrictions on the conversion of *quetzales* into other currencies. On May 1, 2001, the *Ley de Libre Negociación de Divisas* (the Guatemalan Law of Free Transfer of Foreign Currency) came into effect, allowing both domestic and foreign banks in Guatemala, as well as any person or entity, to freely enter into foreign currency-denominated contracts and accept demand deposits and offer bank accounts in foreign currency.

The following table sets forth the high, low, average and period-end exchange rates for the periods indicated, expressed in *quetzales* per U.S. dollar. Exchange rates are derived from the average rate for the day published by the Central Bank. The Federal Reserve Bank of New York does not report a noon buying rate for *quetzales*. These rates are presented for informational purposes.

|                                    | <i>Quetzales per US\$</i> |       |            |            |
|------------------------------------|---------------------------|-------|------------|------------|
|                                    | High                      | Low   | Average(1) | Period-End |
| <b>Year Ended December 31:</b>     |                           |       |            |            |
| 2012 .....                         | 8.015                     | 7.678 | 7.834      | 7.902      |
| 2013 .....                         | 7.998                     | 7.771 | 7.859      | 7.841      |
| 2014 .....                         | 7.888                     | 7.597 | 7.735      | 7.597      |
| 2015 .....                         | 7.772                     | 7.591 | 7.656      | 7.632      |
| 2016 .....                         | 7.745                     | 7.469 | 7.602      | 7.522      |
| 2017 .....                         |                           |       |            |            |
| April .....                        | 7.342                     | 7.330 | 7.337      | 7.339      |
| May .....                          | 7.353                     | 7.332 | 7.339      | 7.352      |
| June .....                         | 7.359                     | 7.334 | 7.344      | 7.335      |
| July .....                         | 7.335                     | 7.282 | 7.306      | 7.282      |
| August .....                       | 7.291                     | 7.269 | 7.275      | 7.291      |
| September .....                    | 7.344                     | 7.291 | 7.302      | 7.344      |
| October (through October 24) ..... | 7.350                     | 7.340 | 7.343      | 7.343      |

Source: Central Bank.

(1) Average of daily reference rates as published by the Central Bank.

On October 24, 2017, the reference exchange rate published by the Central Bank was Q7.343 per U.S. dollar.

## USE OF PROCEEDS

We expect the net proceeds from the sale of the Notes to be approximately US\$441 million, after deducting the fees and estimated expenses of the offering.

We intend to use the net proceeds from this offering, together with cash on hand, (1) to purchase any and all of the outstanding Inkia 2021 Notes that are validly tendered and accepted for purchase in the tender offer that we have commenced concurrently with this offering and to pay the expenses of such tender offer, and (2) to redeem any outstanding Inkia 2021 Notes that are not validly tendered and accepted for purchase in the tender offer and to pay expenses of the redemption.

For more information about the Inkia 2021 Notes and the tender offer, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Material Indebtedness—Long-Term Debt—Inkia 2021 Notes” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments—Tender Offer for the Inkia 2021 Notes,” respectively.

## CAPITALIZATION

The following table sets forth our consolidated capitalization as of June 30, 2017 and has been derived from our unaudited condensed consolidated interim financial statements prepared in accordance with IFRS included elsewhere in this offering memorandum:

- on an actual historical basis;
- on a pro forma basis to give effect to the following transactions subsequent to June 30, 2017:
  - the issuance of US\$641 million (net of transaction costs) of the Kallpa 2027 Notes in August 2017; and
  - the use of the proceeds thereof to prepay all amounts outstanding under the CDA Finance Facility in, to unwind interest rate swap agreements associated with the CDA Finance Facility, and to repay certain loans made by us and our minority partner in CDA; and
- on a pro forma, as adjusted, basis to give effect to the issuance and sale of the Notes in this offering and the receipt of proceeds therefrom (before deduction of commissions and expenses we must pay in connection with this offering), and the use of the proceeds therefrom to purchase all of the outstanding Inkia Notes (assuming that all of the outstanding Inkia Notes are tendered pursuant to the tender offer at or prior to the early tender date).

You should read this table together with the information in “Summary Consolidated Financial and Other Information,” “Selected Consolidated Financial and Other Data,” “Use of Proceeds,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our unaudited condensed consolidated interim financial statements, and our audited financial statements, and the notes thereto, included elsewhere in this offering memorandum.

|   | <b>As of June 30, 2017</b>           |                  |                               |
|---|--------------------------------------|------------------|-------------------------------|
|   | <b>Historical</b>                    | <b>Pro Forma</b> | <b>Pro Forma, As Adjusted</b> |
|   | <b>(in millions of U.S. dollars)</b> |                  |                               |
| Long-term debt, excluding current portion .....       |                                      |                  |                               |
| Inkia 2021 Notes .....                                | 448                                  | 448              | —                             |
| 5.875% Senior Notes due 2027 .....                    | —                                    | —                | 450                           |
| Kallpa 2027 Notes .....                               | —                                    | 641              | 641                           |
| CDA Finance Facility .....                            | 534                                  | —                | —                             |
| Other long-term debt .....                            | 1,346                                | 1,346            | 1,346                         |
| Total long-term debt, excluding current portion ..... | 2,328                                | 2,435            | 2,437                         |
| Total equity .....                                    | 1,044                                | 1,044            | 1,044                         |
| Total capitalization(1) .....                         | US\$3,372                            | US\$3,479        | US\$3,481                     |

(1) Total capitalization is equal to total long-term debt, excluding current portion, plus total equity.

There has been no material change in our capitalization since June 30, 2017, except as disclosed above.

## SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

The following tables present our selected consolidated financial and operating data. The selected consolidated financial data as of June 30, 2017 and for the six months ended June 30, 2017 and 2016 have been derived from our unaudited condensed consolidated interim financial statements, and the notes thereto, included elsewhere in this offering memorandum. The selected consolidated financial data as of and for the years ended December 31, 2016, 2015 and 2014 have been derived from our audited consolidated financial statements, and the notes thereto, included elsewhere in this offering memorandum. Our historical results for any prior period are not necessarily indicative of results expected in any future period. Additionally, the selected consolidated interim financial and operating data as of and for the six months ended June 30, 2017 are not necessarily indicative of the results expected as of or for any future date or period.

You should read the selected consolidated financial and operating data set forth below in conjunction with the sections entitled “Summary Consolidated Financial and Other Information,” “Use of Proceeds,” “Capitalization,” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” as well as in conjunction with our unaudited condensed consolidated interim financial statements, and our audited financial statements, and the notes thereto included elsewhere in this offering memorandum.

|  | For the Six-Month Period<br>Ended June 30, |         | For the Year Ended December 31, |         |         |
|--|--|---------|---------------------------------|---------|---------|
|  | 2017                                       | 2016    | 2016                            | 2015    | 2014    |
|  | (in millions of U.S. dollars)              |         |                                 |         |         |
| <b><i>Selected Statement of Profit or Loss Data:</i></b> |  |         |                                 |         |         |
| Revenue .....  | US\$882                                    | US\$696 | US\$1,517                       | US\$963 | US\$959 |
| Cost of sales .....                                      | (693)                                      | (557)   | (1,210)                         | (752)   | (794)   |
| Gross profit .....                                       | 189  | 139     | 307                             | 211     | 165     |
| Selling, general and administrative expenses .....       | (56)                                       | (46)    | (104)                           | (60)    | (58)    |
| Other income .....                                       | 63   | 6       | 20                              | 10      | 16      |
| Other expenses .....                                     | (7)  | (1)     | (5)                             | (6)     | (10)    |
| Profit from operating activities .....                   | 189  | 98      | 218                             | 155     | 113     |
| Finance costs, net .....                                 | (77)                                       | (58)    | (135)                           | (80)    | (76)    |
| Share of profit in associates .....                      | 1  | —       | 1                               | —       | 2       |
| Measurement to fair value of pre-existing<br>share ..... | —  | —       | —                               | —       | 3       |
| Gain on bargain purchase .....                           | —  | —       | —                               | —       | 68      |
| Profit before taxes and discontinued<br>operations ..... | 113  | 40      | 84                              | 75      | 110     |
| Income taxes expenses .....                              | (47)                                       | (20)    | (57)                            | (41)    | (34)    |
| Profit from continuing operations .....                  | 66   | 20      | 27                              | 34      | 76      |
| Profit from discontinued operations, net of tax ..       | —  | —       | —                               | 4(1)    | 128(2)  |
| Profit for the period .....                              | US\$66                                     | US\$20  | US\$27                          | US\$38  | US\$204 |

- (1) Reflects (a) the results of Acter Holdings, which consists of our US\$18 million proportionate share of Generandes’ results of operations during the period and (b) US\$110 million net gain on sale of discontinued operations as a result of the sale of our interest in Generandes, through which we held our indirect interest in Edegel.
- (2) Reflects the results of Acter Holdings, which primarily consists of our proportionate share of Edegel’s results for the period.

|  | <b>As of<br/>June 30,</b>     | <b>As of December 31,</b> |             |             |
|--|-------------------------------|---------------------------|-------------|-------------|
|  | <b>2017</b>                   | <b>2016</b>               | <b>2015</b> | <b>2014</b> |
|  | (in millions of U.S. dollars) |                           |             |             |
| <b>Selected Statement of Financial Position Data:</b>  |                               |                           |             |             |
| Cash and cash equivalents.....                         | US\$170                       | US\$173                   | US\$239     | US\$424     |
| Short-term deposits and restricted cash.....           | 29                            | 42                        | 209         | 151         |
| Trade receivables .....                                | 245                           | 250                       | 92          | 140         |
| Total current assets                                   | 707                           | 665                       | 679         | 864         |
| Income tax receivables and tax claims.....             | 107                           | 100                       | 20          | 7           |
| Intangible assets and goodwill, net .....              | 362                           | 376                       | 146         | 138         |
| Property, plant and equipment .....                    | 2,942                         | 3,002                     | 2,503       | 2,046       |
| Total assets.....                                      | 4,210                         | 4,231                     | 3,394       | 3,127       |
| Short-term credit from banks and others.....           | 198                           | 361                       | 274         | 143         |
| Trade payables .....                                   | 184                           | 253                       | 110         | 88          |
| Other payables, including derivative instruments ..... | 80                            | 77                        | 97          | 104         |
| Guarantee deposits from customers .....                | 61                            | 57                        | —           | —           |
| Total current liabilities .....                        | 541                           | 756                       | 485         | 340         |
| Long-term loans from banks and others.....             | 1,157                         | 1,329                     | 1,144       | 994         |
| Debentures .....                                       | 1,171                         | 857                       | 656         | 687         |
| Total liabilities .....                                | 3,166                         | 3,241                     | 2,447       | 2,180       |
| Total equity .....                                     | 1,044                         | 990                       | 947         | 947         |

|   | <b>For the Six-Month Period<br/>Ended June 30,</b> |                | <b>For the Year Ended December 31,</b> |                |                |
|---|--|----------------|--|----------------|----------------|
|   | <b>2017</b>  | <b>2016</b>    | <b>2016</b>                            | <b>2015</b>    | <b>2014</b>    |
|   | (in millions of U.S. dollars)                      |                |  |                |                |
| <b>Selected Cash Flow Data:</b>   |  |                |  |                |                |
| Net cash provided by operating activities .....                             | US\$170  | US\$67         | US\$172                                | US\$244        | US\$232        |
| Net cash used in investing activities .....                                 | (40)   | (202)          | (252)                                  | (551)          | (301)          |
| Net cash provided by (used in) financing<br>activities .....                | (143)  | 67             | 10                                     | 135            | 80             |
| Net increase (decrease) in cash and cash<br>equivalents .....               | (13)   | (68)           | (70)                                   | (172)          | 11             |
| Cash and cash equivalents at beginning of the<br>period .....               | 173  | 239            | 239                                    | 424            | 414            |
| Effect of changes in the exchange rate on cash<br>and cash equivalents..... | 10   | 1              | 4                                      | (13)           | (1)            |
| <b>Cash and cash equivalents at end of the<br/>period .....</b>             | <b>US\$170</b>                                     | <b>US\$172</b> | <b>US\$173</b>                         | <b>US\$239</b> | <b>US\$424</b> |

|  | As of and for the Six-Month<br>Period Ended June 30, |      | As of and for the Year Ended December<br>31, |      |      |
|--|--|------|--|------|------|
|  | 2017   | 2016 | 2016   | 2015 | 2014 |

(in millions of U.S. dollars, except as indicated)

**Operating Data:**

|   |       |       |        |       |        |
|---|-------|-------|--------|-------|--------|
| Installed capacity of operating companies and associated companies at end of period (MW)..... | 3,364 | 2,926 | 3,487  | 2,207 | 2,202  |
| Weighted average availability during the period (%).....                                      | 90    | 93    | 82     | 95    | 96     |
| Gross energy generated (GWh).....   | 4,832 | 5,072 | 10,355 | 9,272 | 9,691  |
| Energy sold under PPAs (GWh).....   | 5,731 | 5,073 | 10,586 | 9,773 | 10,247 |

|  | As of and for<br>the Twelve-<br>Month Period<br>Ended<br>June 30, | As of and for the Year Ended December 31, |      |      |
|--|---|---|------|------|
|  | 2017  | 2016                                      | 2015 | 2014 |

(in millions of U.S. dollars, except as indicated)

**Other Financial and Operating Data:**

*Adjusted EBITDA and Ratios for Twelve-Month Periods*

|                                 |         |         |         |         |
|---------------------------------|---------|---------|---------|---------|
| Adjusted EBITDA(1).....         | US\$478 | US\$363 | US\$253 | US\$246 |
| Net debt(2).....                | 2,327   | 2,332   | 1,626   | 1,249   |
| Net leverage ratio(3).....      | 4.87x   | 6.42x   | 6.43x   | 5.08x   |
| Interest coverage ratio(4)..... | 3.12x   | 2.84x   | 3.51x   | 3.32x   |

- (1) We define “Adjusted EBITDA” for each period as profit (loss) for the period before depreciation and amortization, finance costs, net, income tax expense and impairment, excluding share of (profit) loss of associates, gain on bargain purchase, capital gains (excluding capital gains from sales of fixed assets), and profit from discontinued operations, net of tax (excluding dividends received from discontinued operations).

Adjusted EBITDA is not recognized under IFRS or any other generally accepted accounting principles as a measure of financial performance and should not be considered as a substitute for profit or loss, cash flow from operations or other measures of operating performance or liquidity determined in accordance with IFRS. Adjusted EBITDA is not intended to represent funds available for dividends or other discretionary uses because those funds may be required for debt service, capital expenditures, working capital and other commitments and contingencies. Adjusted EBITDA presents limitations that impair its use as a measure of our profitability since it does not take into consideration certain costs and expenses that result from our business that could have a significant effect on our profit, such as finance expenses, taxes and depreciation.

The following table sets forth a reconciliation of our profit to our Adjusted EBITDA for the periods presented. Other companies may calculate Adjusted EBITDA differently, and therefore this presentation of Adjusted EBITDA may not be comparable to other similarly titled measures used by other companies:



|  | <b>For the<br/>Twelve-Month<br/>Period Ended<br/>June 30,<br/>2017(i)</b> | <b>For the Six-<br/>Month<br/>Period Ended<br/>June 30<br/>2017</b> | <b>For the Six-<br/>Month<br/>Period Ended<br/>June 30,<br/>2016</b> | <b>For the Year Ended<br/>December 31,</b> |                |                |
|--|---|---|--|--|----------------|----------------|
|  |   |   |  | <b>2016</b>                                | <b>2015</b>    | <b>2014</b>    |
|  | (in millions of U.S. dollars)   |   |  |  |                |                |
| Profit for the period.....   | US\$73  | US\$66  | US\$20   | US\$27                                     | US\$38         | US\$204        |
| Depreciation and amortization .....  | 157   | 76  | 64   | 145  | 94             | 83             |
| Finance costs, net.....  | 154   | 77  | 58   | 135  | 80             | 76             |
| Income tax expense.....  | 84  | 47  | 20   | 57   | 41             | 34             |
| Net gain on Kanan write-off .....  | (8)   | (8)   | —  | —  | —              | —              |
| Impairment.....  | 20  | 20  | —  | —  | —              | 35             |
| Share of (profit) loss of associates .....   | (2)   | (1)   | —  | (1)  | (0)            | (2)            |
| Gain on bargain purchase.....  | —   | —   | —  | —  | —              | (71)(ii)       |
| Profit from discontinued operations, net<br>of tax (excluding dividends received<br>from discontinued operations)..... | —   | —   | —  | —  | 0(iii)         | (113)(iv)      |
| <b>Adjusted EBITDA</b> .....   | <b>US\$478</b>  | <b>US\$277</b>  | <b>US\$162</b>   | <b>US\$363</b>                             | <b>US\$253</b> | <b>US\$246</b> |

- (i) Represents the sum of items for the year ended December 31, 2016 *plus* the sum of the items for the six-month period ended June 30, 2017 *minus* the sum of the items for the six-month period ended June 30, 2016.
- (ii) Includes US\$68 million of income from gain on bargain purchase and US\$3 million of income from the measurement to fair value of pre-existing share.
- (iii) Profit from discontinued operations, net of tax for the year ended December 31, 2015 consists solely of US\$4 million in dividends received from Edegel post-equity method accounting, which is included in profit for the period and, as a result, is included in Adjusted EBITDA for the period (reducing the amount presented as “Profit from discontinued operations, net of tax” in the table above).
- (iv) Profit from discontinued operations, net of tax of US\$128 million for the year ended December 31, 2014 includes US\$15 million in dividends received from Edegel post-equity method accounting, which is included in profit for the period and, as a result, is included in Adjusted EBITDA for the period (reducing the amount presented as “Profit from discontinued operations, net of tax” in the table above).

- (2) Net debt is calculated as total debt, minus cash and short term deposits and restricted cash. Net debt is not a measure recognized under IFRS. The table below sets forth a reconciliation of our total debt to net debt.

|                       | <b>As of June 30,</b>         |                  | <b>As of December 31,</b> |                  |
|-----------------------|-------------------------------|------------------|---------------------------|------------------|
|                       | <b>2017</b>                   | <b>2016</b>      | <b>2015</b>               | <b>2014</b>      |
|                       | (in millions of U.S. dollars) |                  |                           |                  |
| Total debt(i) .....   | US\$2,526                     | US\$2,546        | US\$2,074                 | US\$1,824        |
| Cash (ii) .....       | (199)                         | (214)            | (448)                     | (575)            |
| <b>Net debt</b> ..... | <b>US2,327</b>                | <b>US\$2,332</b> | <b>US\$1,626</b>          | <b>US\$1,249</b> |

- (i) Total debt comprises loans from banks and third parties and debentures, excluding liabilities of disposal group classified as held for sale, and includes long term and short term debt.
- (ii) Includes short-term deposits and restricted cash of US\$29 million as of June 30, 2017 and US\$42 million, US\$209 million and US\$151 million as of December 31, 2016, 2015 and 2014, respectively.
- (3) Net leverage ratio represents our net debt divided by our Adjusted EBITDA.
- (4) Interest coverage ratio represents our Adjusted EBITDA divided by our interest expenses on loans and bonds.

## Selected Financial and Operating Data of Inkia:

The following table presents selected unconsolidated financial data relating to distributions received by Inkia from its subsidiaries. The selected financial data as of June 30, 2017 and December 31, 2016, 2015 and 2014, for the six months ended June 30, 2017 and 2016, and for the years ended December 31, 2016, 2015 and 2014 have been derived from our consolidated accounting records and were prepared and are presented on the same basis as our unaudited condensed consolidated interim financial statements and our audited financial statements. The historical results of Inkia for any prior period are not necessarily indicative of results expected in any future period.

|  | For the Six-Month Period      |        | For the Year Ended December 31, |        |        |
|--|-------------------------------|--------|---------------------------------|--------|--------|
|  | Ended June 30,                |        | 2016                            | 2015   | 2014   |
|  | 2017                          | 2016   | 2016                            | 2015   | 2014   |
|  | (in millions of U.S. dollars) |        |                                 |        |        |
| <b>Inkia Unconsolidated:</b>                   |                               |        |                                 |        |        |
| <b>Financial Data:</b>                         |                               |        |                                 |        |        |
| Distributions (1) received from:               |                               |        |                                 |        |        |
| Kallpa .....                                   | US\$28                        | US\$19 | US\$48                          | US\$22 | US\$22 |
| CDA(2).....                                    | —                             | —      | —                               | —      | —      |
| Samay(3) .....                                 | —                             | —      | —                               | —      | —      |
| Energuate(4).....                              | 104                           | 25     | 25                              | —      | —      |
| ICPNH.....                                     | 2                             | 4      | 7                               | 8      | 11     |
| COBEE.....                                     | 12                            | —      | 10                              | 14     | 23     |
| Central Cardones.....                          | —                             | —      | —                               | —      | —      |
| Colmito.....                                   | —                             | —      | —                               | —      | —      |
| Nejapa and Cenérgica.....                      | 3                             | 3      | 6                               | 31     | 4      |
| Kanan(5).....                                  | —                             | 50     | 50                              | —      | —      |
| Pedregal.....                                  | —                             | —      | 1                               | 1      | 2      |
| Puerto Quetzal.....                            | —                             | —      | —                               | 1      | 15     |
| CEPP.....                                      | —                             | —      | —                               | 11     | 18     |
| JPPC.....                                      | —                             | —      | —                               | —      | —      |
| Surpetroil.....                                | —                             | —      | —                               | —      | —      |
| Southern Cone Power Limited(6).....            | —                             | —      | —                               | 4      | 29     |
| Total distributions received.....              | 149                           | 101    | 147                             | 92     | 124    |
| Operating expenses.....                        | (6)                           | (3)    | (8)                             | (9)    | (19)   |
| Unconsolidated operating cash flows(7).....    | 143                           | 98     | 139                             | 83     | 105    |
| Unconsolidated interest expense(7).....        | 19                            | 19     | 38                              | 38     | 38     |
| Unconsolidated interest coverage ratio(7)..... | 7.6                           | 5.2    | 3.7                             | 2.2    | 2.8    |

- (1) Distributions represent dividends, capital reductions and net repayments of loans to shareholders of the respective entity.
- (2) The CDA plant reached its COD in August 2016.
- (3) The Samay I plant reached its COD in May 2016.
- (4) Represents receipt of US\$36 million of dividends in May 2017 and US\$68 million in connection with intercompany loans from DEOCSA and DEORSA to Inkia made in May 2017.
- (5) Represents repayment of intercompany loan.
- (6) Represents dividends received from Edegel post-equity method accounting.
- (7) The indenture governing the Notes will prohibit Inkia (and certain of its holding company subsidiaries) from issuing debt (other than certain specified permitted debt baskets) unless Inkia's unconsolidated interest coverage ratio is equal to or greater than 2.0 to 1.0. See "Description of the Notes—Certain Covenants—Limitation on Incurrence of Additional Indebtedness." In calculating our unconsolidated interest expense in accordance with the indenture, our interest expense would be increased from the amount included in our unconsolidated financial statements (as presented above) to treat as interest expense all payments made in respect of capitalized lease liabilities, if any, a portion of which is capitalized in the preparation of our consolidated financial statements. As a result, if Inkia were to enter into any such leases in the future, the unconsolidated interest coverage ratio calculated in accordance with the indenture would be lower than if the ratio were calculated based on our unconsolidated financial statements (as presented above). As of the date of this offering memorandum, Inkia is not a signatory to any such lease.

## Selected Financial and Operating Data of Principal Subsidiaries:

The following table presents selected unconsolidated financial and operating data of certain of our material subsidiaries. The selected unconsolidated financial data as of June 30, 2017 and December 31, 2016, 2015 and 2014, for the six months ended June 30, 2017 and 2016, and for the years ended December 31, 2016, 2015 and 2014 have been derived from our consolidated accounting records and were prepared and are presented on the same basis as our unaudited condensed consolidated interim financial statements and our audited financial statements. The historical results of these subsidiaries for any prior period are not necessarily indicative of results expected in any future period. Additionally, the selected unconsolidated interim financial data of these subsidiaries as of and for the six months ended June 30, 2017 are not necessarily indicative of the results expected as of or for any future date or period.

|  | As of and for the Six-Month Period Ended<br>June 30, |       | As of and for the Year Ended<br>December 31, |       |       |
|--|--|-------|--|-------|-------|
|  | 2017   | 2016  | 2016   | 2015  | 2014  |
| (in millions of U.S. dollars, except as otherwise indicated) |  |       |  |       |       |
| <b>Kallpa:</b>   |  |       |  |       |       |
| <i>Financial Data:</i>                                       |  |       |  |       |       |
| Revenue .....  | 225  | 228   | 438  | 448   | 437   |
| Profit (loss) .....  | 31   | 16    | 32   | 43    | 50    |
| Adjusted EBITDA(1) .....                                     | 75   | 72    | 139  | 152   | 154   |
| Net debt(2) .....  | 372  | 402   | 393  | 388   | 428   |
| Capital expenditures .....                                   | 6  | 8     | 15   | 10    | 19    |
| Distributions(3) .....                                       | 28   | 19    | 48   | 22    | 22    |
| <i>Operating Data:</i>                                       |  |       |  |       |       |
| Installed capacity at period-end (MW)(4) ..                  | 1,063  | 1,063 | 1,063  | 1,063 | 1,063 |
| Gross energy generated during the period<br>(GWh) .....      | 1,878  | 2,997 | 6,015  | 5,166 | 5,920 |
| Availability during the period (%) .....                     | 93   | 93    | 96   | 97    | 97    |
| <b>CDA(5):</b>   |  |       |  |       |       |
| <i>Financial Data:</i>                                       |  |       |  |       |       |
| Revenue .....  | 59   | —     | 50   | —     | —     |
| Profit (loss) .....  | 36   | 2     | —  | (8)   | (5)   |
| Adjusted EBITDA(1) .....                                     | 77   | —     | 31   | —     | —     |
| Net debt(2) .....  | 568  | 582   | 556  | 519   | 338   |
| Capital expenditures .....                                   | 29   | 63    | 72   | 187   | 259   |
| Distributions(4) .....                                       | —  | —     | —  | —     | —     |
| <i>Operating Data:</i>                                       |  |       |  |       |       |
| Installed capacity at period-end (MW)(4) ..                  | 545  | —     | 545  | —     | —     |
| Gross energy generated during the period<br>(GWh) .....      | 1,124  | —     | 693  | —     | —     |
| Availability during the period (%) .....                     | 76   | —     | 33   | —     | —     |
| <b>Samay I(6):</b>   |  |       |  |       |       |
| <i>Financial Data:</i>                                       |  |       |  |       |       |
| Revenue .....  | 58   | 8     | 40   | —     | —     |
| Profit (loss) .....  | 5  | 2     | 1  | (4)   | —     |
| Adjusted EBITDA(1) .....                                     | 20   | 4     | 19   | —     | —     |
| Net debt(2) .....  | 314  | 324   | 321  | 253   | 11    |
| Capital expenditures .....                                   | 3  | 66    | 66   | 225   | 84    |
| Distributions(3) .....                                       | —  | —     | —  | —     | —     |

|  | <b>As of and for the Six-<br/>Month Period Ended<br/>June 30,</b>   |             | <b>As of and for the Year Ended<br/>December 31,</b> |             |             |
|--|---|-------------|--|-------------|-------------|
|  | <b>2017</b>   | <b>2016</b> | <b>2016</b>  | <b>2015</b> | <b>2014</b> |
|  | <b>(in millions of U.S. dollars, except as otherwise indicated)</b> |             |  |             |             |
| <i>Operating Data:</i>   |   |             |  |             |             |
| Installed capacity at period-end (MW)(4) ..                    | 632   | 632         | 632  | —           | —           |
| Gross energy generated during the period<br>(GWh) .....        | 255   | 51          | 103  | —           | —           |
| Availability during the period (%) .....                       | 96  | 100         | 33   | —           | —           |
| <b>Energuate:</b>  |   |             |  |             |             |
| <i>Financial Data (since the date of the<br/>acquisition):</i> |   |             |  |             |             |
| Revenue .....  | 280   | 232         | 509  |             |             |
| Profit (loss) .....  | 16  | 15          | 35   |             |             |
| Adjusted EBITDA(1) .....                                       | 48  | 39          | 82   |             |             |
| Net debt(2) .....  | 427   | 250         | 302  |             |             |
| Capital expenditures .....                                     | 13  | 10          | 28   |             |             |
| Distributions(3) .....   | 104   | 25          | 25   |             |             |
| <i>Operating Data:</i>   |   |             |  |             |             |
| Energy sales (GWh) .....                                       | 1,123   | 1,220       | 2,316  | 2,315       | 2,184       |
| Number of customers at period-end (in<br>thousands) .....      | 1,712   | 1,658       | 1,679  | 1,635       | 1,580       |
| Energy losses (% of energy purchased) .....                    | 20.0  | 18.0        | 19.6   | 16.9        | 16.9        |

- (1) We define “Adjusted EBITDA” for each period as profit (loss) for the period before depreciation and amortization, finance costs, net, income tax expense and impairment, excluding share of (income) loss of associated companies, gain on bargain purchase, capital gains (excluding capital gains from sales of fixed assets), and profit from discontinued operations, net of tax (excluding dividends received from discontinued operations).

Adjusted EBITDA is not recognized under IFRS or any other generally accepted accounting principles as a measure of financial performance and should not be considered as a substitute for profit or loss, cash flow from operations or other measures of operating performance or liquidity determined in accordance with IFRS. Adjusted EBITDA is not intended to represent funds available for dividends or other discretionary uses because those funds may be required for debt service, capital expenditures, working capital and other commitments and contingencies. Adjusted EBITDA presents limitations that impair its use as a measure of our profitability since it does not take into consideration certain costs and expenses that result from our business that could have a significant effect on our profit, such as finance expenses, taxes and depreciation.

The following table sets forth a reconciliation of the profit of each of Kallpa, CDA, Samay I and Energuate to its Adjusted EBITDA for the periods presented. Other companies may calculate Adjusted EBITDA differently, and therefore this presentation of Adjusted EBITDA may not be comparable to other similarly titled measures used by other companies:

|                                     | <b>For the Six<br/>Months Ended</b> |             | <b>For the Year Ended December 31,</b> |             |
|-------------------------------------|-------------------------------------|-------------|--|-------------|
|                                     | <b>June 30,</b>                     | <b>2016</b> |  |             |
|                                     | <b>2017</b>                         | <b>2016</b> | <b>2015</b>                            | <b>2014</b> |
| (in millions of U.S. dollars)       |                                     |             |  |             |
| <b>Kallpa:</b>                      |                                     |             |  |             |
| Profit (loss) .....                 | 31                                  | 32          | 43                                     | 50          |
| Depreciation and amortization ..... | 19                                  | 45          | 50                                     | 46          |
| Finance expenses, net .....         | 12                                  | 37          | 36                                     | 35          |
| Income tax expense (benefit) .....  | 13                                  | 25          | 23                                     | 23          |
| Adjusted EBITDA .....               | <u>75</u>                           | <u>139</u>  | <u>152</u>                             | <u>154</u>  |
| <b>CDA</b>                          |                                     |             |  |             |
| Profit (loss) .....                 | 36                                  | —           | (8)                                    | (5)         |
| Depreciation and amortization ..... | 9                                   | 7           | —                                      | —           |
| Finance expenses, net .....         | 20                                  | 17          | 3                                      | —           |
| Income tax expense (benefit) .....  | 12                                  | 7           | 5                                      | (5)         |
| Adjusted EBITDA .....               | <u>77</u>                           | <u>31</u>   | <u>—</u>                               | <u>—</u>    |
| <b>Samay I</b>                      |                                     |             |  |             |
| Profit (loss) .....                 | 5                                   | 1           | (4)                                    | —           |
| Depreciation and amortization ..... | 7                                   | 8           | —                                      | —           |
| Finance expenses, net .....         | 7                                   | 9           | 3                                      | —           |
| Income tax expense (benefit) .....  | 1                                   | 1           | 1                                      | —           |
| Adjusted EBITDA .....               | <u>20</u>                           | <u>19</u>   | <u>—</u>                               | <u>—</u>    |
| <b>Energuate(i)</b>                 |                                     |             |  |             |
| Profit (loss) .....                 | 16                                  | 35          |  |             |
| Depreciation and amortization ..... | 11                                  | 19          |  |             |
| Finance expenses, net .....         | 7                                   | 15          |  |             |
| Income tax expense (benefit) .....  | 14                                  | 13          |  |             |
| Adjusted EBITDA .....               | <u>48</u>                           | <u>82</u>   |  |             |

(i) For the year ended December 31, 2016, represents the portion of the year following our acquisition of Energuate.

- (2) Net debt is defined as total debt attributable to a company, excluding debt owed to a parent company, *less* the cash, short term deposits and restricted cash of the relevant company. Net debt is not a measure recognized under IFRS. The following table sets forth a reconciliation the total debt of each of Kallpa, CDA, Samay I and Energuate to its respective net debt for the periods indicated.

|  | <u>As of June 30,</u>         | <u>As of December 31,</u> |             |             |
|--|-------------------------------|---------------------------|-------------|-------------|
|  | <u>2017</u>                   | <u>2016</u>               | <u>2015</u> | <u>2014</u> |
|  | (in millions of U.S. dollars) |                           |             |             |
| <b>Kallpa:</b>                                       |                               |                           |             |             |
| Loans from banks and others, and debentures(i) ..... | 412                           | 414                       | 416         | 453         |
| Cash, short term deposits and restricted cash.....   | (40)                          | (21)                      | (28)        | (25)        |
| Net debt.....  | <u>372</u>                    | <u>393</u>                | <u>388</u>  | <u>428</u>  |
| <b>CDA:</b>  |                               |                           |             |             |
| Loans from banks and others, and debentures(i) ..... | 585                           | 593                       | 536         | 444         |
| Cash, short term deposits and restricted cash.....   | (17)                          | (37)                      | (17)        | (106)       |
| Net debt.....  | <u>568</u>                    | <u>556</u>                | <u>519</u>  | <u>338</u>  |
| <b>Samay I:</b>                                      |                               |                           |             |             |
| Loans from banks and others, and debentures(i) ..... | 349                           | 339                       | 285         | 145         |
| Cash, short term deposits and restricted cash.....   | (35)                          | (18)                      | (32)        | (134)       |
| Net debt.....  | <u>314</u>                    | <u>321</u>                | <u>253</u>  | <u>11</u>   |
| <b>Energuate:</b>                                    |                               |                           |             |             |
| Loans from banks and others, and debentures(i) ..... | 441                           | 317                       |             |             |
| Cash, short term deposits and restricted cash.....   | (14)                          | (16)                      |             |             |
| Net debt.....  | <u>427</u>                    | <u>301</u>                |             |             |

(i) Includes short-term and long-term debt.

- (3) Represents dividends, capital reductions and net repayments of loans to shareholders of the respective entity.  
(4) Reflects 100% of the capacity of each asset, regardless of Inkia's ownership interest in the entity that owns each such asset.  
(5) The CDA plant reached its COD in August 2016.  
(6) The Samay I plant reached its COD in May 2016.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*This information should be read in conjunction with our unaudited condensed consolidated interim financial statements, and the notes thereto, as of June 30, 2017 and for the six months ended June 30, 2017 and 2016, and our audited consolidated financial statements, and the notes thereto, as of and for the years ended December 31, 2016, 2015 and 2014, included elsewhere in this offering memorandum. These financial statements have been prepared in accordance with IFRS as issued by the IASB. The financial information below also includes certain non-IFRS measures, which are defined under "Summary Consolidated Financial and Other Information" and "Business" and are used by us to evaluate our economic and financial performance. These measures are not identified as accounting measures under IFRS and therefore should not be considered as an alternative measure to evaluate our performance.*

*Certain information included in this discussion and analysis includes forward-looking statements that are subject to risks and uncertainties, and which may cause actual results to differ materially from those expressed or implied by such forward-looking statements. For further information on important factors that could cause our actual results to differ materially from the results described in the forward-looking statements contained in this discussion and analysis, see "Cautionary Statement Regarding Forward-Looking Statements" and "Risk Factors."*

We are a leading owner, developer and operator of power generation facilities located in key energy markets in Latin America and the Caribbean with an aggregate installed capacity of 3,364 MW as of June 30, 2017. Our power generation assets utilize a range of energy sources, including natural gas, hydroelectric, HFO, diesel and wind. In January 2016, we acquired Energuate, marking our initial entry in the electricity distribution sector.

We focus our operations in Latin American markets, which typically have higher growth rates of gross domestic product, or GDP, and lower overall and per capita energy consumption, as compared with more developed markets. We believe that economic growth in Latin American markets will drive increases in overall and per capita energy consumption and therefore require significant additional investments in power generation assets in those markets. We are the second largest power producer in Peru in terms of installed capacity. As of June 30, 2017, our aggregate installed capacity in Peru of 2,240 MW represented 18.7% of Peru's installed capacity. During the year ended December 31, 2016, we generated 14.3% of the gross energy generated (in GWh) in Peru. Our generation assets in Peru include Kallpa's 870 MW combined cycle plant, Peru's largest power generation facility, Kallpa's 193 MW Las Flores open cycle plant, Samay I's 632 MW cold-reserve thermoelectric plant, which reach COD in May 2016, and our 545 MW hydroelectric CDA plant, which reached COD in August 2016. Our generation operations in Peru represented 109% and 122% of our net profit and 62% and 52% of our Adjusted EBITDA during the six-month period ended June 30, 2017 and the year ended December 31, 2016, respectively.

In January 2016, we entered the electricity distribution sector through our acquisition of Energuate and its related companies Guatemel (an energy trading company that supplies energy and capacity to large users in Guatemala), and RECSA (an energy transmission company that operates transmission lines and substations in Guatemala). As of June 30, 2017, we were the largest distribution company in Central America based on population served. We hold the non-exclusive right to distribute electricity within our service area until 2048. Our distribution operations represented 24% and 130% of our net profit and 17% and 23% of our Adjusted EBITDA for the six-month period ended June 30, 2017 and the year ended December 31, 2016, respectively.

In addition to our positions in generation in Peru and distribution in Guatemala, we have developed an attractive footprint in several generation markets in Latin America and the Caribbean and have development offices in Colombia, Mexico, Argentina and the United States, where we monitor and consider development and acquisition opportunities relating to generation or distribution throughout Latin America. By successfully pursuing growth opportunities, primarily through contracted greenfield development projects in existing markets and acquisitions of anchor investments in new markets, we have expanded our regional presence, diversified our generation portfolio through the addition of various facilities which use a range of energy sources, and significantly increased our cash flows. In 2016, our net profit was US\$27 million, as compared to a net loss of US\$4 million in 2008. In 2016, our Adjusted EBITDA was US\$363 million, as compared to US\$41 million in 2008, representing a CAGR of 31.3% during this period. Adjusted EBITDA is a non-IFRS measure. For a reconciliation of our profit to our Adjusted EBITDA, see "Summary Consolidated Financial and Other Information."

## Overview of Financial Information Presented and Accounting Policies

We present financial statements in accordance with IFRS, as issued by the IASB. We present our financial statements in U.S. dollars, our functional currency.

### Operating Segments and Presentation of Segment Financial Data

As a holding company, our results of operations are impacted by the financial results of each of our businesses. Set forth below is a summary of the segmentation of each of our businesses. We have included the results of operations of each of our businesses and, where applicable, their segments under “—Operating Results” below.

Our reportable segments are comprised by: (i) the legal entities in Peru, (ii) the legal entities in Central America for the power generation that have similar characteristics, and (iii) all other segments include the legal entities in Bolivia, Chile, the Dominican Republic, Jamaica and Colombia (none of which met the quantitative thresholds for reportable segments in the years presented). As a result of the Energuate acquisition, the company added to its reportable segments the distribution activity of the new acquisition as a separate segment.

| <b>Business</b> | <b>Segment</b>            | <b>Entity</b>         | <b>Country</b>     |         |
|-----------------|---------------------------|-----------------------|--------------------|---------|
| Generation      | Peruvian entities         | Kallpa(1)             | Peru               |         |
|                 |                           | Samay I               | Peru               |         |
|                 | Central American entities | Corinto               | Nicaragua          |         |
|                 |                           | Tipitapa Power        | Nicaragua          |         |
|                 |                           | Amayo I               | Nicaragua          |         |
|                 |                           | Amayo II              | Nicaragua          |         |
|                 |                           | Nejapa                | El Salvador        |         |
|                 |                           | Cenérgica             | El Salvador        |         |
|                 |                           | Kanan                 | Panama             |         |
|                 |                           | Puerto Quetzal        | Guatemala          |         |
|                 |                           | Poliwatt              | Guatemala          |         |
|                 |                           | Guatemel              | Guatemala          |         |
|                 |                           | All other segments(2) | COBEE              | Bolivia |
|                 |                           |                       | Central Cardones   | Chile   |
|                 |                           |                       | Colmito            | Chile   |
|                 | Pedregal(3)               |                       | Panama             |         |
|                 | CEPP                      |                       | Dominican Republic |         |
|                 | JPPC                      |                       | Jamaica            |         |
|                 | Surpetroil(4)             |                       | Colombia           |         |
|                 | Distribution companies    | RECSA                 | Guatemala          |         |
| Other           |                           | —                     |                    |         |
| Distribution    |                           | DEOCSA                | Guatemala          |         |
|                 | DEORSA                    | Guatemala             |                    |         |

(1) Includes CDA. On August 16, 2017, Kallpa merged with and into CDA. The surviving entity has been renamed Kallpa Generación S.A.

(2) In addition to the results of certain of our generation assets, our Other segment also includes expenses and other adjustments relating to our headquarters and intermediate holding companies, including purchase price allocations recorded in connection with our acquisition of Energuate, which allocations were recorded by Inkia. However, as our Other segment is primarily composed of the financial results of certain of our generation assets and their related holding companies, we analyze the results of our Other segment within our discussion of the results of our generation business.

(3) Although Pedregal is located in Central America, our interest in Pedregal is a minority investment. Therefore, from



an income statement perspective, Pedregal is not part of the Central America segment and is reflected in our “Other” segment in our share in income of associated companies.

(4) In April 2017, we sold our interest in Surpetroil.

### ***Critical Accounting Policies and Significant Estimates***

In preparing our financial statements, we make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Our estimates and associated assumptions are reviewed on an ongoing basis and are based upon historical experience and various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

We believe that the estimates, assumptions and judgments involved in the accounting policies described below have the greatest potential impact on our financial statements. For further detail of the accounting policies and the methods used in the preparation of our consolidated financial statements, see notes 2 and 3 of our audited consolidated financial statements included elsewhere in this offering memorandum.

### ***Impairment Analysis***

For each reporting period, we examine whether there have been any events or changes in circumstances which would indicate an impairment of one or more non-monetary assets or cash generating units, or CGUs. When there are indications of an impairment, a review is made as to whether the carrying amount of the non-monetary assets or CGUs exceeds the recoverable amount and, if so, an impairment loss is recognized. An assessment of the impairment of the goodwill in a consolidated company is performed once a year or when triggering events exist.

Under IFRS, the recoverable amount of the asset or CGU is determined based upon the higher of (1) the fair value less costs of disposal, and (2) the present value of the future cash flows expected from the continued use of the asset or CGU in its present condition, including cash flows expected to be received upon the retirement of the asset from service and the eventual sale of the asset (value in use). The future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time-value of money and the risks specific to the asset or CGU.

The estimates regarding future cash flows are based upon past experience with respect to this asset or similar assets (or CGUs), and on our businesses’ best possible assessments regarding the economic conditions that will exist during the remaining useful life of the asset or CGU. Such estimates rely on the particular business’ current development plans and forecasts. As the actual cash flows may differ, the recoverable amount determined could change in subsequent periods, such that an additional impairment loss may need to be recognized or a previously recognized impairment loss may need to be reversed.

At least once a year, we perform an assessment of the impairment of the goodwill in our CGUs to which goodwill has been allocated. As of December 31, 2016, 2015 and 2014, we determined that the carrying amount of the CGUs to which goodwill has been allocated did not exceed the recoverable amount.

At the end of each reporting period, we assess whether there is any indication that any of the CGUs may be impaired and consider, among other things, whether there are indications of any of the following:

- Significant changes in the technological, economic or legal environment in which the CGUs operate, taking into account the country in which each CGU operates;
- Increases in interest rates or other market rates of return, which are likely to affect the discount rates used in calculating each CGU’s recoverable amount;
- Evidence of obsolescence or physical damage of each CGU’s assets;
- Actual performance of each CGU that does not meet expected performance indicators (e.g., its budget);

- Declines in tariffs agreed upon in PPAs and/or in current energy prices;
- Increases in fuel and/or gas prices and other power generation costs; and
- New laws and regulations, or changes in existing laws and regulations, that could have an adverse effect on the power generation industry.

During 2014, one of our subsidiaries updated its five-year budget as a result of a downward trend in its results combined with anticipated impacts of recent political changes in the country in which the subsidiary operates, which affected the power generation business therein, and expectations of an increase in operating costs and unchanged electricity prices, which would probably lead to a decrease in its profitability. As a result, we considered a potential impairment in this subsidiary and conducted an impairment analysis using the value in use method and a discount rate of 7.6%. Accordingly, we determined that the book value of the subsidiary's assets exceeded its recoverable amount and therefore recorded an impairment loss of US\$35 million in the year ended December 31, 2014.

At the end of 2015 and 2016, we performed an impairment test on the long-lived assets of this subsidiary to identify whether the impairment loss should be reversed or whether an additional impairment loss is required. As a result of this assessment, no reversal or additional impairment loss was required as of December 31, 2015 or 2016. However, due to the sensitivity of the assumptions used, we believe that minor changes in the key assumptions may materially affect the carrying value of this subsidiary in the future.

As of December 31, 2016, we performed an impairment test for CDA and JPPC due to a reduction of average Adjusted EBITDA greater than 15% compared to our projections. Based on the review of these two CGUs, the recoverable amount of each of these CGUs was greater than the assets carrying value. Therefore, we determined that no impairment adjustments were required.

As of December 31, 2015 and 2016, our other CGUs were performing according to budget and were profitable, and none of the aforementioned indications were present so as to suggest that these CGUs may be impaired. Therefore, we determined that there was no need to measure the recoverable amount of these CGUs to which goodwill had not been allocated as of such date.

In March 2017, our subsidiary Samay III S.A., or Samay III, IC Power Development Colombia S.A.S., Surenergy Holdings S.A.S., Surpetroil, Surenergy S.A.S. E.S.P. and Surpetroil's minority shareholder, Mr. Yesid Gasca Duran, or the Surpetroil Parties, entered into a separation agreement, which terminated the Surpetroil Parties' obligations under the relevant shareholders' agreement and investment agreement. In April 2017, the Surpetroil Parties entered into a termination agreement pursuant to which we sold our 60% stake in Surpetroil to Mr. Yesid Gasca Duran. As a result of this agreement, we conducted an impairment analysis in the first quarter of 2017 and determined that the book value of Samay III S.A.'s Colombian assets exceeded the recoverable amount and therefore recorded an impairment loss of US\$20 million in the six-month period ended June 30, 2017.

### *Revenue Recognition*

Revenue is recognized to the extent that it is probable that the economic benefits will flow to us and the revenue can be reliably measured, regardless of when the payment is made. Revenue comprises the fair value for the sale of capacity and energy, taking into account contractually defined terms of payment, net of value added tax, rebates and discounts, and after eliminating intra-group sales.

Assuming all other revenue recognition criteria are met, revenues from the sale of capacity and energy are recognized in the period during which the sale occurs. Revenues from our power generation assets are earned and recorded when energy is delivered or capacity is provided at prices specified pursuant to our PPAs or, if the sales were made on the spot market, according to the marginal spot market price at the time of the sale. As a result, the application of our revenue recognition policy is not generally subject to significant estimates or assumptions. However, at the close of each accounting period, we may need to make estimations and assumptions with respect to the volume of energy delivered to our customers during any unbilled period near the end of the relevant accounting period. These estimates are based upon the volume of energy delivered in, and the consumer price index (used to adjust the monthly PPA's prices) of, the previous month. The differences between the estimated revenue recognized during such period and the actual

revenues subsequently realized are recorded in the following accounting period. Historically, these differences have not been significant or material in nature. As revenues generated from our capacity sales are not consumption-based, the calculation of our revenues derived from capacity sales do not involve equivalent estimates or assumptions at the close of each accounting period.

### *Income Tax*

Whenever necessary, we are required to recognize income tax expense based on the amount of taxes expected to be paid to the tax authorities. When the final taxable result differs from the amounts initially recognized as a consequence of estimates, such differences will affect both our income tax and the determination of our deferred tax assets and liabilities.

In addition, in order to determine our income tax expense, it is necessary to make estimates to the extent that we will have to evaluate, on an ongoing basis, the positions taken in tax returns in respect of those situations in which the applicable tax legislation is subject to interpretation. A significant degree of judgment is required to determine our income tax provision, as there are many transactions and calculations for which the ultimate tax determination is uncertain. We recognize liabilities for eventual tax claims based on estimates of whether additional taxes will be due in the future. When the final tax outcome of these matters differs from the amounts initially recognized, such differences will have an impact on our current and deferred income tax assets and our liabilities in the period in which such determination is made.

Deferred tax assets are reviewed at each reporting date and are only recognized to the extent that they are probable and a sufficient taxable base will be available to allow for the total or partial recovery of these assets. Deferred tax assets and liabilities are not discounted. In assessing the realization of deferred tax assets, we take account of the extent to which we believe that it is likely that a portion of the deferred tax assets will not be realized. Our ultimate realization of deferred tax assets depends upon our generation of future taxable income in the periods in which these temporary differences become deductible. To make this assessment, we take into consideration the scheduled reversal of deferred tax liabilities, the projections of future taxable income and tax planning strategies.

### *Provisions for Claims*

A provision for claims is recognized when we deem we have a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations, and a reliable estimate of the amount of the obligation can be made. Provisions in general are highly discretionary, especially in case of legal disputes. We assess the probability of the likelihood that our defense of the claim will be unsuccessful and, if the probability is evaluated to be more likely than not, we will recognize a provision. We continually evaluate our pending litigation to determine if provisions are required or need to be adjusted. It is often difficult to accurately estimate the ultimate outcome of such matters. Different variables can affect the timing and amounts we recognize as provisions. These assessments, therefore, are subject to estimates made by us and our legal counsel, and adverse revisions in these estimates could materially impact our financial condition, results of operations or liquidity. For further information on our legal proceedings, see “Business—Legal Proceedings.”

## **Material Factors Affecting Results of Operations**

### ***Factors Affecting Comparability of Operating and Financial Results***

Our operational and financial results for the six months ended June 30, 2017 and the years ended December 31, 2016, 2015 and 2014 have been affected by our acquisitions of various operating businesses and by the completion of construction of our generation assets, and these effects must be understood in order to assess the comparability of our operating and financial results in the period to period financial analysis set forth below.

### *Acquisition of Energuate*

In January 2016, we completed our acquisition of Energuate. We paid US\$266 million in cash in connection with the acquisition, and assumed debt in an aggregate amount of US\$284 million. In April 2017, the working capital adjustment related to our acquisition of Energuate was finalized, resulting in a US\$10 million adjustment in our favor.

For all periods prior to the completion of our acquisition of Energuate, we operated one business line (generation) and evaluated this business line according to three geographic segments. However, since January 22, 2016, the date on which we completed our acquisition of Energuate, our results of operations reflect an additional business line (distribution), which we evaluate according to its sole segment, distribution. Our distribution business and its segment consists entirely of DEORSA and DEOCSA. Energuate, which now constitutes one of our principal operations, contributed US\$280 million and US\$37 million to our revenues and operating income, respectively, during the six months ended June 30, 2017, and US\$509 million and US\$63 million to our revenues and operating income, respectively, during the year ended December 31, 2016 (since January 22, 2016, the date of the completion of the acquisition).

While the interest, depreciation, maintenance and similar expenses related to, or resulting from, our acquisition and ownership of these businesses are reflected in our results for the six months ended June 30, 2017 and the year ended December 31, 2016, and our consolidated statement of income includes the results of the acquired companies' operations since January 22, 2016 (the date of the completion of the acquisitions), the results of these businesses are not fully reflected in our results of operations for the year ended December 31, 2016. The results of these businesses will affect the comparability of our results of operations from all periods prior to the acquisition.

#### *Completion of Construction of Generation Assets*

During the year ended December 31, 2016, we completed the construction of the Kanan, Samay I and CDA plants, which provided us with 1,269 MW of additional capacity, representing a 57% increase in our total capacity. These plants generated 941 GWh of energy during the year ended December 31, 2016. As a result, our increase in GWh for the year ended December 31, 2016 reflects the contribution of our developed assets. As our financial results for the year ended December 31, 2016, such as revenue and cost of sales, reflect the financial results of the developed assets from the date of COD, our operating results for the year ended December 31, 2016 may not be comparable to the financial results for the year ended December 31, 2015 to the extent of businesses developed in 2016.

#### *Completion of Acquisition of Generation Assets*

During the year ended December 31, 2014, we successfully completed the acquisition of seven generation assets (excluding Las Flores, whose results of operations are consolidated with Kallpa's), including the consolidation of JPPC, which collectively provided us with 439 MW in four countries in Latin America and the Caribbean, as set forth in "— Capacity Growth of Our Generation Business" and an additional 2,062 GWh of power generated in the year ended December 31, 2014. Although our financial results reflect the results of each of our acquired assets for the periods subsequent to our acquisition of such assets, the year-end generation figures presented throughout this offering memorandum reflect 100% of the generation figures of our consolidated companies for that year, and therefore include the full-year generation figures of our acquired companies, regardless of our date of acquisition of such companies. As a result, our increase in GWh for the years ended December 31, 2015 and 2014 reflects the contribution of our acquired companies, and also includes certain amounts generated by these companies prior to our acquisition of these companies. However, as our financial results for the year ended December 31, 2015 and 2014, such as our revenue and cost of sales, reflect the financial results of these acquisitions from the date of consolidation, our operating results for the year ended December 31, 2015 may not be fully comparable to the financial results for the year ended December 31, 2014 to the extent of businesses acquired in the period.

As we seek to invest in additional assets through development of or the acquisition of controlling interests in new operating assets, these factors may also affect the comparability of our operating and historical financial results in future periods.

#### *Macroeconomic Conditions in the Countries in Which We Operate*

Macroeconomic conditions may impact the gross domestic production of the countries in which we generate or distribute electricity which may, in turn, affect the consumption of electricity by industrial and individual consumers in those countries. For instance, countries experiencing sustained economic growth generally experience an increase in their consumption of electricity. Additionally, macroeconomic conditions are also likely to affect foreign exchange rates, domestic interest rates and inflation, which each has an effect on our financial and operating costs. Fluctuations in the exchange rates between local currencies in the countries in which we operate and the U.S. dollar, which is our functional

and reporting currency, will generate either gains or losses on monetary assets and liabilities denominated in these local currencies and can therefore affect our profitability. Fluctuations in inflation rates may also increase labor costs and other local expenses of our operations, and we may be unable to pass such increases on to our customers (e.g., to customers who purchase energy or capacity from us pursuant to long-term PPAs, which are not linked to local inflation rates).

For further information on the risks associated with currency fluctuations, see “Risk Factors— Risks Related to the Countries in Which We Operate—Foreign exchange rate fluctuations and controls could have a material adverse effect on our earnings and the strength of our statement of financial position.”

The following table sets forth the percentage growth in GDP, the currency appreciation / depreciation (relative to the U.S. dollar), and the annual inflation rate for the periods presented for each of the countries in which we operate:

| Country                 | 2016           |            |                                      | 2015           |                |                                      | 2014           |            |                                      |
|-------------------------|----------------|------------|--------------------------------------|----------------|----------------|--------------------------------------|----------------|------------|--------------------------------------|
|                         | Inflation Rate | GDP Growth | Currency Appreciation (Depreciation) | Inflation Rate | GDP Growth (%) | Currency Appreciation (Depreciation) | Inflation Rate | GDP Growth | Currency Appreciation (Depreciation) |
| Peru.....               | 3.6            | 3.9        | (6)                                  | 3.5            | 3.3            | (12)                                 | 3.2            | 2.4        | (5)                                  |
| Nicaragua.....          | 3.1            | 4.7        | (5)                                  | 4.0            | 4.9            | (5)                                  | 6.0            | 4.6        | (5)                                  |
| Bolivia.....            | 3.6            | 4.1        | (1)                                  | 4.1            | 4.8            | —                                    | 5.8            | 5.5        | —                                    |
| Chile.....              | 3.8            | 1.6        | (3)                                  | 4.3            | 2.3            | (15)                                 | 4.4            | 2.0        | (15)                                 |
| El Salvador.....        | 0.6            | 2.4        | —                                    | (0.7)          | 2.4            | —                                    | 1.1            | 1.4        | —                                    |
| Panama.....             | 0.7            | 5.0        | —                                    | 0.1            | 5.8            | —                                    | 2.6            | 6.1        | —                                    |
| Guatemala.....          | 4.5            | 3.0        | 1                                    | 2.4            | 4.1            | 1                                    | 3.4            | 4.2        | 2                                    |
| Dominican Republic..... | 1.6            | 6.6        | (2)                                  | 0.8            | 7.0            | (3)                                  | 3.0            | 7.6        | (4)                                  |
| Jamaica.....            | 3.8            | 1.5        | (7)                                  | 3.7            | 1.0            | (5)                                  | 8.3            | 0.5        | (11)                                 |

For further information on the macroeconomic conditions of the key countries in which we operate or in which we may operate in the future, see “Industry.”

For further information on the sensitivity of our profit to changes in the CPI and certain exchange rates, see note 30 to our audited consolidated financial statements included elsewhere in this offering memorandum.

### ***Capacity Growth of Our Generation Business***

As set forth below, our capacity was 3,364 MW as of June 30, 2017, representing a 106% growth in capacity since January 1, 2014.

| Entity                                     | Country   | Energy Used to Operate Power Station | COD/Date of Acquisition  | Installed Capacity (1)(2) (MW) |
|--|-----------|--------------------------------------|--------------------------|--------------------------------|
| <b>Capacity as of January 1, 2014.....</b> |           |                                      |                          | 1,630                          |
| Corinto.....                               | Nicaragua | HFO                                  | March 2014               | 71                             |
| Tipitapa Power.....                        | Nicaragua | HFO                                  | March 2014               | 51                             |
| Amayo I.....                               | Nicaragua | Wind                                 | March 2014               | 40                             |
| Amayo II.....                              | Nicaragua | Wind                                 | March 2014               | 23                             |
| Surpetroil.....                            | Colombia  | Natural gas                          | March 2014               | 15                             |
| Kallpa—Las Flores.....                     | Peru      | Natural gas                          | April 2014               | 193                            |
| JPPC.....                                  | Jamaica   | HFO                                  | May 2014(3)<br>September | —                              |
| Puerto Quetzal.....                        | Guatemala | HFO                                  | 2014                     | 179(4)                         |

| <u>Entity</u>  | <u>Country</u> | <u>Energy Used to Operate Power Station</u> | <u>COD/Date of Acquisition</u> | <u>Installed Capacity (1)(2) (MW)</u> |
|--|----------------|---|--------------------------------|---------------------------------------|
| <b>Total increase in capacity during 2014</b> .....                              |                |   |                                | 572                                   |
| <b>Capacity as of December 31, 2014</b> .....                                    |                |   |                                | 2,202                                 |
| Nejapa.....  | El Salvador    | HFO   | January 2015(5)                | —                                     |
| Surpetroil .....   | Colombia       | Natural gas                                 | Various                        | 5                                     |
| <b>Total increase in capacity during 2015</b> .....                              |                |   |                                | 5                                     |
| <b>Capacity as of December 31, 2015</b> .....                                    |                |   |                                | 2,207                                 |
| Kanan(6).....  | Panama         | HFO   | April 2016                     | 92                                    |
| Samay I(7).....  | Peru           | Diesel and natural gas(8)                   | May 2016                       | 632                                   |
| Surpetroil(9).....   | Colombia       | Natural gas                                 | Various                        | 11                                    |
| CDA .....  | Peru           | Hydroelectric                               | August 2016                    | 545                                   |
| <b>Total increase in capacity during 2016</b> .....                              |                |   |                                | 1,280                                 |
| <b>Capacity as of December 31, 2016</b> .....                                    |                |   |                                | 3,487                                 |
| Surpetroil(9).....   | Colombia       | Natural gas                                 |                                | (31)                                  |
| Kanan (6).....   | Panama         | HFO   |                                | (92)                                  |
| <b>Total decline in capacity during the six months ended June 30, 2017</b> ..... |                |   |                                | (123)                                 |
| <b>Capacity as of June 30, 2017</b> .....  |                |   |                                | 3,364                                 |

- (1) As a result of our sale of our indirect interest in Edegel in September 2014, our capacity growth summary does not include Edegel’s 1,540 MW of installed capacity during the periods in which we held our indirect interest in Edegel.
- (2) Reflects 100% of the capacity of each of our assets, regardless of our ownership interest in the entity that owns each such asset.
- (3) In May 2014, we increased our equity ownership in JPPC from 16% to 100%.
- (4) In November 2014, Puerto Quetzal transferred a 55 MW power barge to Kanan, reducing Puerto Quetzal’s capacity from 234 MW to 179 MW.
- (5) In January 2015, we increased our equity ownership in Nejapa from 71% to 100%.
- (6) Kanan reached COD in April 2016. In April 2017, the Kanan power plant, which consisted of a 37 MW power barge and a 55 MW power barge, experienced a fire and, as a result, both power barges were placed off-line permanently. We expect that our subsidiary Puerto Quetzal will sell one of its two power barges, with an installed capacity of 124 MW, to Kanan and, following modification and maintenance works on this power barge, we currently expect Kanan to resume operations in the first quarter of 2018. For further information regarding insurance payments made in connection with this fire, see “Business—Generation Businesses Outside Peru—Panamanian Operations and Associated Companies – Kanan and Pedregal.” For further information on our insurance policies, see “Business—Insurance.”
- (7) Samay I reached COD in May 2016. In July 2016, all of the plant’s units were declared unavailable to the system due to damage to the shafts in three of the plant’s four units. By February 2017, all four of the units had been repaired and declared available to the system. For further information on Samay I’s unavailability, see “Business—Peruvian Generation Business—Samay I.” For further information on our insurance policies, see “Business—Insurance.”
- (8) The Samay I plant will operate as a cold reserve plant with diesel until natural gas becomes available in the area through a pipeline the construction of which is currently suspended. It is uncertain when the pipeline will be completed.
- (9) When initially acquired by us, Surpetroil had a capacity of 15 MW. As of December 31, 2016, Surpetroil’s capacity

had increased to 31 MW as a result of our completion of various greenfield projects. In April 2017, we sold our interest in Surpetroil.

As a result of our capacity expansion, our consolidated revenues, operating income, finance expenses and profit during the periods in which our results of operations are being presented have substantially increased.

In May 2016, we completed the development of Samay I's 632 MW cold-reserve thermoelectric project in Peru. In July 2016, all four of Samay I's units were declared unavailable to the system due to damage to the shafts in three of the plant's four units. By February 2017, all four of the units had been declared repaired and available to the system. Pursuant to a settlement agreement, Samay I and the EPC contractor each agreed to pay 50% of the cost of the outage including repair costs and loss of profits, or US\$14 million. In August 2017, we filed a claim with the insurance company for reimbursement of our portion of these costs (subject to deductibles). However, our insurance coverage may not cover such losses or such insurance coverage may not be sufficient to cover the full amount of such losses. For further information on Samay I's unavailability, see "Business—Peru—Samay I." For further information on Samay I's insurance, see "Business—Insurance."

In April 2016, we completed the development of Kanan's thermal generation project in Panama. In April 2017, the Kanan power plant, which consisted of a 37 MW power barge and a 55 MW power barge, experienced a fire and, as a result, both power barges were placed off-line permanently. During the six-months ended June 30, 2017, we wrote off US\$48 million, which represents the value of these power barges. We have filed an insurance claim in connection with the fire and are seeking coverage for the costs of the outage, including replacement costs and loss of profits, as appropriate, subject to deductibles. As of June 30, 2017, we had received an advance payment of US\$38.6 million from our reinsurers. We expect that our subsidiary Puerto Quetzal will sell one of its two power barges, with an installed capacity of 124 MW, to Kanan and, following modification and maintenance works on this power barge, we currently expect Kanan to resume operations in the first quarter of 2018.

### ***Cyclicality Affecting the Generation Business***

Consumption of electricity has increased significantly in the jurisdictions in which we operate over the past 30 years. Due to this growth in consumption, these countries have on occasion experienced periods of insufficient capacity. Periods of insufficient capacity have usually resulted in increased capacity utilization rates of less efficient generators, leading to increased prices and operating margins. These periods have often been followed by periods of capacity additions, which have resulted in declining capacity utilization rates for less efficient generators, leading to declining prices and operating margins.

We expect that these cyclical trends in the prices and operating margins of generators in the countries in which we operate relating to capacity shortfalls and additions will likely persist in the future, principally due to the continuing impact of four general factors:

- during periods of high demand relative to available capacity, higher marginal cost generators will be dispatched into the relevant system, resulting in increases of spot market prices and upward pressure on prices negotiated in PPAs;
- significant capacity additions are capital intensive and can take many years to implement, particularly in the case of hydroelectric generators, and are therefore necessarily based upon estimates of future demand;
- estimates of future demand may not be accurate due to cyclical trends in general business and economic activity which produce swings in demand for electricity; and
- during periods of low demand relative to available capacity, high marginal cost generators are not dispatched into the relevant system, resulting in a reduction of spot market prices and downward pressure on prices negotiated in PPAs.

For example, as a result of the completion of various plants in Peru in recent years (including our CDA and Samay I plant), the generation capacity in Peru increased at a faster rate than the demand for such electricity, resulting in a temporary oversupply of capacity in the Peruvian market and therefore a corresponding downward pressure on energy

and capacity prices. We do not have any major PPAs scheduled to expire during 2017. However, for the next few years, we will face the current soft energy price market for any upcoming new PPA negotiations, renegotiations under existing PPAs and spot market sales.

Our Peruvian energy and capacity is mainly sold pursuant to long-term PPAs, which accounted for 83% and 92% of the total energy sales of our generation businesses for the six-month period ended June 30, 2017 and the year ended December 31, 2016, respectively. The counterparties to these PPAs consist primarily of large end users, such as industrial and mining companies, and distribution companies that aggregate the energy consumption of many end users in each of their concession areas. The current soft energy prices are leading some customers of distribution companies in Peru that are eligible to purchase energy as unregulated customers to purchase energy directly from power generators (instead of from power distributors). To the extent that such distribution customers elect to purchase energy directly from power generators, this could result in lower volumes of energy sold under our PPAs with distribution companies. In addition, to the extent these unregulated customers purchase capacity and energy directly from us, the energy prices that we realize from sales to these customers in the current price environment could be lower than the prices that we realize under the PPAs with the power distributors, which could impact our margins.

Currently, no significant new additions of base load units are expected to be completed for the Peruvian system other than those contemplated for 2017 and, as a result, energy prices are anticipated to recover progressively over the next few years as the system energy demand increases.

#### ***Availability and Dispatch of Our Generation Assets***

The regulatory frameworks in each of the countries in which we currently operate, other than Jamaica, establish marginal cost systems, and the relevant regulatory agencies determine which generation units are to be dispatched, so as to minimize the cost of energy supplied.

The availability of a power generation asset refers to the percentage of time that a plant is available to generate energy. For example, even though hydroelectric plants generally maintain the highest place in the dispatch merit order due to their efficiency and low generation costs, they are unavailable when they are removed from operation to conserve water in the associated reservoirs or river basins or for maintenance, or when there are unscheduled outages. Thermal plants, which are lower in the dispatch merit order than hydroelectric plants, are unavailable for dispatch when they are removed from operation for maintenance or when there are unscheduled outages. Each of the relevant regulatory agencies considers the average availability of generation plants when it allocates firm capacity, which is the amount of capacity that, pursuant to applicable regulations, an energy sector regulator recognizes and remunerates to each power generation unit for being available to cover the demand in peak hours.

The following table sets forth the weighted average availability of our generation plants in each of the countries in which we operate for the periods presented:

|  | <b>For the Year Ended December 31,</b> |             |             |
|--|--|-------------|-------------|
|  | <b>2016</b>                            | <b>2015</b> | <b>2014</b> |
|  | (%)                                    |             |             |
| <b><i>Peru Segment:</i></b>            |  |             |             |
| Peru .....                             | 76                                     | 97          | 97          |
| <b><i>Central America Segment:</i></b> |  |             |             |
| Nicaragua .....                        | 88                                     | 95          | 95          |
| El Salvador .....                      | 78                                     | 81          | 89          |
| Panama .....                           | 79                                     | 94          | 93          |
| Guatemala .....                        | 95                                     | 94          | 97          |
| <b><i>Other Segment:</i></b>           |  |             |             |
| Bolivia .....                          | 92                                     | 89          | 91          |
| Chile .....                            | 98                                     | 98          | 99          |
| Dominican Republic .....               | 78                                     | 81          | 89          |
| Jamaica .....                          | 85                                     | 86          | 85          |



|                   | <b>For the Year Ended December 31,</b> |             |             |
|-------------------|--|-------------|-------------|
|                   | <b>2016</b>                            | <b>2015</b> | <b>2014</b> |
| Colombia(1) ..... | 97                                     | 86          | 84          |

(1) Represents availability of Surpetroil's plants. In April 2017, we sold our interest in Surpetroil.

A substantial portion of the capacity in the power generation industry in each of the countries in which we currently operate, other than Nicaragua and Jamaica, is comprised of hydroelectric plants. The marginal cost of production by these plants is almost nil. As a result, these plants are generally the first to be dispatched, by the relevant regulatory agencies, when available. However, the availability of these plants is subject to annual and seasonal variations based on the hydrology of the reservoirs and river basins that provide the water to operate these plants. For example, COBEE's hydroelectric plants are among the first generation units to be dispatched in Bolivia as a result of the low variable costs associated with these units, and CDA's plant is among the first generation units dispatched in Peru. We seek to ensure that our hydroelectric units are available to be dispatched when necessary, as such availability is important to our ability to capture the benefits of marginal cost dispatch and the maximization of our margins.

When hydroelectric plants are unavailable or have been fully dispatched, other generation plants are generally dispatched on the basis of cost, with lower cost units, such as thermal gas plants, generally dispatched first. The Kallpa thermal plant's units, for example, are among the first generation units to be dispatched in Peru after the hydroelectric plants (including the CDA plant), since the Kallpa combined cycle thermal plant is among the lowest-cost thermal generation plants in Peru. Generally, the order in which regulatory agencies will dispatch plants which are neither hydroelectric nor gas-powered are: (1) wind-powered; (2) coal-powered; (3) HFO-powered; followed by (4) diesel-powered. As many of the countries in which we operate are seeking to incentivize the production of wind and renewable energy plants, which typically have relatively low operating costs, these countries often dispatch wind-powered plants, such as Amayo I and Amayo II, on a priority basis. Similar to hydroelectric plants, however, the availability of wind-powered plants to be dispatched is limited by the availability of the resource (i.e., whether the wind is blowing).

If our generation plants are available for dispatch and are not dispatched, or are partially dispatched, by the relevant system operator and if our obligations to deliver energy under our PPAs exceed the energy dispatched from our own generation units at any particular time, we purchase energy in the spot market to satisfy these obligations. The price of such energy is generally lower than our generation cost, thereby generally increasing our commercial margin.

Similarly, if our generation plants are not allocated sufficient firm capacity to satisfy our obligations under our PPAs, we purchase capacity in the spot market to satisfy these obligations. The spot capacity price is generally substantially similar to the regulated and PPA capacity price.

Spot prices in the Peruvian electricity market are currently at historically low levels (approximately US\$8.7/MWh monthly average during the first half of 2017) mainly due to a sustained increase in installed capacity in recent years and moderate growth in demand, which has increased the reserve margin from 25.8% in 2011 to 74.0% in 2016 as the CDA plant and the Samay I plant reached COD. However, according to the COES projections, future demand is expected to increase due to large mining and industrial projects such as Shouxin, Tambomayo, Toquepala and Cerro Verde, among others, as well as sustained growth in underlying demand. As a result, maximum demand is expected to grow at a 6.4% CAGR between 2017 and 2020, according to the COES.

Despite expected increases in demand, no relevant increase in supply is expected in the Peruvian electricity market in the medium term, according to the COES and our projections. Total firm capacity is expected to increase at a 0.4% CAGR between 2017 and 2021. According to the COES, the low increase in supply after 2017, coupled with sustained demand growth, is expected to cause the reserve margin to decrease. According to the COES and our projections, we expect reserve margins to decline to 67.0% in 2017 and reach 44.8% by 2020 (a decrease of 43% versus 2017). These factors may lead to rising spot prices in the medium term and may provide for an improvement in future PPA prices.

The following table sets forth the amount of energy sold under our PPAs and in the spot market, and the amount of energy generated and purchased by our generation companies during the years presented. The information included in the following table reflects 100% of the energy sold under PPAs or in the spot market and generated or purchased by our assets, regardless of our ownership interest in the entity that owns each such asset, and also contains information for

certain of our assets from periods prior to our acquisition of such asset. For further information on our acquisition of assets during the periods within the table, see “—Capacity Growth of Our Generation Business.”

| <b>Segment</b>                 | <b>Period</b>                   | <b>Sales Under<br/>PPAs</b>    | <b>Sales in Spot<br/>Market</b> | <b>Net Energy<br/>Generated(1)</b> | <b>Energy<br/>Purchased</b> |    |
|--------------------------------|---------------------------------|--------------------------------|---------------------------------|------------------------------------|-----------------------------|----|
| <b>Peru</b>                    | <b><i>Kallpa:</i></b>           |                                |                                 |                                    |                             |    |
|                                | Six months ended June 30, 2017  | 3,195                          | —                               | 1,834                              | 1,361                       |    |
|                                | Six months ended June 30, 2016  | 3,173                          | 155                             | 2,936                              | 392                         |    |
|                                | Year Ended December 31, 2016    | 6,182                          | 283                             | 5,892                              | 573                         |    |
|                                | Year Ended December 31, 2015    | 6,327                          | 106                             | 5,027                              | 1,406                       |    |
|                                | Year Ended December 31, 2014    | 6,324                          | 235                             | 5,698                              | 861                         |    |
|                                | <b><i>CDA(2):</i></b>           |                                |                                 |                                    |                             |    |
|                                | Six months ended June 30, 2017  | 609                            | 531                             | 1,121                              | 19                          |    |
|                                | Year Ended December 31, 2016    | 509                            | 182                             | 683                                | 8                           |    |
|                                | <b><i>Samay I(3):</i></b>       |                                |                                 |                                    |                             |    |
|                                | Six months ended June 30, 2017  | —                              | 244                             | 244                                | —                           |    |
|                                | Year Ended December 31, 2016    | —                              | 94                              | 94                                 | —                           |    |
|                                | <b>Central America</b>          | <b><i>ICPNH:</i></b>           |                                 |                                    |                             |    |
|                                |                                 | Six months ended June 30, 2017 | 458                             | 2                                  | 453                         | 7  |
|                                |                                 | Six months ended June 30, 2016 | 509                             | 8                                  | 503                         | 14 |
| Year Ended December 31, 2016   |                                 | 957                            | 51                              | 945                                | 63                          |    |
| Year Ended December 31, 2015   |                                 | 1,062                          | 28                              | 1,054                              | 36                          |    |
| Year Ended December 31, 2014   |                                 | 1,063                          | 22                              | 1,058                              | 27                          |    |
| <b><i>Nejapa:</i></b>          |                                 |                                |                                 |                                    |                             |    |
| Six months ended June 30, 2017 |                                 | 405                            | —                               | 21                                 | 384                         |    |
| Six months ended June 30, 2016 |                                 | 406                            | 26                              | 230                                | 202                         |    |
| Year Ended December 31, 2016   |                                 | 807                            | 37                              | 383                                | 461                         |    |
| Year Ended December 31, 2015   |                                 | 795                            | 45                              | 429                                | 411                         |    |
| Year Ended December 31, 2014   |                                 | 626                            | 93                              | 373                                | 346                         |    |
| <b><i>Kanan(4):</i></b>        |                                 |                                |                                 |                                    |                             |    |
| Six months ended June 30, 2017 |                                 | 261                            | 1                               | 23                                 | 239                         |    |
| Six months ended June 30, 2016 |                                 | 269                            | 4                               | 118                                | 155                         |    |
| Year Ended December 31, 2016   |                                 | 523                            | 7                               | 164                                | 366                         |    |
| <b><i>Puerto Quetzal:</i></b>  |                                 |                                |                                 |                                    |                             |    |
| Six months ended June 30, 2017 |                                 | 239                            | 44                              | 64                                 | 219                         |    |
| Six months ended June 30, 2016 |                                 | 236                            | 145                             | 253                                | 128                         |    |
| Year Ended December 31, 2016   |                                 | 528                            | 185                             | 347                                | 366                         |    |
| Year Ended December 31, 2015   |                                 | 594                            | 368                             | 641                                | 321                         |    |
| Year Ended December 31, 2014   |                                 | 1,005                          | 53                              | 465                                | 593                         |    |
| <b>Other</b>                   |                                 | <b><i>COBEE:</i></b>           |                                 |                                    |                             |    |
|                                |                                 | Six months ended June 30, 2017 | 138                             | 503                                | 641                         | —  |
|                                | Six months ended June 30, 2016  | 138                            | 375                             | 514                                | —                           |    |
|                                | Year Ended December 31, 2016    | 275                            | 585                             | 860                                | —                           |    |
|                                | Year Ended December 31, 2015    | 270                            | 769                             | 1,039                              | —                           |    |
|                                | Year Ended December 31, 2014    | 268                            | 762                             | 1,030                              | —                           |    |
|                                | <b><i>Central Cardones:</i></b> |                                |                                 |                                    |                             |    |
|                                | Six months ended June 30, 2017  | —                              | 2                               | 1                                  | 1                           |    |
|                                | Six months ended June 30, 2016  | —                              | —                               | —                                  | —                           |    |
|                                | Year Ended December 31, 2016    | —                              | 1                               | (1)                                | 2                           |    |
|                                | Year Ended December 31, 2015    | —                              | 4                               | 3                                  | 1                           |    |
|                                | Year Ended December 31, 2014    | —                              | —                               | (1)                                | 1                           |    |

| <b>Segment</b>                              | <b>Period</b>                  | <b>Sales Under<br/>PPAs</b> | <b>Sales in Spot<br/>Market</b> | <b>Net Energy<br/>Generated(1)</b> | <b>Energy<br/>Purchased</b> |
|---|--------------------------------|-----------------------------|---------------------------------|------------------------------------|-----------------------------|
| <b>Colmito:</b>                             |                                |                             |                                 |                                    |                             |
|   | Six months ended June 30, 2017 | 142                         | 7                               | 7                                  | 142                         |
|   | Six months ended June 30, 2016 | 140                         | 5                               | 5                                  | 140                         |
|   | Year Ended December 31, 2016   | 254                         | 9                               | 8                                  | 255                         |
|   | Year Ended December 31, 2015   | 255                         | 26                              | 26                                 | 255                         |
|   | Year Ended December 31, 2014   | 250                         | —                               | 5                                  | 245                         |
| <b>Pedregal:</b>                            |                                |                             |                                 |                                    |                             |
|   | Six months ended June 30, 2017 | 76                          | 18                              | 74                                 | 20                          |
|   | Six months ended June 30, 2016 | 150                         | 51                              | 177                                | 24                          |
|   | Year Ended December 31, 2016   | 289                         | 69                              | 255                                | 103                         |
|   | Year Ended December 31, 2015   | 280                         | 102                             | 343                                | 39                          |
|   | Year Ended December 31, 2014   | 270                         | 135                             | 391                                | 14                          |
| <b>CEPP:</b>                                |                                |                             |                                 |                                    |                             |
|   | Six months ended June 30, 2017 | 71                          | 98                              | 98                                 | 71                          |
|   | Six months ended June 30, 2016 | 8                           | 139                             | 139                                | 8                           |
|   | Year Ended December 31, 2016   | 88                          | 257                             | 257                                | 88                          |
|   | Year Ended December 31, 2015   | —                           | 291                             | 291                                | —                           |
|   | Year Ended December 31, 2014   | 253                         | 54                              | 236                                | 71                          |
| <b>JPPC:</b>                                |                                |                             |                                 |                                    |                             |
|   | Six months ended June 30, 2017 | 192                         | —                               | 192                                | —                           |
|   | Six months ended June 30, 2016 | 160                         | —                               | 160                                | —                           |
|   | Year Ended December 31, 2016   | 390                         | —                               | 390                                | —                           |
|   | Year Ended December 31, 2015   | 427                         | —                               | 427                                | —                           |
|   | Year Ended December 31, 2014   | 410                         | —                               | 410                                | —                           |
| <b>Surpetroil(5):</b>                       |                                |                             |                                 |                                    |                             |
|   | Six months ended June 30, 2017 | 21                          | —                               | 21                                 | —                           |
|   | Six months ended June 30, 2016 | 33                          | 2                               | 35                                 | —                           |
|   | Year Ended December 31, 2016   | 73                          | 2                               | 75                                 | —                           |
|   | Year Ended December 31, 2015   | 43                          | —                               | 43                                 | —                           |
|   | Year Ended December 31, 2014   | 48                          | —                               | 48                                 | —                           |
| <b>Total (excluding<br/>Pedregal) .....</b> | Six months ended June 30, 2017 | 5,731                       | 1,432                           | 4,720                              | 2,443                       |
|   | Six months ended June 30, 2016 | 5,073                       | 908                             | 4,941                              | 1,040                       |
|   | Year Ended December 31, 2016   | 10,586                      | 1,693                           | 10,097                             | 2,182                       |
|   | Year Ended December 31, 2015   | 9,773                       | 1,637                           | 8,980                              | 2,430                       |
|   | Year Ended December 31, 2014   | 10,247                      | 1,219                           | 9,322                              | 2,144                       |

- (1) Net energy generated is defined as energy delivered at the interconnection to the system.
- (2) The CDA plant reached COD in August 2016. On August 16, 2017, Kallpa merged with and into CDA with CDA as the surviving entity. In September 2017, CDA changed its corporate name to Kallpa Generación S.A.
- (3) Samay I reached COD in May 2016. In July 2016, all of the plant's units were declared unavailable to the system due to damage to the shafts in three of the plant's four units. By February 2017, all four of the units had been repaired and declared available to the system. For a discussion of the way in which payments are made to Samay I, see "Business—Generation Portfolio Overview—Samay I."
- (4) In April 2017, the Kanan power plant, which consisted of a 37 MW power barge and a 55 MW power barge, experienced a fire and, as a result, both power barges were placed off-line permanently. We expect that our subsidiary Puerto Quetzal will sell one of its two power barges, with an installed capacity of 124 MW, to Kanan and, following modification and maintenance works on this power barge, we currently expect Kanan to resume operations in the first quarter of 2018. We expect that Kanan will make energy purchases on the spot market to meet its obligations under its PPA until it is able to resume generation operations.
- (5) In April 2017, we sold our interest in Surpetroil.

### ***Cost of Sales of Our Generation Assets (Including Depreciation and Amortization and Asset Impairment)***

Our principal costs of sales are natural gas, HFO, lubricants, purchases of capacity and energy on the spot market, transmission costs, personnel, third party services and maintenance costs.

Our costs for natural gas, which include transportation and distribution costs, vary primarily based on the quantity of natural gas consumed, the variation of market prices of HFO, to which our natural gas prices are indexed, and whether we consume all of the natural gas that we are obligated to purchase under our natural gas supply contracts. Kallpa's long-term gas supply contract with the Camisea Consortium, which is used to supply gas to the Kallpa thermal plant and the Las Flores plant, hedges Kallpa against fluctuations in the price of natural gas, however, Kallpa's agreement with the Camisea Consortium will expire in June 2022, unless renewed by the parties. Once expired, Kallpa may be required to purchase their natural gas for the Kallpa thermal plant and the Las Flores plant on spot markets at prices that may be greater than the prices they previously paid for such commodities and could therefore face increased volatility in their earnings and cash flows. The price adjustments in our PPAs, which are generally indexed to the cost of natural gas, generally limit our exposure of such renewal.

Our costs for HFO, which include transportation costs, vary primarily based on the quantity of HFO consumed and the variation of market prices of HFO. For example, we generate electricity using HFO in each of the countries comprising our Central America segment, as well as in the Dominican Republic. The price adjustment mechanisms in our PPAs in these countries generally limit our exposure to the price of HFO.

As fuel is a significant cost for most of our operating companies, the price of various fuels (e.g., gas, diesel, or HFO) has a significant effect on our costs. However, as prices in the spot market tend to reflect current fuel prices and, as the majority of our PPAs contain a fuel price adjustment mechanism to reflect increases or decreases in the price of fuel, changes in fuel prices generally result in corresponding changes in revenues as a result of these pass-through mechanisms and do not substantially affect our operating margins. Accordingly, during periods of declining global oil prices (such as occurred after 2014) our revenues are adversely affected, however these declines do not have a commensurate effect on our operating margins or Adjusted EBITDA. In some cases, however, the fuel price adjustment mechanisms in our PPAs may not adjust to reflect the full increase or decrease in fuel prices, or may reflect such adjustments on a lagging basis as a result of the indexation mechanisms of our PPAs (which update only periodically and have minimum thresholds) and the indexations of our long-term supply agreements.

Our costs for transmission vary primarily according to the quantity of energy that we sell and the locations of the specific nodes to which our plants are connected in the national interconnected electrical systems of the various countries in which we operate. Under our PPAs and the regulatory regimes under which we sell energy in the spot market, most transmission costs are passed on to our customers.

We incur personnel and third party services costs in the operation of our plants. These costs are usually independent of the volumes of energy produced by our plants. We incur maintenance costs in connection with the ongoing and periodic maintenance of our generation plants. These costs are usually correlated to the volumes of energy produced and the number of running hours of our plants.

### ***Fluctuations in Oil Prices and Currency Exchange Rates***

As fuel is a significant cost for most of our operating companies, the prices of the various fuels utilized by our operating companies (e.g., gas, diesel, or HFO) have a significant effect on our results of operations. Many of our PPAs are denominated in the applicable local currency and contain an adjustment mechanism so that prices under our PPAs can be adjusted to reflect (among other things) changes in (1) the price of oil (by reference to oil price indices), (2) the price of the underlying fuel, (3) the relevant producer price index, and/or (4) changes in the local currency to U.S. dollar exchange rate. In addition, for most of our gas and other fuel supply agreements, the prices we pay are subject to adjustments based on changes in oil prices (by reference to oil price indices), the price of the underlying fuel, and currency exchange rates. Accordingly, although changes in oil, or other fuel, prices, inflation rates and foreign exchange rates can affect our revenues, profit and Adjusted EBITDA, there is generally not a corresponding effect on our margins.

These adjustments under our PPAs and supply agreements, and regulated tariffs are made on a periodic basis (e.g., monthly, quarterly or annually) and may also be subject to minimum deviation thresholds. Therefore, these adjustments do not fully hedge our margins against changes in fuel prices and such other factors. In addition, we remain subject to variations in oil, or other fuel, prices, inflation and currency exchange rates in the short- to medium-term, until such adjustments are made and to the extent of variations below the threshold. Further, while a significant portion of our sales are made pursuant to PPAs, we do make sales in the spot market and are subject to spot market prices (which are influenced by changes in oil, or other fuel, prices, inflation and exchange rates), and we are also subject to changes in market rates (which are influenced by fuel prices and inflation and exchange rates) when we renew our PPAs. A significant change (even where both fuel costs and PPAs are fully indexed) in the above-mentioned factors can result in an increase or decrease in our margins. For further information on the effects of fluctuations in oil prices on our cost of sales, see “—Cost of Sales of Our Generation Assets.”

With respect to our distribution business, all of Energuate’s PPAs require it to pay in U.S. dollars or have price terms that are linked to the U.S. dollar, and inflation affects Energuate’s operating costs by increasing some of its operating expenses denominated in Guatemalan Quetzales (and not linked to the U.S. dollar). However, because the VAD charges applicable to Energuate are adjusted semi-annually to reflect fluctuations in the Guatemalan Quetzal/U.S. dollar exchange rate and Guatemalan inflation, currency depreciation and inflation have not had significant effects on Energuate’s operating income. Additionally, as the regulated tariff set by CNEE is also adjusted for fluctuations in oil prices, a decrease in oil prices may cause a corresponding decrease in the tariff set by CNEE, leading to a decline in Energuate’s revenues in an amount that generally corresponds to a decline in Energuate’s operating expenses.

#### ***Distribution Tariffs, Energy Costs and VAD Charges for Our Business in Guatemala***

Regulated energy tariffs in Guatemala are divided into two components: an electricity charge (for the cost of electricity and capacity and transmission tolls) and a VAD charge designed to cover the operating expenses, capital expenditures and cost of capital of a model efficient distribution company operating in Energuate’s service areas, providing the same service. The CNEE adjusts these components at different intervals based on the methodology established by the General Electricity Law and related regulations. See “Regulatory Overview—Regulation of the Guatemalan Electricity Distribution Market—Distribution and Transmission Tariffs and Tolls.”

Energy, capacity and transmission are pass-through costs for Energuate, since the tariffs Energuate charges its customers are adjusted to reflect changes in its costs of energy and capacity purchased and the transmission tolls it pays. Although some temporary differences may exist during the adjustment process, the tariff structure is generally designed to allow Energuate to pass through to customers its energy, capacity and transmission costs. Accordingly, because Energuate passes through the energy, capacity and transmission components of the regulated tariffs to its customers, its gross margins (equal to gross profit divided by total revenue) are primarily driven by the VAD charges.

Energuate’s liquidity and results of operations are principally affected by changes in the regulated tariffs that it charges for energy transmitted through its distribution system, and are also affected, to a lesser extent, by the tariffs Energuate negotiates with unregulated customers. Regulated customers, which are subject to regulated tariffs, accounted for 97.7%, 95.7% and 93.2% of the volume of energy Energuate delivered during the six-month period ended June 30, 2017 and the years ended December 31, 2016 and 2015, respectively.

The VAD charges applicable to Energuate are established every five years under procedures set forth in the General Electricity Law and related regulations. The VAD charges currently applicable to Energuate were established in January 2014 and are scheduled to be reassessed in January 2019. In setting VAD charges, the range for permitted theoretical after-inflation return on investment for distributors is between 7%-13%. Currently, the tariffs approved for Energuate’s authorizations contemplate approximately a 7% return. For further information on the tariffs applicable to Energuate, see “Business—Guatemalan Distribution Business—Distribution Tariffs.”

The VAD charges applicable to Energuate are also adjusted in January and July of each year to reflect the effects of Guatemalan inflation and changes in the Guatemalan Quetzales/U.S. dollar exchange rate on Energuate’s operations. During the past three years, approximately 57% of each adjustment has been based on the rate of Guatemalan inflation and the remaining 43% of each adjustment has been based on changes in the Guatemalan Quetzales/U.S. dollar exchange rate.

### ***Recovery of Energy Costs from Regulated Customers of Our Distribution Business in Guatemala***

Energuate's results of operations, liquidity and financial condition are affected by temporary differences in the energy and capacity charges included in its regulated tariffs and the actual cost it pays for them. These differences arise mainly due to changes in the timing of the pass through of energy and capacity charges to final customers. Over longer periods of time, however, the energy tariff setting process is designed to be neutral from a distribution company standpoint.

Energy and capacity charges consist of a base tariff and an energy adjustment surcharge. The base tariff is reset on May 1 of each year by the CNEE based on the projected cost of energy and capacity purchases that Energuate is expected to incur during the following year. The energy adjustment surcharge is set quarterly by the CNEE to reflect variations in the actual cost of energy and capacity purchased from the projected cost. Any resulting variation in each quarter is considered by the CNEE in its determination of the applicable energy adjustment surcharge for the next quarter. However, the CNEE may, with the consent of the relevant distributor, defer the application of any such adjustment to avoid significant variations in the tariff. For example, the CNEE may defer the adjustment if energy prices are expected to vary significantly within a year. The decision by the CNEE to impose positive or negative energy adjustment surcharges in the future is merely an adjustment mechanism of the energy charge that applies to subsequent periods. However, the CNEE can also deny the inclusion of other costs incurred by the distributors.

The results of this tariff adjustment process is reflected by the CNEE through quarterly resolutions and communicated to Energuate for its application in subsequent periods. In recent years, energy prices in Guatemala decreased, as did the average cost of Energuate's energy purchases. In this period, the CNEE, instead of fully transferring this decrease in energy costs to the tariffs of Energuate's customers, opted to only partially reduce electricity tariffs. The difference generated in electricity tariffs (versus a direct pass-through) was to be recovered in future tariff revisions of the CNEE. During 2016, the CNEE, in agreement with Energuate, decided to adjust tariffs in favor of customers in order to recover the aforementioned difference. As a result, during the year ended December 31, 2016, the portion of energy cost charged in the electricity tariffs was US\$13 million lower than the actual cost of energy, negatively affecting our financial results. This temporary difference in the adjustment of the cost of energy purchased, a pass-through component of the electricity tariffs, affects our financial results.

As of December 31, 2016, Energuate had accrued regulatory liabilities of US\$37 million. For accounting purposes under IFRS, the recovery of the surplus or deficit in the recovered energy costs is recognized only when the revenues based on the tariffs to which the energy adjustment surcharges are applied are received or receivable. Pursuant to the CNEE resolutions published in January 2017, April 2017 and July 2017, the energy adjustment surcharge applicable to Energuate for the period February 1, 2017 to April 30, 2017 was determined to be a net reduction of our energy charges of approximately US\$9 million, for the period from May 1, 2017 to July 31, 2017 was determined to be a net reduction of our energy charges of approximately US\$7 million, and for the period from August 1, 2017 to October 31, 2017 was determined to be a net reduction of our energy charges of approximately US\$7 million. The July 2017 resolution established that following the net reduction applied from August 1, 2017 to October 31, 2017 the accrued regulatory liabilities relating to the periods prior to August 1, 2017 would be US\$25 million, which will be applied to reduce energy charges in future periods as agreed between Energuate and the CNEE.

### ***Changes in the Application of the Social Tariff and Subsidies from the Guatemalan Government***

Under Guatemalan law, all of Energuate's customers that consume less than 300 kWh per month are entitled to pay the social tariff. The social tariff has the same components as the regular tariff. While the VAD charge is the same for all of Energuate's customers, the energy charge varies depending on the cost of energy and capacity Energuate purchases to distribute among these customers.

In addition, the Guatemalan government provides a subsidy to customers eligible for the social tariff that consume 100 kWh or less per month. Such subsidy is calculated by the CNEE and paid directly by the INDE to Energuate on a monthly basis. The subsidy is based on the monthly consumption of the consumers, as set forth in the CNEE's regulations. For more information, see "Regulatory Overview—Regulation of the Guatemalan Electricity Distribution Market—Distribution and Transmission Tariffs and Tolls." During the six-month period ended June 30, 2017 and the year ended December 31, 2016, Energuate received payments from the INDE to apply as a subsidy to reduce the payment of the energy charges on the invoices of 77.3% and 78.3%, respectively, of its customers who consume 100

kWh or less per month. During 2016, revenues from sales of energy under the social tariff represented 58.2% of Energuate’s total revenue from energy sales, and the subsidiaries that Energuate received from the INDE represented 16.5% of Energuate’s total revenue.

The following table reflects the percentage of regulated customers of Energuate eligible for the social tariff, energy sold by Energuate at the social tariff, revenues from sales of energy under the social tariff and revenues represented by subsidies received from the INDE in respect of customers eligible for the social tariff for the periods presented.

|   | <b>As of and for the Year Ended<br/>December 31,</b> |             |             |
|---|--|-------------|-------------|
|   | <b>2016</b>  | <b>2015</b> | <b>2014</b> |
| Regulated customers eligible for the social tariff.....                                 | 96.7%  | 96.7%       | 97.1%       |
| Energy sold under the social tariff as a percentage of energy sold<br>by Energuate..... | 52.0%  | 50.7%       | 50.5%       |
| Revenues from sales of energy under the social tariff / Energy sales ..                 | 58.2%  | 58.7%       | 57.7%       |
| Revenues represented by subsidies received from the INDE / Total<br>revenues.....       | 16.5%  | 17.6%       | 19.7%       |

***Variation of the Amount of Energy Losses of Our Distribution Business in Guatemala***

Energuate experiences two types of energy losses: technical losses and commercial energy losses. Technical losses occur in the ordinary course of its distribution of energy and include losses due to energy dissipation in conductors and magnetic losses in transformers, while commercial energy losses result from illegal connections, customer fraud and billing errors. Energuate’s total energy losses during the six-month period ended June 30, 2017 and the years ended December 31, 2016, 2015 and 2014 were 20.0%, 19.6%, 16.9% and 16.9% of its total energy received, respectively. Although the distribution tariffs that Energuate charges its regulated customers include a VAD charge, which provides for an allowance determined by the CNEE for losses incurred in the distribution of energy (currently approximately 15.0% of Energuate’s costs associated with energy losses), Energuate’s losses may continue to exceed such allowance and, therefore, Energuate may have to continue to bear the cost of such losses. Such loss results in a decrease in Energuate’s operating profit since the cost of purchasing the lost energy is not compensated by a corresponding sale of energy. For further information on the risks associated with energy loss, see “Risk Factors—Risks Relating to our Distribution Business—If Energuate is unable to successfully control energy losses and improve collection rates, our results of operations could be adversely affected.”

We intend to reduce commercial energy losses through increasing targeted inspections and meter replacements, implementing a communication program with local communities and modernizing our facilities to reduce tampering, especially in areas where energy theft has been more prevalent, such as in the conflict zones. We also intend to reduce technical losses by investing in the modernization of Energuate’s transmission grid and distribution system. For more information related to our planned investments in Energuate, see “—Capital Expenditures—Capital Expenditures of Our Guatemalan Distribution Business.”

***Effects of Outstanding Indebtedness, Including Financial Leases***

Our total outstanding consolidated indebtedness was US\$2,526 million and US\$2,546 million as of June 30, 2017 and December 31, 2016, respectively.

We originally financed our acquisition of the Kallpa I, II and III turbines and the Las Flores plant through financial leases. As a result, we recognized these turbines and power plant as property, plant and equipment and recognized the related lease obligations as loans from banks and others, but did not recognize any cash flow from financing activities upon our entry into these financing agreements. Payments under these leases were recognized in our statement of cash flows as cash flows from financing activities at the time that these payments were made. The Kallpa I lease matured in March 2016. In May 2016, the proceeds of the Kallpa 2026 Notes were principally used to repay all of Kallpa’s outstanding debt (including the Kallpa II and Kallpa III leases and its short-term debt), other than debt relating to the Las

Flores lease. Payments under the Las Flores lease continue to be recognized in our statement of cash flows as cash flows from financing activities at the time that these payments are made.

We are also committed to expanding our operations by developing greenfield assets in accordance with three fundamental principles described under “Business—Potential Projects,” one of which includes securing long term project financing agreements to finance our development efforts. These financing agreements are generally stand alone, secured, project-specific, and with no or limited recourse to our company. We expect that our commitment to our operational expansion will result in the incurrence of additional indebtedness, which may, in turn, result in an increase in our outstanding consolidated indebtedness.

Furthermore, as we continue to develop our assets by (1) drawing down on our existing credit facilities with third parties, or (2) securing additional third party financing, as discussed above, to fund our capital expenditures with respect to new assets or projects, we may experience an increase in interest costs. Many of our debt agreements have floating interest rates (e.g., many of the debt instruments bear interest rates based on LIBOR) and, notwithstanding any interest rate swaps which we have entered, or may enter, into to address this risk, a continued increase in interest rates could increase our interest expenses and the cost of the capital required to continue to fund our development and expansion efforts. Other than with respect to an aggregate of US\$210 million and US\$176 million of our outstanding indebtedness as of June 30, 2017 and December 31, 2016, respectively (representing some or all of the indebtedness of certain of our subsidiaries, including DEOCSA, DEORSA and COBEE, among others), our outstanding indebtedness is either denominated in, indexed to, or the subject of interest rate swaps tied to, the U.S. dollar. For further information on our outstanding indebtedness, including the interest rate and currency applicable to our material indebtedness, see “—Recent Developments” and “—Material Indebtedness.”

### ***Gain on Bargain Purchase***

Our development strategy contemplates the acquisition of energy assets in attractive markets, from time to time, in connection with our capacity expansion efforts. Based upon the difference between the amount paid, which we record in connection with our acquisition of such assets, and the net asset fair value, we may recognize a gain on bargain purchase at the purchase date.

For the six months ended June 30, 2017 and the years ended December 31, 2016 and 2015, we did not recognize a gain on bargain purchase. For the year ended December 31, 2014, we recognized gains on bargain purchases of US\$24 million, US\$24 million and US\$20 million in connection with our acquisitions of ICPNH in March 2014, JPPC in May 2014 and Puerto Quetzal in September 2014, respectively.

### ***Income Taxes***

Under Bermuda law, Inkia does not pay income tax. We operate through various subsidiaries in several countries and, as a result, are subject to income tax in each jurisdiction in which we have operations. The following table sets forth the corporate income tax rates applicable to us as of December 31, 2016, 2015 and 2014 in each of the countries in which we operate:

|                         | <b>For the Year Ended December 31,</b> |             |             |
|-------------------------|--|-------------|-------------|
|                         | <b>2016</b>                            | <b>2015</b> | <b>2014</b> |
|                         | (%)                                    |             |             |
| Peru(1).....            | 28                                     | 28          | 30          |
| Nicaragua(2).....       | 25                                     | 25          | 25          |
| Bolivia.....            | 25                                     | 25          | 25          |
| Chile(3).....           | 24                                     | 22.5        | 21          |
| El Salvador.....        | 30                                     | 30          | 30          |
| Panama.....             | 25                                     | 25          | 25          |
| Guatemala.....          | 25                                     | 25          | 28          |
| Dominican Republic..... | 27                                     | 27          | 28          |
| Jamaica(4).....         | 33.3                                   | 33.3        | 33.3        |



|                   | <b>For the Year Ended December 31,</b> |             |             |
|-------------------|--|-------------|-------------|
|                   | <b>2016</b>                            | <b>2015</b> | <b>2014</b> |
| Colombia(5) ..... | 34                                     | 34          | 34          |

- (1) The corporate income tax rate in Peru decreased to 28% in 2015 and increased to 29.5% in 2017. The dividend tax rate increased to 6.8% in 2015 and decreased to 5% in 2017. Profits generated during 2015 and 2016 were subject to a dividend tax rate of 6.8%. Distributions of profits for 2014 were subject to a tax rate of 4.1%. Kallpa, CDA and Samay I entered into legal stability agreements with the relevant tax authority in Peru pursuant to which, during the term of the corresponding agreement, Kallpa, CDA and Samay I, respectively, would be subject to the income tax regime in place at the time each such agreement was entered into, which stipulates a 30% income tax rate, and not the general income tax regime applicable to other firms in Peru. Kallpa terminated its stability agreement in December 2016, and the stability agreements of Kallpa (formerly known as CDA) and Samay I expire in 2022 and 2024, respectively. Only after Kallpa's and Samay I's tax agreements expire, or if Kallpa and Samay I terminate the corresponding agreement, will they be subject to the general income tax regime of Peru and receive the benefit of the changes in the Peruvian income tax rates described above.
- (2) The corporate statutory tax rate in Nicaragua in 2014-2016 was 30%. However, Corinto and Tipitapa Power are subject to 25% income tax, based on a Foreign Investment Agreement signed in June 2000 and August 1999, respectively, which protects them from any unfavorable changes in the tax law. In addition, Amayo I and Amayo II were exempt from income tax payments, in accordance with Law No.532 for Electric Power Generation with Renewable Sources Incentive, from the dates of their CODs until March 2016 for Amayo I and March 2017 for Amayo II.
- (3) The corporate income tax rate in Chile increased to 22.5% in 2015, 24% in 2016, and 25.5% in 2017 for shareholders on the cash-basis method, such as the shareholders of Colmito and Central Cardones. The corporate income tax rate is scheduled to increase to 27% in 2018 for shareholders on the cash-basis method.
- (4) 33.3% is the rate applied to regulated companies in Jamaica, such as JPPC.
- (5) The corporate income tax rate in Colombia is 34%. Until last year, the aggregate income tax rate was composed of a base corporate income tax rate of 25% plus an "income tax for equality," or CREE, which is taxed at a rate of 9%. The CREE was repealed by Law 1819. The aggregate rate for 2017 is 40%, composed of the corporate income tax rate (34%) plus a temporary rate (6%) applicable on income in excess of 800 million Colombian pesos (approximately US\$272 million). The corporate income tax rate is expected to decrease to 33% from 2018 onwards, and the temporary rate is expected to go down to 4% in 2018 and eliminated in 2019, effectively representing an aggregate income tax rate of approximately 37% in 2018 and 33% in 2019.

For further information on the tax rates, including withholding tax rates, applicable to our operating companies, see note 25 to our audited financial statements included elsewhere in this offering memorandum.

### **Seasonality**

Within the Latin American and the Caribbean countries in which we have generation operations, power is generally generated by hydroelectric or thermal power stations. The hydroelectric stations are an efficient source of power generation due to the cost savings of fuel associated with thermal power generation. The power generated by these hydroelectric power stations varies in accordance with the rainy seasons and rainfall patterns of each country in each year. For example, greater amounts of hydroelectric power are dispatched between November and April in Peru—the Peruvian rainy season—than between May and October, when the volumes of rainfall declines and operators have less water available for electricity generation in the reservoirs serving their plants. During periods of lesser rainfall, greater volumes of thermoelectric power are dispatched. Therefore, our Kallpa thermal plant and Las Flores plant provide our Peruvian generation business with a hedge during drier periods (in which less hydroelectric power is generally dispatched), while our CDA plant provides our Peruvian generation business with a hedge during the rainy season (in which less thermoelectric power is generally dispatched).

By contrast, in El Salvador greater amounts of hydroelectric power are dispatched between May and October—the Salvadorian rainy season—than between November and April, when the volumes of Salvadorian rainfall declines and the hydroelectric units have less water available for electricity generation. El Salvador's hydroelectric plant is also subject to annual variations depending on climactic conditions, such as the El Niño phenomenon. For the same reasons, the volume of power generated by thermal power stations is also variable. Furthermore, our Nicaraguan assets which rely on wind

generate less volume of power during the Nicaraguan rainy season between May and October, as those months tend to experience less wind. Accordingly, our revenues are subject to seasonality, the effects of rainfall, and the type of energy generated in each country of operation (whether hydroelectric or thermal, and whether generated using natural gas, HFO or diesel). Although we act to reduce this exposure to seasonality by contracting long-term PPAs for most of our capacity, this effect cannot be completely neutralized.

Seasonality does not have a significant impact on the demand for electricity in Energuate's service area. Demand for electricity is consistent throughout the year due to a steady number of daylight hours throughout the year and limited use of heating and air conditioning systems within Energuate's service areas.

### ***Effects of Discontinued Operations***

In September 2014, we completed the sale of our indirect equity interest in Edegel for US\$413 million (which resulted in our recognition of US\$110 million of profit). As a result, the results of operations of Generandes (the entity through which we held our indirect equity interest in Edegel) are reflected as discontinued operations in our audited financial statements included elsewhere in this offering memorandum.

### **Recent Developments**

#### ***CDA Bond***

On August 16, 2017, CDA issued US\$650 million of the Kallpa 2027 Notes. The proceeds of the notes were principally used to repay all amounts outstanding under the CDA Finance Facility, to unwind interest rate swap agreements associated with the CDA Finance Facility, and to repay certain loans made by us and our minority partner in CDA. Interest on these notes is payable in arrears in February and August of each year. Principal will be fully paid at maturity.

#### ***Kallpa Merger with CDA***

On August 16, 2017, Kallpa merged with and into CDA with CDA as the surviving entity. CDA has assumed all of the outstanding debt obligations of Kallpa. In September 2017, the merger was registered with the Peruvian public registries and CDA changed its corporate name to Kallpa Generación S.A.

#### ***Tender Offer and Consent Solicitation for the Inkia 2021 Notes***

Concurrently with this offering, Inkia has commenced the tender offer for any and all of the Inkia 2021 Notes, of which US\$450 million in aggregate principal amount is outstanding, subject to certain terms and conditions of the tender offer, including the consummation of this offering. The total consideration to be paid per US\$1,000 of the Inkia 2021 Notes validly tendered and accepted for purchase in the tender offer (including an early tender payment of US\$30.00) is US\$1,031.67 plus accrued and unpaid interest to, but excluding, the date of repurchase. The deadline for holders of the Inkia 2021 Notes to validly tender their notes, deliver consents and be eligible to receive the total consideration (including the early tender payment), will be at 5:00 pm, New York City time, on November 8, 2017, unless extended by us. Holders who tender their Inkia 2021 Notes after the early tender deadline but at or prior to the expiration date will be eligible to receive the tender consideration, which is equal to the total consideration minus the early tender payment. As of the date of this offering memorandum, Inkia intends to issue a redemption notice on the early settlement date to redeem any and all notes not purchased in the tender offer following the early settlement date. The tender offer is scheduled to expire at 11:59 p.m., New York City time, on November 22, 2017, unless extended by us. Inkia intends to fund the purchase of the Inkia 2021 Notes validly tendered and accepted for purchase in the tender offer with a portion of the net proceeds from this offering.

This offering memorandum is neither an offer to purchase nor a solicitation of an offer to sell or buy the Inkia 2021 Notes. The offer to purchase the Inkia 2021 Notes is being made solely on the terms and subject to the conditions set forth in a separate offer to purchase and consent solicitation statement that is directed to holders of the Inkia 2021 Notes.

## Operating Results

The following discussion of our results of operations is based on our unaudited condensed consolidated financial statements and our audited consolidated financial statements, each prepared in accordance with IFRS as issued by the IASB. The discussion of the results of our business lines is based upon the financial information reported for each of the segments of our business lines, and is presented in the tables below, which set forth the results of each of our business lines and, where applicable, their segments and the reconciliation of these results of our segments to our consolidated results of operations. However, as our Other segment is primarily composed of the financial results of certain of our generation assets and their related holding companies, we analyze the results of our Other segment within our discussion of the results of our generation business.

For all periods prior to the completion of our acquisition of Energuate, we operated one business line (generation) and evaluated this business line according to three geographic segments, as set forth below. However, since January 22, 2016, the date on which we completed our acquisition of Energuate, our results of operations reflect an additional business line (distribution), which we evaluate according to its sole segment, distribution. Our distribution business and its segment consists entirely of DEORSA and DEOCSA. Our segment information for all periods has been prepared on the same basis as the information that our senior management uses to allocate resources among segments and evaluate their performance. We evaluate and manage the performance of our segments based on information generated from our statutory accounting records maintained in accordance with IFRS, and reflected in our consolidated financial statements.

In the following discussion, references to increases or declines in any period are made by comparison with the corresponding prior period, except as the context otherwise indicates.

### *Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016*

The following table sets forth the components of our consolidated income statement, as well as the percentage change from the prior year, for six-month periods ended June 30, 2017 and 2016.

|   | <b>For the Six-Month Period<br/>Ended June 30,</b> |             |            |
|---|--|-------------|------------|
|   | <b>2017</b>  | <b>2016</b> | <b>%</b>   |
|   | <b>(US\$ in millions)</b>                          |             |            |
| Revenue.....  | 882  | 696         | 27         |
| Cost of sales (including depreciation and amortization and impairment)..... | (693)  | (557)       | 24         |
| Gross profit.....   | 189  | 139         | 36         |
| Selling, general and administrative expenses.....                           | (56)   | (46)        | 22         |
| Other income, net.....  | 56   | 5           | 102        |
| Profit from operating activities.....                                       | 189  | 98          | 93         |
| Finance income.....   | 14   | 5           | 180        |
| Finance costs.....  | (91)   | (63)        | 44         |
| Finance costs, net.....   | (77)   | (58)        | 33         |
| Share of profit in associate.....   | 1  | —           | n.m.       |
| Profit before income tax.....   | 113  | 40          | 183        |
| Income taxes.....   | (47)   | (20)        | 135        |
| <b>Profit for the period.....</b>   | <b>66</b>  | <b>20</b>   | <b>230</b> |

n.m. Not meaningful.

The following tables set forth the results of each of our segments and a reconciliation to our consolidated income statement for the six-month periods ended June 30, 2017 and 2016.

**For the Six Month Ended June 30, 2017**

|  | Peru               | Central<br>America | Other(1) | Distribution | Adjustments<br>(2) | Consolidated<br>Results |
|--|--------------------|--------------------|----------|--------------|--------------------|-------------------------|
|  | (US\$ in millions) |                    |          |              |                    |                         |
| Revenue.....   | 342                | 174                | 88       | 280          | (2)                | 882                     |
| Cost of sales (including depreciation and<br>amortization and impairment)..... | (229)              | (150)              | (95)     | (227)        | 8                  | (693)                   |
| Gross profit.....  | 113                | 24                 | (7)      | 53           | 6                  | 189                     |
| Selling, general and administrative<br>expenses.....                           | (17)               | (7)                | (15)     | (18)         | 1                  | (56)                    |
| Other income, net.....   | 41                 | (1)                | 5        | 2            | 9                  | 56                      |
| Profit from operating activities.....  | 137                | 16                 | (17)     | 37           | 16                 | 189                     |
| Finance income.....  | 3                  | —                  | 2        | 9            | —                  | 14                      |
| Finance costs.....   | (42)               | (6)                | (27)     | (16)         | —                  | (91)                    |
| Share of profit in associate.....  | —                  | —                  | 1        | —            | —                  | 1                       |
| Profit before income tax.....  | 98                 | 10                 | (41)     | 30           | 16                 | 113                     |
| Income taxes.....  | (26)               | (5)                | (1)      | (14)         | (1)                | (47)                    |
| Profit for the year.....   | 72                 | 5                  | (42)     | 16           | 15                 | 66                      |
| Adjusted EBITDA.....   | 172                | 32                 | 25       | 48           | —                  | 277                     |

- (1) In addition to the results of certain of our generation assets, our Other segment also includes expenses and other adjustments relating to our headquarters and intermediate holding companies, including purchase price allocations recorded in connection with our acquisition of Energuate. However, as our Other segment is primarily composed of the financial results of certain of our generation assets and their related holding companies, we analyze the results of our Other segment within our discussion of the results of our generation business.
- (2) Adjustments to cost of sales correspond to the eliminations of the depreciation effect of revalued assets on a stand-alone basis as these assets are measured under the cost method for consolidation purposes.

**For the Six Month Ended June 30, 2016**

|   | Peru               | Central<br>America | Other(1) | Distribution | Adjustments | Consolidated<br>Results |
|---|--------------------|--------------------|----------|--------------|-------------|-------------------------|
|   | (US\$ in millions) |                    |          |              |             |                         |
| Revenue.....  | 236                | 156                | 73       | 232          | (1)         | 696                     |
| Cost of sales (including depreciation and<br>amortization)..... | (176)              | (138)              | (62)     | (187)        | 6           | (557)                   |
| Gross profit.....   | 60                 | 18                 | 11       | 45           | 5           | 139                     |
| Selling, general and administrative<br>expenses.....            | (9)                | (8)                | (13)     | (16)         | —           | (46)                    |
| Other income, net.....  | —                  | —                  | 3        | 2            | —           | 5                       |
| Profit from operating activities.....                           | 51                 | 10                 | 1        | 31           | 5           | 98                      |
| Finance income.....   | 2                  | —                  | 2        | 1            | —           | 5                       |
| Finance costs.....  | (25)               | (7)                | (20)     | (11)         | —           | (63)                    |
| Share of profit in associate.....                               | —                  | —                  | —        | —            | —           | —                       |
| Profit before income tax.....                                   | 28                 | 3                  | (17)     | 21           | 5           | 40                      |
| Income taxes.....   | (8)                | (3)                | (2)      | (6)          | (1)         | (20)                    |
| Profit for the year.....  | 20                 | —                  | (19)     | 15           | 4           | 20                      |
| Adjusted EBITDA.....  | 76                 | 28                 | 19       | 39           | —           | 162                     |

- (1) In addition to the results of certain of our generation assets, our Other segment also includes expenses and other adjustments relating to our headquarters and intermediate holding companies, including purchase price allocations recorded in connection with our acquisition of Energuate. However, as our Other segment is primarily composed of the financial results of certain of our generation assets and their related holding companies, we analyze the results of our Other segment within our discussion of the results of our generation business.

- (2) Adjustments to cost of sales correspond to the eliminations of the depreciation effect of revalued assets on a stand-alone basis as these assets are measured under the cost method for consolidation purposes.

### **Revenue**

Our revenue increased by US\$186 million, or 27%, to US\$882 million during the six-month period ended June 30, 2017 from US\$696 million during the corresponding period of 2016, primarily due to (1) our recognizing revenue related to our CDA plant, which reached its COD in August 2016, of US\$59 million during the six-month period ended June 30, 2017, (2) our recognizing revenue related to our Samay I plant, which reached its COD in May 2016, of US\$50 million during the six-month period ended June 30, 2017, and (3) a US\$48 million, or 21% increase in revenue from Energuate as a result of an increase in sales volume and the appreciation of the Guatemalan *Quetzal* against the U.S. dollar.

### **Generation Business**

Our revenues from our generation business (including the Other segment, but excluding eliminations) increased to US\$604 million for the six-month period ended June 30, 2017 from US\$465 million for the corresponding period of 2016, as discussed in further detail below:

#### Peru Segment

Revenue from our Peru segment increased by US\$106 million, or 45%, to US\$342 million for the six-month period ended June 30, 2017 from US\$236 million for the corresponding period of 2016, primarily as a result of a US\$109 million increase in contributions to revenues during the six-month period ended June 30, 2017 from our CDA and Samay I plants which reached COD in August 2016 and May 2016, respectively.

These effects were partially offset by a US\$3 million, or 1%, decline in Kallpa's revenue to US\$225 million during the six-month period ended June 30, 2017 from US\$228 million during the corresponding period of 2016, principally as a result of a US\$12 million, or 8%, decline in Kallpa's revenue from energy sales to US\$135 million the six-month period ended June 30, 2017 from US\$147 million during the corresponding period in 2016, resulting from:

- a 4% decline in the volume of energy sold by Kallpa to 3,195 GWh during the six-month period ended June 30, 2017 from 3,328 GWh during the corresponding period in 2016; and
- a US\$2 per MWh, or 5%, decline in Kallpa's average energy price to US\$42 per MWh during the six-month period ended June 30, 2017 from US\$44 per MWh during the corresponding period in 2016, principally a result of an adjustment in the PPA prices for our non-regulated clients as a result of the decline in natural gas prices, as well as the existing excess supply of capacity in Peru during 2017.

These effects were partially offset by a US\$3 million increase in Kallpa's capacity sales and a US\$6 million increase in toll revenues, both of which resulted from the commencement of a new PPA during the second quarter of 2017.

#### Central America Segment

Revenue from our Central America segment increased by US\$18 million, or 12%, to US\$174 million for the six-month period ended June 30, 2017 from US\$156 million for the corresponding period of 2016, primarily as a result of:

- a US\$9 million, or 24%, increase in Nejapa's revenue to US\$47 million during the six-month period ended June 30, 2017 from US\$38 million during the corresponding period in 2016, principally as a result of a US\$29 per MWh, or 40%, increase in Nejapa's average energy price to US\$101 per MWh during the six-month period ended June 30, 2017 from US\$72 per MWh during the corresponding period in 2016 due to adjustments in PPA prices as a result of an increase in HFO prices. The effect of these price increases was partially offset by a 6% decline in the total volume of energy sold by Nejapa to 405 GWh during the six-month period ended June 30, 2017 from 432 GWh during the corresponding period in 2016.
- a US\$6 million, or 19%, increase in Kanan's revenue to US\$38 million during the six-month period ended June 30, 2017 from US\$32 million during the corresponding period in 2016, principally as a result of a

US\$26 per MWh, or 28%, increase in Kanan's average energy price to US\$118 per MWh during the six-month period ended June 30, 2017 from US\$92 per MWh during the corresponding period in 2016 due to adjustments in PPA prices as a result of an increase in HFO prices. The effect of these price increases was partially offset by a 4% decline in the total volume of energy sold by Kanan to 262 GWh during the six-month period ended June 30, 2017 from 273 GWh during the corresponding period in 2016.

- a US\$5 million, or 11%, increase in ICPNH's revenue to US\$49 million during the six-month period ended June 30, 2017 from US\$44 million during the corresponding period in 2016, principally as a result of (1) a US\$6 million, or 20%, increase in ICPNH's revenue from energy sales of its thermal plants as a result of a US\$26 per MWh, or 44%, increase in the average energy prices of these plants to US\$85 per MWh during 2016 from US\$59 per MWh during 2015 due to adjustments in PPA prices as a result of an increase in HFO prices. The effect of these price increases was partially offset by a 11% decline in the total volume of energy sold by these plants to 330 GWh during the six-month period ended June 30, 2017 from 371 GWh during the corresponding period in 2016, mainly as a result of preventative maintenance at the Corinto and Tipitapa plants and lower wind levels at the Amayo plants.

These increases were partially offset by a US\$11 million, or 35%, decline in Puerto Quetzal's revenue to US\$20 million during the six-month period ended June 30, 2017 from US\$31 million during the corresponding period in 2016, principally as a result of a 70% decline in spot market sales due to the effects of the entry of new generation capacity with lower marginal cost in Guatemala, which affects Puerto Quetzal's position in the dispatch order of Guatemala and led to a 26% decline in the total volume of energy sold by Puerto Quetzal to 283 GWh during the six-month period ended June 30, 2017 from 381 GWh during the corresponding period of 2016. The effects of this decrease were partially offset by a US\$23 per MWh, or 40%, increase in Puerto Quetzal's average energy price to US\$81 per MWh during the six-month period ended June 30, 2017 from US\$58 per MWh during the corresponding period of 2016 as a result of an increase in HFO prices.

#### Other Segment

Revenue from our Other segment increased by US\$15 million, or 21%, to US\$88 million for the six-month period ended June 30, 2017 from US\$73 million for the corresponding period of 2016, primarily as a result of:

(1) an increase in JPPC revenue due to higher energy prices and (2) higher revenues in CEPP as a result of the volume of energy sold.

- a US\$9 million, or 60%, increase in JPPC's revenue to US\$24 million during the six-month period ended June 30, 2017 from US\$15 million during the corresponding period in 2016, principally as a result of a US\$38 per MWh, or 68%, increase in JPPC's average energy price to US\$94 per MWh during the six-month period ended June 30, 2017 from US\$56 per MWh during the corresponding period in 2016 due to adjustments in PPA prices as a result of an increase in HFO prices.
- a US\$5 million, or 38%, increase in CEPP's revenue to US\$18 million during the six-month period ended June 30, 2017 from US\$13 million during the corresponding period in 2016, principally as a result of (1) a 21 GWh, or 14%, increase in the volume of energy sold by CEPP to 169 GWh during the six-month period ended June 30, 2017 from 147 GWh during the corresponding period in 2016, primarily as a result of sales under two short term PPAs entered into in November 2016 and March 2017, and (2) a US\$28 per MWh, or 46%, increase in CEPP's average energy price to US\$89 per MWh during the six-month period ended June 30, 2017 from US\$61 per MWh during the corresponding period in 2016 due to an increase in spot market energy prices as a result of an increase in HFO prices.

#### *Distribution Business*

Revenue from our distribution business increased by US\$48 million, or 21%, to US\$280 million for the six-month period ended June 30, 2017 from US\$232 million for the corresponding period of 2016, primarily as a result of (1) an 8% increase in the average base rate of low-voltage tariffs, (2) a 67% increase in the average base rate of medium-voltage tariffs, (3) the 4% appreciation in the Guatemalan *Quetzal* against the U.S. dollar, and (4) the consolidation of

the results of Energuate for the full six-month period ended June 30, 2017 compared to five months of the corresponding period in 2016.

***Cost of Sales (Including Depreciation and Amortization and Impairment)***

Our cost of sales (excluding depreciation and amortization and impairment) increased by US\$103 million, or 21%, to US\$603 million for the six-month period ended June 30, 2017 from US\$500 million for the corresponding period of 2016, primarily due to (1) a US\$37 million, or 20% increase in cost of sales of Energuate as a result of the appreciation in the Guatemalan *Quetzal* against the U.S. dollar, an increase in Energuate’s energy purchase expenses due to the increase in the energy sold and the consolidation of the results of Energuate for the full six-month period ended June 30, 2017 compared to five months of the corresponding period in 2016; and, (2) our recording cost of sales related to our CDA and Samay I plants of US\$56 million during the six-month period ended June 30, 2017 as a result of the respective CODs of these plants during 2016.

The depreciation and amortization expenses included in our cost of sales increased by US\$13 million, or 23%, to US\$70 million for the six-month period ended June 30, 2017 from US\$57 million for the corresponding period of 2016.

We recognized a US\$20 million impairment charge during the six-month period ended June 30, 2017 in respect of Inkia’s impairment of Samay III S.A.’s Colombian assets. For further information, see “—Critical Accounting Policies and Significant Estimates—Impairment Analysis.” We did not recognize any impairment during the six-month period ended June 30, 2016.

The following table shows our cost of sales (including depreciation and amortization and impairment) for the periods indicated.

|                                    | <b>For the Six-Month Period<br/>Ended June 30,</b> |             |           |
|------------------------------------|--|-------------|-----------|
|                                    | <b>2017</b>  | <b>2016</b> | <b>%</b>  |
|                                    | <b>(US\$ in millions)</b>                          |             |           |
| Energy and capacity purchases..... | 280  | 231         | 21        |
| Fuel, gas and lubricants.....      | 166  | 139         | 19        |
| Transmission costs.....            | 71   | 57          | 25        |
| Depreciation and amortization..... | 70   | 57          | 21        |
| Impairment.....                    | 20   | —           | n.m.      |
| Personnel expenses.....            | 28   | 26          | 8         |
| Maintenance expenses.....          | 21   | 23          | (9)       |
| Third party services.....          | 17   | 11          | 55        |
| Regulatory expenses.....           | 7  | 5           | 40        |
| Insurance.....                     | 7  | 3           | 133       |
| Intermediation fees.....           | —  | 5           | n.m.      |
| Other operating expenses.....      | 6  | —           | n.m.      |
| <b>Total.....</b>                  | <b>693</b>   | <b>557</b>  | <b>24</b> |

n.m. Not meaningful.

***Generation Business***

Our cost of sales (excluding depreciation and amortization and impairment) from our generation business (including the Other segment, but excluding eliminations) increased to US\$387 million for the six-month period ended June 30, 2017 from US\$320 million for the corresponding period of 2016, as discussed in further detail below:

## Peru Segment

Cost of sales (excluding depreciation and amortization and impairment) from our Peru segment increased by US\$43 million, or 28%, to US\$195 million for the six-month period ended June 30, 2017 from US\$152 million for the corresponding period of 2016, primarily as a result of a US\$56 million increase in the contribution to cost of sales of Samay I and CDA, which reached COD in May 2016 and August 2016, respectively.

These effects were partially offset by a US\$13 million, or 9%, decline in the contribution to cost of sales of Kallpa, primarily as a result of:

- an 86% decline in Kallpa's natural gas, transportation and distribution expenses, due to a 1,102 GWh, or 38%, decline in the volume of Kallpa's net energy generation to 1,834 GWh during the six-month period ended June 30, 2017 from 2,936 GWh during the corresponding period of 2016 as a result of its displacement in the dispatch order by new hydroelectric capacity (including our CDA plant), the effects of which were partially offset by the additional gas transportation costs that we incurred beginning in April 2016 under our gas transportation contract relating to the increase in our firm capacity which is contracted on a take-or-pay basis; and
- a 46% decline in Kallpa's energy purchase costs as a result of higher income due to higher spinning reserve, despite a 969 GWh, or 248%, increase in Kallpa's net energy purchases as a result of the reduction in net energy generated by Kallpa.

The depreciation and amortization expenses included in cost of sales of our Peru segment increased by US\$10 million, or 42%, to US\$34 million during the six-month period ended June 30, 2017 from US\$24 million during the corresponding period of 2016, primarily as a result of depreciation expenses associated with our CDA and Samay I plants, which reached COD in August 2016 and May 2016, respectively, the effects of which were partially offset by a decline in Kallpa's depreciation and amortization expenses as a result of a change in the estimated useful life of its spare parts, which was recorded in the fourth quarter of 2016.

## Central America Segment

Cost of sales (excluding depreciation and amortization and impairment) of our Central America segment increased by US\$14 million, or 12%, to US\$135 million for the six-month period ended June 30, 2017 from US\$121 million for the corresponding period of 2016, primarily as a result of a US\$9 million, or 36% increase in cost of sales of ICPNH's thermal plants, and a US\$2 million increase in El Salvador's cost of sales due to higher energy purchases.

Energy and capacity purchases of our Central America segment increased to US\$71 million during the six-month period ended June 30, 2017 from US\$49 million during the corresponding period in 2016, primarily as a result of a 350 GWh, or 70%, increase in energy purchases by our generation plants, principally due to the decline in net energy generated by these plants, and an increase in spot market prices in the countries in which we operate.

Fuel, gas and lubricant costs of our Central America segment declined to US\$33 million during the six-month period ended June 30, 2017 from US\$47 million during the corresponding period in 2016, primarily as a result of a 527 GWh, or 55%, decline in net energy generated by our plants using HFO to 432 GWh during the six-month period ended June 30, 2017 from 959 GWh during the corresponding period in 2016, led by a 209 GWh, or 91% decline in Nejapa's net energy generation, a 189 GWh, or 75%, decline in PQP's net energy generation, a 76 GWh, or 65% decline in Kanan's net energy generation, and a 34 GWh, or 10% decline in ICPNH's thermal plants net energy generation, each as a result of the effects of the increase in HFO prices on the marginal prices of energy generated by these plants; in the cases of PQP and Nejapa, the entry of new capacity with lower marginal cost in Guatemala (some of which is exported to El Salvador), each of which affects the position of our plants in the dispatch order of their respective countries; and in the case of Kanan, the unavailability of Kanan's barges since April 2017. These effects were partially offset by a 69% increase in average HFO prices to US\$44 per barrel during the six-month period ended June 30, 2017 from US\$26 per barrel during the corresponding period in 2016, according to the Platts, McGraw Hill Financial Index.



Third party services costs of our Central America segment increased to US\$6 million during the six-month period ended June 30, 2017 from US\$3 million during the corresponding period in 2016, as a result of cleanup costs of Kanan as a consequence of the fire, and higher expenses in ICPNH related to the re-entry into service of an engine at one of ICPNH' plants in February 2017 following a breakdown of this engine in March 2016.

The depreciation and amortization expenses included in cost of sales of our Central America segment declined by US\$2 million, or 12%, to US\$15 million during the six-month period ended June 30, 2017 from US\$17 million during the corresponding period of 2016, primarily as a result of a US\$2 million decline in Kanan's depreciation due to the unavailability of Kanan's power barges since April 2017.

#### Other Segment

Cost of sales (excluding depreciation and amortization and impairment) of our Other segment increased by US\$10 million, or 21%, to US\$57 million for the six-month period ended June 30, 2017 from US\$47 million for the corresponding period of 2016, primarily as a result of (1) an US\$8 million, or 114% increase in fuel, gas and lubricant costs of JPPC due to a 20% increase in JPPC's net energy generation to 192 GWh during the six-month period ended June 30, 2017 from 160 GWh during the corresponding period in 2016, and a 69% increase in average HFO prices to US\$44 per barrel during the six-month period ended June 30, 2017 from US\$26 per barrel during the corresponding period in 2016, according to the Platts, McGraw Hill Financial Index, and (2) a US\$2 million, or 33%, increase in CEPP's fuel, gas and lubricant costs due to higher HFO prices despite a 29% decline in CEPP's net energy generation.

The depreciation and amortization expenses included in cost of sales of our Other segment increased by US\$3 million, or 50%, to US\$18 million during the six-month period ended June 30, 2017 from US\$15 million during the corresponding period of 2016, primarily as a result of (1) a change in the estimated useful life of COBEE's assets, which was made during the first quarter of 2017; (2) the depreciation and amortization of purchase price adjustments made in connection with our acquisition of our distribution business in January 2016; and (3) the recognition of the amortization of the interest expenses and transaction costs capitalized during the construction of the CDA plant following its COD in August 2016.

#### *Distribution Business*

Cost of sales (excluding depreciation and amortization and impairment) of our distribution business increased by US\$37 million, or 20%, to US\$218 million for the six-month period ended June 30, 2017 from US\$181 million for the corresponding period of 2016, primarily as a result of the appreciation in the Guatemalan *Quetzal* against the U.S. dollar, an increase in Energuate's energy purchase expenses due to the increase in the energy sold and the consolidation of the results of Energuate for the full six-month period ended June 30, 2017 compared to five months of the corresponding period in 2016.

The depreciation and amortization expenses included in cost of sales of our distribution business increased by US\$3 million, or 50%, to US\$9 million during the six-month period ended June 30, 2017 from US\$6 million during the corresponding period of 2016, primarily as a result of the consolidation of the results of Energuate for the full six-month period ended June 30, 2017, compared to approximately five months following its acquisition during the corresponding period of 2016.

#### ***Selling, General and Administrative Expenses***

Our selling, general and administrative expenses (including depreciation and amortization) increased by US\$10 million, or 22%, to US\$56 million during the six-month period ended June 30, 2017 from US\$46 million during the corresponding period of 2016, primarily as a result of

- a US\$8 million, or 89%, increase in our Peru segment's selling, general and administrative expenses, primarily as a result of Samay I and CDA's respective CODs in August 2016 and May 2016; and
- a US\$2 million, or 13%, increase in our distribution business' selling, general and administrative expenses, primarily as a result of the consolidation of the results of Energuate for the full six month period ended June

30, 2017 compared to approximately five months following its acquisition during the corresponding period in 2016.

### ***Other Income, Net***

Our other income, net increased by US\$51 million to US\$56 million during the six-month period ended June 30, 2017 from US\$5 million during the corresponding period of 2016.

During the six-month period ended June 30, 2017, our other income, net consisted primarily of:

- a US\$40 million settlement of liquidated damages as a result of the agreement between CDA and its EPC contractor to resolve the disputes concerning the liquidated damages under the EPC contract; as stated in this agreement, the EPC contractor agreed to pay US\$32 million as liquidated damages for delays and US\$8 million as liquidated damages for outages and stoppages of the generator sets;
- a US\$10 million adjustment in favor of our company as a result of the finalization of the working capital adjustment related to our acquisition of Energuate;
- an US\$8 million net gain on Kanan's write-off, which is the result of presenting the write-off of Kanan's original assets, net of the acquisition price of the power barge we expect Kanan to purchase from Puerto Quetzal and the insurance deductibles; and
- a US\$5 million accumulated foreign currency translation loss which was reclassified to profit and loss in connection to the sale of Samay III S.A.'s Colombian assets.

During the six-month period ended June 30, 2016, our other income, net consisted primarily of (1) payments from Energuate's energy suppliers as compensation to Energuate for the suppliers' disruptions in the supply of energy to Energuate, (2) a US\$2 million insurance payment received relating to the Sainani power plant in Bolivia, as the plant was temporarily out of service from March 2014 until August 2015.

### ***Profit from Operating Activities***

As a result of the above, our profit from operating activities increased by US\$91 million, or 93%, to US\$189 million during the six-month period ended June 30, 2017 from US\$98 million during the corresponding period of 2016. Our operating margin (representing profit from operating activities as a percentage of revenue) increased to 21% during the six-month period ended June 30, 2017 from 14% during the corresponding period of 2016.

### ***Finance Costs, Net***

Our finance costs, net, increased by US\$19 million, or 33%, to US\$77 million during the six-month period ended June 30, 2017 from US\$58 million during the corresponding period of 2016, as a result of a US\$28 million, or 44%, increase in finance costs, the effects of which were partially offset by a US\$9 million increase in finance income.

Our finance income increased by US\$9 million to US\$14 million during the six-month period ended June 30, 2017 from US\$5 million during the corresponding period of 2016, principally as a result of our recording foreign currency income, net of US\$10 million during the six-month period ended June 30, 2017, principally as a result of the effects of the appreciation of the Guatemalan *Quetzal* and the Peruvian *Soles* against the U.S. dollar on our financial assets denominated in local currencies.

Our finance costs increased to US\$91 million during the six-month period ended June 30, 2017 from US\$63 million during the corresponding period of 2016, principally as a result of a US\$28 million increase in interest expense on loans and bonds primarily as a result of (1) a US\$27 million increase as a result of our incurrence of interest expense on the facilities used to finance our CDA, Samay I and Kanan plants following their respective CODs, rather than capitalizing these expenses as part of our property plant and equipment as we were permitted to do prior to their respective CODs, (2) a US\$9 million increase as a result of our recording of interest expense on a portion of the Inkia 2021 Notes that we used to finance our CDA plant following its COD, rather than capitalizing these expenses as part of our property plant and

equipment as we were permitted to do prior to CDA's COD, and (3) a US\$5 million increase in interest expense for Energuate due to (a) our recognizing interest expense on the outstanding indebtedness of Energuate for the full six-month period ended June 30, 2017 compared to approximately five months following its acquisition during the corresponding period in 2016, and (b) the refinancing of Energuate's debt in May 2017. These effects were partially offset by a US\$12 million decrease in Kallpa's interest expenses due to additional expenses related to Kallpa's bond issuance in May 2016.

### ***Income Taxes***

Our tax expenses increased by US\$27 million to US\$47 million during the six-month period ended June 30, 2017 from US\$20 million during the corresponding period of 2016. The approximate weighted average tax rate for our operating companies declined to 30% during the three-month period ended June 30, 2017 from 37% during the corresponding period in 2016. For more information on the tax rates applicable to our company and its operating subsidiaries, see “—Material Factors Affecting Results of Operations—Income Taxes.”

Our effective tax rate declined to 42% during the six-month period ended June 30, 2017 from 49% during the corresponding period of 2016. The principal factors causing the deviation between our effective tax rate and the approximate weighted average tax rate for our operating companies during the three-month period ended June 30, 2017 were (1) the effects of expenses incurred by holding companies in jurisdictions with nil income tax, principally related to the interest expense on Inkia's bonds, ICPDH's loan agreement, the impairment loss recorded related to our subsidiary Surpetroil, the translation effect related to our Colombian assets sale and selling, general and administrative expenses incurred by our holding companies, which increased our effective tax rate, and (2) the effects of exempt income that we recorded (for example, the working capital adjustment related to our acquisition of Energuate), which reduced our effective tax rate.

The principal factors causing the deviation between our effective tax rate and the approximate weighted average tax rate for our operating companies during the six-month period ended June 30, 2016 were the effects of expenses incurred by holding companies in jurisdictions with nil income tax, principally related to the interest expense on Inkia's bonds and ICPDH's loan agreement, as well as selling, general and administrative expenses incurred by our holding companies, which increased our effective tax rate.

### ***Profit for the Period***

As a result of the factors described above, our profit increased by US\$46 million to US\$66 million during the six-month period ended June 30, 2017 from US\$20 million during the corresponding period of 2016. Our net margin (representing profit as a percentage of revenue) increased to 7% during the six-month period ended June 30, 2017 from 3% during the corresponding period of 2016.

### ***Year Ended December 31, 2016 Compared to Year Ended December 31, 2015***

The following table sets forth the components of our consolidated income statement, as well as the percentage change from the prior year, for the years ended December 31, 2016 and 2015.

|   | <b>For the Year Ended December 31,</b> |             |          |
|---|--|-------------|----------|
|   | <b>2016</b>                            | <b>2015</b> | <b>%</b> |
|   | <b>(US\$ in millions)</b>              |             |          |
| Revenue.....  | 1,517                                  | 963         | 58       |
| Cost of sales (including depreciation and amortization) ..... | (1,210)                                | (752)       | 61       |
| Gross profit.....   | 307                                    | 211         | 45       |
| Selling, general and administrative expenses .....            | (104)                                  | (60)        | 73       |
| Other income .....  | 20                                     | 10          | 100      |
| Other expenses .....  | (5)                                    | (6)         | (17)     |
| Profit from operating activities.....                         | 218                                    | 155         | 41       |
| Finance income .....  | 10                                     | 8           | 25       |

|  | <b>For the Year Ended December 31,</b> |             |          |
|--|--|-------------|----------|
|  | <b>2016</b>                            | <b>2015</b> | <b>%</b> |
|  | <b>(US\$ in millions)</b>              |             |          |
| Net gain from derivative financial instruments .....       | 2                                      | 1           | 100      |
| Finance costs .....  | (147)                                  | (89)        | 65       |
| Finance costs, net .....                                   | (135)                                  | (80)        | 69       |
| Share of profit in associate .....                         | 1                                      | —           | n.m.     |
| Profit before income tax and discontinued operations ..... | 84                                     | 75          | 12       |
| Income taxes .....   | (57)                                   | (41)        | 39       |
| Profit from continuing operations .....                    | 27                                     | 34          | (21)     |
| Profit from discontinued operations, net of tax .....      | —                                      | 4           | (100)    |
| Profit for the year .....                                  | <u>27</u>                              | <u>38</u>   | (29)     |

n.m. Not meaningful.

The following tables set forth the results of each of our segments and a reconciliation to our consolidated income statement for the years ended December 31, 2016 and 2015.

|   | <b>For the Year Ended December 31, 2016</b> |                        |                 |                     |                        | <b>Consolidated Results</b> |
|---|---|------------------------|-----------------|---------------------|------------------------|-----------------------------|
|   | <b>Peru</b>                                 | <b>Central America</b> | <b>Other(1)</b> | <b>Distribution</b> | <b>Adjustments (2)</b> |                             |
|   | <b>(US\$ in millions)</b>                   |                        |                 |                     |                        |                             |
| Revenue .....   | 528   | 326                    | 156             | 509                 | (2)                    | 1,517                       |
| Cost of sales (including depreciation and amortization) ..... | (382)                                       | (290)                  | (132)           | (418)               | 12                     | (1,210)                     |
| Gross profit .....  | 146   | 36                     | 24              | 91                  | 10                     | 307                         |
| Selling, general and administrative expenses .....            | (24)  | (15)                   | (29)            | (36)                | —                      | (104)                       |
| Other income, net .....                                       | 7   | —                      | —               | 8                   | —                      | 15                          |
| Profit from operating activities .....                        | 129   | 21                     | (5)             | 63                  | 10                     | 218                         |
| Finance income .....  | 2   | 1                      | 2               | 7                   | —                      | 12                          |
| Finance costs .....   | (65)  | (13)                   | (47)            | (22)                | —                      | (147)                       |
| Share of profit in associate .....                            | —   | —                      | 1               | —                   | —                      | 1                           |
| Profit before income tax and discontinued operations .....    | 66  | 9                      | (49)            | 48                  | 10                     | 84                          |
| Income taxes .....  | (33)  | (5)                    | (5)             | (13)                | (1)                    | (57)                        |
| Profit for the year .....                                     | <u>33</u>                                   | <u>4</u>               | <u>(54)</u>     | <u>35</u>           | <u>9</u>               | <u>27</u>                   |
| Adjusted EBITDA .....   | <u>189</u>                                  | <u>60</u>              | <u>32</u>       | <u>82</u>           | <u>—</u>               | <u>363</u>                  |

- (1) In addition to the results of certain of our generation assets, our Other segment also includes expenses and other adjustments relating to our headquarters and intermediate holding companies, including purchase price allocations recorded in connection with our acquisition of Energuate. However, as our Other segment is primarily composed of the financial results of certain of our generation assets and their related holding companies, we analyze the results of our Other segment within our discussion of the results of our generation business.
- (2) Adjustments to cost of sales correspond to the eliminations of the depreciation effect of revalued assets on a stand-alone basis as these assets are measured under the cost method for consolidation purposes.

|  | <b>For the Year Ended December 31, 2015</b> |                        |                 |                        | <b>Consolidated Results</b> |
|--|---|------------------------|-----------------|------------------------|-----------------------------|
|  | <b>Peru</b>                                 | <b>Central America</b> | <b>Other(1)</b> | <b>Adjustments (2)</b> |                             |
|  | <b>(US\$ in millions)</b>                   |                        |                 |                        |                             |

**For the Year Ended December 31, 2015**

|   | Peru               | Central<br>America | Other(1) | Adjustments<br>(2) | Consolidated<br>Results |
|---|--------------------|--------------------|----------|--------------------|-------------------------|
|   | (US\$ in millions) |                    |          |                    |                         |
| Revenue.....  | 448                | 336                | 179      | —                  | 963                     |
| Cost of sales (including depreciation and<br>amortization)..... | (328)              | (286)              | (148)    | 10                 | (752)                   |
| Gross profit.....   | 120                | 50                 | 31       | 10                 | 211                     |
| Selling, general and administrative expenses.....               | (19)               | (13)               | (28)     | —                  | (60)                    |
| Other income, net.....  | 1                  | 1                  | 2        | —                  | 4                       |
| Profit from operating activities.....                           | 102                | 38                 | 5        | 10                 | 155                     |
| Finance income.....   | 1                  | 1                  | 6        | —                  | 8                       |
| Finance costs.....  | (42)               | (11)               | (35)     | —                  | (88)                    |
| Share of profit in associate.....                               | —                  | —                  | —        | —                  | —                       |
| Profit before income tax and discontinued<br>operations.....    | 61                 | 28                 | (24)     | 10                 | 75                      |
| Income taxes.....   | (30)               | (6)                | (3)      | (2)                | (41)                    |
| Profit from continuing operations.....                          | 31                 | 22                 | (27)     | 8                  | 34                      |
| Profit from discontinued operations, net of tax.....            | —                  | —                  | 4        | —                  | 4                       |
| Profit (loss) for the year.....                                 | 31                 | 22                 | (23)     | 8                  | 38                      |
| Adjusted EBITDA.....  | 152                | 60                 | 41       | —                  | 253                     |

- (1) In addition to the results of certain of our generation assets, our Other segment also includes expenses and other adjustments relating to our headquarters and intermediate holding companies.
- (2) Adjustments to cost of sales correspond to the eliminations of the depreciation effect of revalued assets on a stand-alone basis as these assets are measured under the cost method for consolidation purposes.

**Revenue**

Our revenue increased by US\$554 million, or 58%, to US\$1,517 million during 2016 from US\$963 million during 2015, primarily due to (1) our consolidation of the results of Energuate, which generated US\$509 million in revenues following its acquisition by our company in January 2016, (2) our recognizing Kanan's revenue of US\$67 million as a result of its COD during 2016, (3) our recognizing CDA's US\$50 million revenue following its COD in August 2016, and (4) our recognizing Samay I's US\$40 million revenue following its COD in May 2016.

**Generation Business**

Our revenues from our generation business (including the Other segment, but excluding eliminations) increased to US\$1,010 million for the year ended December 31, 2016 from US\$963 million for the year ended December 31, 2015, as discussed in further detail below:

**Peru Segment**

Revenue from our Peru segment increased by US\$80 million, or 18%, to US\$528 million for the year ended December 31, 2016 from US\$448 million for the year ended December 31, 2015, primarily as a result of:

- a US\$50 million contribution to revenues during 2016 from CDA, which reached COD in August 2016; and
- a US\$40 million contribution to revenues during 2016 from Samay I, which reached COD in May 2016.

These effects were partially offset by a US\$10 million, or 2%, decline in Kallpa's revenue to US\$438 million during 2016 from US\$448 million during 2015, principally as a result of a US\$11 million, or 4%, decline in Kallpa's revenue from energy sales to US\$280 million during 2016 from US\$291 million during 2015, resulting from a US\$2 per MWh, or 4%, decline in Kallpa's average energy price to US\$43 per MWh during 2016 from US\$45 per MWh during 2015.

The decline in average energy price was principally a result of an adjustment in the PPA prices for our non-regulated clients as a result of the decline in natural gas prices, as well as the existing excess supply of capacity, in Peru during 2016. The effect of the decline in average energy prices was partially offset by a US\$1 million, or 0.3%, increase in revenue resulting from a 1% increase in the volume of energy sold by Kallpa to 6,466 GWh during 2016 from 6,433 GWh during 2015.

### Central America Segment

Revenue from our Central America segment declined by US\$10 million, or 3%, to US\$326 million for the year ended December 31, 2016 from US\$336 million for the year ended December 31, 2015, primarily as a result of:

- a US\$54 million, or 50%, reduction in Puerto Quetzal's revenue to US\$55 million during 2016 from US\$109 million during 2015, principally as a result of (1) the expiration of a PPA and a 50% decline in spot market sales, which led to a 26% decline in the total volume of energy sold by Puerto Quetzal to 713 GWh during 2016 from 962 GWh during 2015, and (2) a US\$30 per MWh, or 34%, decline in Puerto Quetzal's average energy price to US\$58 per MWh during 2016 from US\$88 per MWh during 2015 due to adjustments in PPA prices and a reduction in spot market energy prices, in each case as a result of a decline in HFO prices.
- a US\$21 million, or 19%, decline in ICPNH's revenue to US\$90 million during 2016 from US\$111 million during 2015, principally as a result of:
  - a US\$12 million, or 19%, decline in ICPNH's revenue from energy sales of its thermal plants to US\$52 million during 2016 from US\$64 million during 2015, as a result of (1) a US\$11 per MWh, or 14%, decline in the average energy prices of these plants to US\$67 per MWh during 2016 from US\$78 per MWh during 2015 due to adjustments in PPA prices as a result of a decline in HFO prices (which reduced energy sales of these plants by US\$8 million), and (2) a 6% decline in the total volume of energy sold by these plants to 771 GWh during 2016 from 820 GWh during 2015, mainly as a result of the breakdown of an engine at one of these plants in March 2016;
  - a US\$7 million, or 23%, decline in ICPNH's revenue from energy sales from its wind farms to US\$23 million during 2016 from US\$30 million during 2015, due to lower generation as a result of lower wind levels; and
  - a US\$2 million decline in ICPNH's revenue from capacity sales of Corinto as a result of the unavailability of this plant as a result of damage sustained in connection with a machinery breakdown.
- a US\$17 million, or 17%, decline in Nejapa's revenue to US\$83 million during 2016 from US\$100 million during 2015, principally as a result of a US\$19 per MWh, or 19%, decline in Nejapa's average energy price to US\$83 per MWh during 2016 from US\$102 per MWh during 2015 due to adjustments in PPA prices and a reduction in spot market energy prices as a result of a decline in HFO prices.

These declines were partially offset by:

- a US\$67 million contribution to revenues during 2016 from Kanan, which reached COD in April 2016;
- a US\$7 million, or 41%, increase in Cenérgica's revenue to US\$24 million during 2016 from US\$17 million during 2015, primarily as a result of a US\$7 million increase in Cenérgica's revenue from energy trading to US\$13 million in 2016 from US\$6 million in 2015; and
- a US\$7 million contribution to revenues from Guatemala, which was acquired in January 2016.

### Other Segment

Revenue from our Other segment declined by US\$23 million, or 13%, to US\$156 million for the year ended December 31, 2016 from US\$179 million for the year ended December 31, 2015, primarily as a result of the following:

- a US\$10 million, or 26%, decline in CEPP's revenue to US\$29 million during 2016 from US\$39 million during 2015, principally as a result of a US\$43 per MWh, or 40%, decline in CEPP's average energy price to US\$64 per MWh during 2016 from US\$107 per MWh during 2015 due to a reduction in spot market energy prices as a result of a decline in HFO prices. The effects of the decline in CEPP's average energy price were partially offset by a 55 GWh, or 19%, increase in the volume of energy sold by CEPP to 346 GWh during 2016 from 291 GWh during 2015 as a result of sales under a short term PPA entered into in April 2016.
- a US\$7 million, or 25%, decline in Colmito's revenue to US\$21 million during 2016 from US\$28 million during 2015, primarily as a result of a US\$24, or 28%, decline in Colmito's average energy price to US\$61 per MWh during 2016 from US\$85 per MWh during 2015, due to higher hydrology levels during 2016, which reduced spot market energy prices (as the price in Colmito's PPA is linked to spot market energy prices), and a 7% decline in the volume of energy sold by Colmito to 263 GWh in 2016 from 281 GWh in 2015 (which reduced Colmito's revenue from energy sales by US\$2 million);
- a US\$3 million, or 7%, decline in COBEE's revenue to US\$40 million during 2016 from US\$43 million during 2015, primarily as a result of a 17% decline in the volume of energy sold by COBEE to 860 GWh during 2016 from 1,039 GWh during 2015, primarily due to lower hydrology levels during 2016.

#### *Distribution Business*

Revenue from our distribution business was US\$509 million during the period from January 22, 2016 (the date of our acquisition and consolidation of our distribution business) to December 31, 2016.

#### *Cost of Sales (Including Depreciation and Amortization)*

Our cost of sales (excluding depreciation and amortization) increased by US\$410 million, or 61%, to US\$1,077 million during 2016 from US\$667 million during 2015, primarily due to (1) our consolidation of the results of Eneguate, which incurred costs of sales of US\$403 million following its acquisition by our company in January 2016, including energy and capacity purchases of US\$356 million, and (2) our recording cost of sales related to our CDA, Samay I and Kanan plants of US\$85 million during 2016 as a result of the respective CODs of these plants during 2016.

The depreciation and amortization expenses included in our cost of sales increased by US\$48 million, or 56%, to US\$133 million during 2016 from US\$85 million during 2015.

The following table shows our cost of sales (excluding depreciation and amortization) for the periods indicated.

|                                     | <b>For the Year Ended December 31,</b> |             |           |
|-------------------------------------|--|-------------|-----------|
|                                     | <b>2016</b>                            | <b>2015</b> | <b>%</b>  |
|                                     | <b>(US\$ in millions)</b>              |             |           |
| Energy and capacity purchases.....  | 496                                    | 135         | n.m.      |
| Fuel, gas and lubricants.....       | 295                                    | 328         | (10)      |
| Depreciation and amortization ..... | 133                                    | 85          | 56        |
| Transmission costs .....            | 119                                    | 99          | 20        |
| Personnel expenses.....             | 50                                     | 31          | 61        |
| Maintenance expenses.....           | 40                                     | 37          | 8         |
| Third party services.....           | 35                                     | 10          | n.m.      |
| Regulatory expenses.....            | 9                                      | 6           | 50        |
| Insurance .....                     | 9                                      | 10          | (10)      |
| Plant unavailability.....           | 7                                      | 0           | n.m.      |
| Intermediation fees.....            | 5                                      | 6           | (17)      |
| Other operating expenses .....      | 12                                     | 5           | n.m.      |
| <b>Total.....</b>                   | <b>1,210</b>                           | <b>752</b>  | <b>61</b> |

n.m. Not meaningful.

## *Generation Business*

Our cost of sales (excluding depreciation and amortization) from our generation business (including the Other segment, but excluding eliminations) increased to US\$676 million for the year ended December 31, 2016 from US\$667 million for the year ended December 31, 2015, as discussed in further detail below:

### Peru Segment

Cost of sales (excluding depreciation and amortization) from our Peru segment increased by US\$44 million, or 16%, to US\$323 million for the year ended December 31, 2016 from US\$279 million for the year ended December 31, 2015, primarily as a result of the following:

- a US\$30 million contribution to cost of sales from Samay I and CDA (US\$16 million and US\$14 million, respectively), which reached COD in May 2016 and August 2016, respectively;
- a US\$22 million, or 16%, increase in Kallpa's gas supply, transportation and distribution costs to US\$156 million during 2016 from US\$134 million during 2015 as a result of (1) a 14% increase in the volume of gas consumption due to an 865 GWh, or 17%, increase in the volume of Kallpa's net energy generation to 5,892 GWh during 2016 from 5,027 GWh during 2015 as a result of increased availability and dispatch of our Kallpa thermal plant, and (2) a 3% increase in average natural gas prices paid by Kallpa during 2016; and
- a US\$9 million, or 10%, increase in Kallpa's transmission charges to US\$95 million during 2016 from US\$86 million during 2015, as a result of a 19% increase in the primary toll system tariff during 2016.

These effects were partially offset by:

- a US\$10 million decline in energy purchase costs as a result of an 833 GWh, or 59%, decline in Kallpa's net energy purchases as a result of (1) increased availability and dispatch of our Kallpa thermal plant, which reduced the need for Kallpa to make spot market purchases to cover the requirements of its PPAs, and (2) a reduction of average spot market energy price in Peru as a result of the increase in available capacity in the Peruvian market; and
- a US\$6 million decrease in maintenance expenses, primarily as a result of expenses associated with a scheduled major maintenance performed in February 2015 on the Kallpa I turbine and inspection work conducted at the Kallpa thermal plant during 2015.

The depreciation and amortization expenses included in cost of sales of our Peru segment increased by US\$10 million, or 20%, to US\$59 million during 2016 from US\$49 million during 2015, primarily as a result of depreciation expenses associated with our CDA and Samay I plants, which reached COD in August 2016 and May 2016, respectively.

### Central America Segment

Cost of sales (excluding depreciation and amortization) of our Central America segment declined by US\$13 million, or 5%, to US\$252 million for the year ended December 31, 2016 from US\$265 million for the year ended December 31, 2015, primarily as a result of the following:

- a US\$42 million decline in Puerto Quetzal's cost of sales to US\$52 million during 2016 from US\$94 million during 2015, primarily due to (1) a US\$30 million decline in Puerto Quetzal's fuel expense as a result of (a) a 38% decline in the average price of HFO purchased by Puerto Quetzal during 2016, and (b) a 294 GWh, or 46%, decline in Puerto Quetzal's net energy generation to 347 GWh during 2016 from 641 GWh during 2015 as a result of the effects of the entry of new generation capacity with lower marginal cost in Guatemala, which affects Puerto Quetzal's position in the dispatch order of Guatemala; and (2) a US\$12 million decline in Puerto Quetzal's energy purchase costs (despite a 14% increase in the volume of energy purchased) as a result of a US\$24, or 26%, decline in the average spot market energy price in Guatemala to US\$67 per MWh during 2016 from US\$91 per MWh during 2015;



- a US\$18 million decline in Nejapa's cost of sales to US\$67 million during 2016 from US\$85 million during 2015, primarily due to (1) a US\$11 million decline in Nejapa's fuel expenses as a result of (a) a 46 GWh, or 12%, decline in Nejapa's net energy generation to 383 GWh during 2016 from 429 GWh during 2015 as a result of the effects of the entry of new capacity with lower marginal cost in Guatemala (some of which is exported to El Salvador) which affects the position of Nejapa in the dispatch order of El Salvador, and (b) a 23% decline in the average price of HFO purchased by Nejapa, and (2) a US\$3 million decline in Nejapa's energy purchase costs as a result of a 25% decline in the average spot market energy price in El Salvador, which was partially offset by a 50 GWh, or 12%, increase in the volume of energy purchased by Nejapa to 461 GWh during 2016 from 411 GWh during 2015, as a result of lower generation as Nejapa purchased more energy in the spot market (instead of generating such energy) in light of the low spot market energy price; and
- a US\$14 million decline in ICPNH's cost of sales, primarily due to a US\$16 million decrease in Corinto and Tipitapa's fuel expenses reflecting (1) a 21% decrease in the average price of HFO purchased by ICPNH, and (2) a 76 GWh, or 10%, decline in ICPNH's net thermal energy generation as a result of the reduced availability of ICPNH's thermal plants following a machinery breakdown at one plant in March 2016.

These effects were partially offset by:

- a US\$55 million contribution to cost of sales in 2016 from Kanan, which reached COD in April 2016; and
- a US\$4 million contribution to cost of sales in 2016 from Guatemel, which was acquired in January 2016.

The depreciation and amortization expenses included in cost of sales of our Central America segment increased by US\$17 million, or 81%, to US\$38 million during 2016 from US\$21 million during 2015, primarily as a result of the depreciation and amortization expenses of Kanan, which reached COD in April 2016.

#### Other Segment

Cost of sales (excluding depreciation and amortization) of our Other segment declined by US\$22 million, or 18%, to US\$101 million for the year ended December 31, 2016 from US\$123 million for the year ended December 31, 2015, primarily as a result of the following:

- a US\$8 million decrease in Colmito's cost of sales, primarily due to (1) a US\$4 million decline in Colmito's energy purchases as a result of a 33% decrease in the average spot market energy price in Chile during 2016, driven by an increase in hydrology levels in Chile during 2016, and (2) a US\$2 million decline in Colmito's fuel expenses, mainly as a result of a 69% decline in Colmito's net energy generation;
- a US\$7 million decline in CEPP's cost of sales, primarily due to a US\$9 million decline in CEPP's fuel expenses as a result of (1) a 30% decrease in the average price of HFO purchased by CEPP, and (2) a 12% decline in CEPP's net energy generation; and
- a US\$6 million decline in JPPC's cost of sales, primarily due to a US\$7 million decline in JPPC's fuel expenses as a result of (1) a 17% decline in the average price of HFO purchased by JPPC, and (2) a 9% decline in JPPC's net energy generation.

The depreciation and amortization expenses included in cost of sales of our Other segment increased by US\$6 million, or 24%, to US\$31 million during 2016 from US\$25 million during 2015, primarily as a result of the depreciation and amortization of purchase price adjustments made in connection with our acquisition of our distribution business in January 2016.

#### *Distribution Business*

Cost of sales (excluding depreciation and amortization) of our distribution business was US\$403 million from January 22, 2016 (the date of our acquisition and consolidation of our distribution business) to December 31, 2016.

The depreciation and amortization expenses included in cost of sales of our distribution business were US\$15 million following its acquisition by our company in January 2016.

### ***Selling, General and Administrative Expenses***

Our selling, general and administrative expenses (including depreciation) increased by US\$44 million, or 73%, to US\$104 million for the year ended December 31, 2016 from US\$60 million for the year ended December 31, 2015, primarily as a result of:

- our consolidation of the results of Energuate, which incurred selling, general and administrative expenses of US\$36 million following its acquisition by our company in January 2016
- a US\$5 million, or 26%, increase in our Peru segment's selling, general and administrative expenses, primarily as a result of Samay I and CDA's respective CODs in May 2016 and August 2016;
- a US\$2 million, or 15%, increase in our Central America segment's selling, general and administrative expenses, primarily as a result of Kanan's COD in April 2016; and
- a US\$1 million, or 4%, increase in our Other segment's selling, general and administrative expenses, primarily as a result of expenses incurred by new holding companies created during the second half of 2015 and during 2016.

### ***Other Income***

Our other income increased by US\$10 million to US\$20 million during 2016 from US\$10 million during 2015.

During 2016, our other income primarily consisted of (1) US\$7 million relating to a payment received by Kallpa in connection with the early termination of a PPA in August 2016; (2) a US\$3 million payment from Energuate's energy suppliers as compensation to Energuate for the suppliers' disruptions in their supply of energy to Energuate; and (3) a US\$3 million insurance recovery related to the Sainani power plant in Bolivia, as the plant was temporarily out of service from March 2014 until August 2015.

During 2015, our other income consisted primarily of a US\$7 million consisting of insurance payment received in 2015 related to Amayo II's claims in respect of three wind turbines, which were damaged in December 2014 in connection with a blackout in the SIN, which left one wind turbine collapsed and another two wind turbines with severe damage.

### ***Other Expenses***

Our other expenses declined by US\$1 million, or 17%, to US\$5 million during 2016 from US\$6 million during 2015. During 2016, our other expenses consisted primarily of (1) our net loss on sale and disposal of fixed assets of US\$2 million, and (2) a US\$1 million expense related to the expiration of ISO credit tax. During 2015, our other expenses consisted primarily of (1) our net loss on sale and disposal of fixed assets of US\$3 million, and (2) a US\$1 million provision for tax contingencies.

### ***Profit from Operating Activities***

As a result of the above, our profit from operating activities increased by US\$63 million, or 41%, to US\$218 million during 2016 from US\$155 million during 2015. Our operating margin (representing profit from operating activities as a percentage of revenue) declined to 14% during 2016 from 16% during 2015.

### ***Finance Costs, Net***

Our finance costs, net, increased by US\$55 million, or 68%, to US\$135 million during 2016 from US\$80 million during 2015, as a result of a US\$58 million, or 65%, increase in finance costs, the effects of which were partially offset

by a US\$3 million, or 38%, increase in finance income, and a US\$1, or 129%, increase in net gain from derivative financial instruments.

Our finance costs increased by US\$58 million, or 65%, to US\$147 million during 2016 from US\$89 million during 2015, principally as a result of (1) a US\$56 million increase in interest expense on loan and bonds as a result of (x) our incurrence of interest expenses on the outstanding indebtedness of Energuate following our acquisition of our distribution business in January 2016, (y) our incurrence of interest expenses on the facilities used to finance our CDA, Samay I and Kanan plants following their respective CODs, rather than capitalizing these expenses as part of our property plant and equipment), and (z) our incurring interest expenses relating to a US\$120 million loan incurred by ICPDH in connection with our acquisition of our distribution business, (2) our incurrence of redemption premium expense of US\$10 million during 2016 as a result of our early redemption of US\$172 million of Kallpa's 8.50% bonds due 2022, and (3) our incurrence of US\$4 million of interest expense on guarantee deposits from customers of Energuate. The effects of these factors was partially offset by a US\$12 million decline in foreign exchange losses, net, primarily as a result of the strengthening of the Peruvian Sol against the U.S. dollar during 2016.

### ***Income Taxes***

Our income taxes increased by US\$16 million, or 39%, to US\$57 million during 2016 from US\$41 million during 2015. The approximate weighted average tax rate for our operating companies declined to 30% during 2016 from 34% during 2015. For more information on the tax rates applicable to our company and its operating subsidiaries, see “—Material Factors Affecting Results of Operations—Income Taxes.”

Our effective tax rate increased to 68% during 2016 from 55% during 2015. The principal factors causing the deviation between our effective tax rate and the approximate weighted average tax rate for our operating companies during 2016 were (1) the effects of expenses incurred by holding companies in jurisdictions with nil income tax, which increased our effective tax rate by 16%, (2) the impact of changes in tax rates, which increased our effective tax rate by 15%, and (3) the effects of our incurrence of permanent non-deductible expenses, which increased our effective tax rate by 8%.

The principal factors causing the deviation between our effective tax rate and the approximate weighted average tax rate for our operating companies during 2014 were (1) our incurrence of bargain purchase gains, which income is permanently exempt from taxes, which reduced our effective tax rate by 19.5%, (2) the effects of differences between the measurement base of income reported for tax purposes and the income reported in the financial statements arising from the exchange differences from monetary items, which reduced our effective tax rate by 13%, (3) the effects of differences between the measurement base of income reported for tax purposes and the income reported in the financial statements arising from the translation of non-monetary assets, which increased our effective tax rate by 216%, and (4) the effects of expenses incurred by holding companies in jurisdictions with nil income tax, which increased our effective tax rate by 10%.

### ***Profit for the Year***

As a result of the factors described above, our profit declined by US\$11 million, or 29%, to US\$27 million during 2016 from US\$38 million during 2015. Our net margin (representing profit as a percentage of revenue) declined to 2% during 2016 from 4% during 2015.

**Year Ended December 31, 2015 Compared to Year Ended December 31, 2014**

The following table sets forth the components of our consolidated income statement, as well as the percentage change from the prior year, for the years ended December 31, 2015 and 2014.

|   | <b>For the Year Ended December 31,</b> |             |          |
|---|--|-------------|----------|
|   | <b>2015</b>                            | <b>2014</b> | <b>%</b> |
|   | <b>(US\$ in millions)</b>              |             |          |
| Revenue.....  | 963                                    | 959         | 0        |
| Cost of sales (including depreciation and amortization and impairment)..... | (752)                                  | (794)       | (5)      |
| Gross profit.....   | 211                                    | 165         | 6        |
| Selling, general and administrative expenses.....                           | (60)                                   | (58)        | 3        |
| Other income.....   | 10                                     | 16          | (38)     |
| Other expenses.....   | (6)                                    | (10)        | (40)     |
| Profit from operating activities.....                                       | 155                                    | 113         | 37       |
| Finance income.....   | 8                                      | 4           | 100      |
| Net gain from derivative financial instruments.....                         | 1                                      | 0           | —        |
| Finance costs.....  | (89)                                   | (80)        | 11       |
| Finance costs, net.....   | (80)                                   | (76)        | 5        |
| Share of profit in associate.....   | —                                      | 2           | (100)    |
| Measurement to fair value of pre-existing share.....                        | —                                      | 3           | (100)    |
| Gain on bargain purchase.....   | —                                      | 68          | (100)    |
| Profit before income tax and discontinued operations.....                   | 75                                     | 110         | (32)     |
| Income taxes.....   | (41)                                   | (34)        | 21       |
| Profit from continuing operations.....                                      | 34                                     | 76          | (55)     |
| Profit from discontinued operations, net of tax.....                        | 4                                      | 128         | (97)     |
| Profit for the year.....  | 38                                     | 204         | (81)     |

The following tables set forth the results of each of our segments and a reconciliation to our consolidated income statement for the years ended December 31, 2015 and 2014.

|  | <b>For the Year Ended December 31, 2015</b> |                        |                 |                        |                             |
|--|---|------------------------|-----------------|------------------------|-----------------------------|
|  | <b>Peru</b>                                 | <b>Central America</b> | <b>Other(1)</b> | <b>Adjustments (2)</b> | <b>Consolidated Results</b> |
|  | <b>(US\$ in millions)</b>                   |                        |                 |                        |                             |
| Revenue.....   | 448   | 336                    | 179             | —                      | 963                         |
| Cost of sales (including depreciation and amortization)..... | (328)                                       | (286)                  | (148)           | 10                     | (752)                       |
| Gross profit.....  | 120   | 50                     | 31              | 10                     | 211                         |
| Selling, general and administrative expenses.....            | (19)  | (13)                   | (28)            | —                      | (60)                        |
| Other income, net.....                                       | 1   | 1                      | 2               | —                      | 4                           |
| Profit from operating activities.....                        | 102   | 38                     | 5               | 10                     | 155                         |
| Finance income.....  | 1   | 1                      | 6               | —                      | 8                           |
| Finance costs.....   | (42)  | (11)                   | (35)            | —                      | (88)                        |
| Share of profit in associate.....                            | —   | —                      | —               | —                      | —                           |
| Profit before income tax and discontinued operations.....    | 61  | 28                     | (24)            | 10                     | 75                          |
| Income taxes.....  | (30)  | (6)                    | (3)             | (2)                    | (41)                        |
| Profit from continuing operations.....                       | 31  | 22                     | (27)            | 8                      | 34                          |
| Profit from discontinued operations, net of tax.....         | —   | —                      | 4               | —                      | 4                           |
| Profit (loss) for the year.....                              | 31  | 22                     | (23)            | 8                      | 38                          |

**For the Year Ended December 31, 2015**

|                      | Peru               | Central<br>America | Other(1) | Adjustments<br>(2) | Consolidated<br>Results |
|----------------------|--------------------|--------------------|----------|--------------------|-------------------------|
|                      | (US\$ in millions) |                    |          |                    |                         |
| Adjusted EBITDA..... | 152                | 60                 | 41       | —                  | 253                     |

- (1) In addition to the results of certain of our generation assets, our Other segment also includes expenses and other adjustments relating to our headquarters and intermediate holding companies.
- (2) Adjustments to cost of sales correspond to the eliminations of the depreciation effect of revalued assets on a stand-alone basis as these assets are measured under the cost method for consolidation purposes.

**For the Year Ended December 31, 2014**

|   | Peru               | Central<br>America | Other(1) | Adjustments | Consolidated<br>Results |
|---|--------------------|--------------------|----------|-------------|-------------------------|
|   | (US\$ in millions) |                    |          |             |                         |
| Revenue.....  | 437                | 308                | 214      | —           | 959                     |
| Cost of sales (including depreciation and<br>amortization and impairment) ..... | (314)              | (278)              | (211)    | 9           | (794)                   |
| Gross profit.....   | 123                | 30                 | 3        | 9           | 165                     |
| Selling, general and administrative expenses .....                              | (18)               | (8)                | (32)     | —           | (58)                    |
| Other income, net .....   | 3                  | —                  | 3        | —           | 6                       |
| Profit from operating activities.....   | 108                | 22                 | (26)     | 9           | 113                     |
| Finance income .....  | —                  | 1                  | 20       | (17)        | 4                       |
| Finance costs .....   | (35)               | (9)                | (53)     | 17          | (80)                    |
| Share of profit in associate .....  | —                  | —                  | 2        | —           | 2                       |
| Measurement to fair value of pre-existing share .....                           | —                  | —                  | 3        | —           | 3                       |
| Gain on bargain purchase .....  | —                  | —                  | 68       | —           | 68                      |
| Profit before income tax and discontinued operations ..                         | 73                 | 14                 | 14       | 9           | 110                     |
| Income taxes.....   | (29)               | (5)                | 1        | (1)         | (34)                    |
| Profit from continuing operations .....   | 44                 | 9                  | 15       | 8           | 76                      |
| Profit from discontinued operations, net of tax .....                           | —                  | —                  | 128      | —           | 128                     |
| Profit for the year .....   | 44                 | 9                  | 143      | 8           | 204                     |
| Adjusted EBITDA.....  | 154                | 40                 | 52       | —           | 246                     |

- (1) In addition to the results of certain of our generation assets, our Other segment also includes expenses and other adjustments relating to our headquarters and intermediate holding companies.
- (2) Adjustments to cost of sales correspond to the eliminations of the depreciation effect of revalued assets on a stand-alone basis as these assets are measured under the cost method for consolidation purposes.

**Revenue**

Our revenue increased by US\$4 million to US\$963 million for the year ended December 31, 2015 from US\$959 million for the year ended December 31, 2014, as set forth in further detail below by segment:

*Peru Segment*

Revenue from our Peru segment increased by US\$11 million, or 3%, to US\$448 million for the year ended December 31, 2015 from US\$437 million for the year ended December 31, 2014, principally as a result of:

- a US\$15 million, or 21%, increase in Kallpa's revenue from ancillary services (principally transmission tolls that are typically passed through to Kallpa's customers pursuant to its PPAs) to US\$88 million during 2015 from US\$73 million during 2014, which primarily resulted from (1) a 41% increase in the primary toll system tariff during 2015, and (2) the creation of new system charges (designed to ensure system reliability and

efficiency) and the inclusion of new tolls and tariffs (as a result of the construction of new transmission lines and renewable energy projects) during 2015; and

- a US\$4 million, or 5%, decline in Kallpa's revenue from capacity sales to US\$69 million during 2015 from US\$73 million during 2014, primarily as a result of (1) a 2% decline in the volume of capacity sales to an average of 913 MW during 2015 from 929 MW during 2014, as a result of the expiration of a short-term PPA in April 2014, and (2) a 4% decline in average capacity prices as a result of the strengthening of the U.S. dollar against the Peruvian *Sol* during 2015. The depreciation of the Peruvian *Sol* affected Kallpa's distribution PPA prices, as the exchange rate fluctuations did not reach the minimum thresholds set for price adjustments in such PPAs. Kallpa's average capacity price declined to US\$7.5 per MW during 2015 from US\$7.9 per MW during 2014.

Kallpa's revenue from energy sales remained stable at US\$291 million during 2015 and 2014, reflecting a decline in the volume of energy sales by Kallpa to 6,433 GWh during 2015 from 6,559 GWh during 2014, which was offset by an increase in Kallpa's average energy price to US\$45 per MWh during 2015 from US\$44 per MWh during 2014, primarily due to the expiration in 2014 of a short-term PPA which provided for the sale of energy at lower than average prices.

#### *Central America Segment*

Revenue from our Central America segment increased by US\$28 million, or 9%, to US\$336 million for the year ended December 31, 2015 from US\$308 million for the year ended December 31, 2014, primarily as a result of a US\$76 million increase in Puerto Quetzal's revenue to US\$109 million during 2015 from US\$33 million during 2014, principally as a result of our consolidation of the results of Puerto Quetzal for the full year 2015 as compared to approximately three months during 2014 following the date of our acquisition of Puerto Quetzal in September 2014. This increase was partially offset by:

- a US\$32 million, or 24%, decline in Nejapa's revenue to US\$100 million during 2015 from US\$132 million during 2014, principally as a result of a decline in average energy prices due to adjustments under Nejapa's PPA prices and a reduction in average spot market energy prices in El Salvador as a result of a decline in HFO prices. These effects were partially offset by an increase in the volume of energy sold, and
- a US\$14 million, or 11%, decline in ICPNH's revenue to US\$111 million during 2015 from US\$125 million during 2014, principally as a result of a US\$33 per MWh decline in the average energy price of ICPNH's thermal plants to US\$78 per MWh during 2015 from US\$111 per MWh during 2014 due to adjustments under the PPA prices of these plants as a result of a decline in HFO prices. The effects of this decline were partially offset by an increase in revenues as a result of our consolidation of the results of ICPNH for the full year 2015 as compared to nine months during 2014 following the date of our acquisition of ICPNH in March 2014, and an increase in revenues as a result of higher than normal wind levels at ICPNH's wind plants during 2015.

#### *Other Segment*

Revenue from our Other segment declined by US\$35 million, or 16%, to US\$179 million for the year ended December 31, 2016 from US\$214 million for the year ended December 31, 2015, primarily as a result of:

- a US\$34 million, or 47%, decline in CEPP's revenue to US\$39 million during 2015 from US\$73 million during 2014, principally as a result of (1) a 5% decrease in the volume of energy sold by CEPP to 291 GWh during 2015 from 307 GWh during 2014, primarily as a result of the expiration of CEPP's PPA in September 2014, and (2) a US\$102 per MWh, or 49%, decline in CEPP's average energy price to US\$106 per MWh during 2015 from US\$208 per MWh during 2014 due to a reduction in average spot market energy prices in the Dominican Republic as a result of a decline in HFO prices; and
- a US\$10 million, or 26%, decline in Colmito's revenue to US\$28 million during 2015 from US\$38 million during 2014, principally as a result of a decline in Colmito's PPA prices as a result of a more humid hydrology in 2015 as compared to 2014. The reduction in revenue occurred despite a 12% increase in Colmito's energy sales volumes as a result of the downward adjustment to its PPA prices.

These declines were partially offset by a US\$4 million increase in revenue of JPPC as a result of our consolidation of the results of JPPC for the full year 2015 as compared to approximately seven months during 2014 following the date of our acquisition of control of JPPC in May 2014.

***Cost of Sales (Including Depreciation and Amortization and Impairment)***

Our cost of sales (excluding depreciation and amortization and impairment) declined by US\$16 million, or 2%, to US\$667 million for the year ended December 31, 2015 from US\$683 million for the year ended December 31, 2014.

The depreciation and amortization expenses included in our cost of sales increased by US\$9 million, or 12%, to US\$85 million during 2015 from US\$76 million during 2014.

We recognized a US\$35 million impairment charge during 2014 in respect of Inkia’s impairment of one of its subsidiaries. For further information, see “—Critical Accounting Policies and Significant Estimates—Impairment Analysis.” We did not recognize any impairment during 2015.

The following table shows our cost of sales (including depreciation and amortization and impairment) for the periods indicated.

|                                     | <b>For the Year Ended December 31,</b> |             |             |
|-------------------------------------|--|-------------|-------------|
|                                     | <b>2015</b>                            | <b>2014</b> | <b>%</b>    |
|                                     | <b>(US\$ in millions)</b>              |             |             |
| Energy and capacity purchases.....  | 135                                    | 150         | (10)        |
| Fuel, gas and lubricants.....       | 328                                    | 366         | (10)        |
| Depreciation and amortization ..... | 85                                     | 76          | 12          |
| Impairment .....                    | —                                      | 35          | (100)       |
| Transmission costs .....            | 99                                     | 86          | 15          |
| Personnel expenses.....             | 31                                     | 27          | 15          |
| Maintenance expenses.....           | 37                                     | 26          | 42          |
| Third party services.....           | 10                                     | 8           | 25          |
| Regulatory expenses.....            | 6                                      | 5           | 20          |
| Insurance .....                     | 10                                     | 10          | —           |
| Intermediation fees.....            | 6                                      | 1           | n.m.        |
| Other operating expenses .....      | 5                                      | 4           | 25          |
| <b>Total</b> .....                  | <b>752</b>                             | <b>794</b>  | <b>(42)</b> |

n.m. Not meaningful.

***Peru Segment***

Cost of sales (excluding depreciation and amortization and impairment) of our Peru segment increased by US\$10 million, or 4%, to US\$279 million for the year ended December 31, 2015 from US\$269 million for the year ended December 31, 2014, primarily as a result of:

- a US\$9 million, or 12%, increase in transmission charges to US\$86 million during 2015 from \$77 million during 2014, as a result of a 41% increase in the primary toll system tariff in Peru during 2015; and
- a US\$5 million, or 500%, increase in intermediation fees (fees which are split between a generation and distribution company with respect to sales to certain unregulated customers) to US\$6 million during 2015 from US\$1 million during 2014, as a result of new PPAs signed during the second half of 2014, which PPAs included a higher intermediation fee rate than the original PPAs and required that the margins generated by such PPAs were shared with the relevant distribution company.

These effects were partially offset by a US\$4 million, or 3%, decline in gas transportation and distribution expenses to US\$134 million during 2015 from US\$138 million during 2014, primarily as a result of a 671 GWh, or 12%, decline in net energy generated by Kallpa to 5,027 GWh during 2015 from 5,698 GWh during 2014 as a result of scheduled major maintenance performed in February 2015 on the Kallpa I turbine, the effect of which was partially offset by an increase in the average natural gas prices paid by Kallpa.

The depreciation and amortization expenses included in cost of sales of our Peru segment increased by US\$4 million, or 9%, to US\$49 million during 2015 from US\$45 million during 2014, primarily as a result of the acquisition of the Las Flores plant in April 2014.

#### *Central America Segment*

Cost of sales (excluding depreciation and amortization and impairment) of our Central America segment increased by US\$5 million, or 2%, to US\$265 million for the year ended December 31, 2015 from US\$260 million for the year ended December 31, 2014, primarily as a result of a US\$65 million increase Puerto Quetzal's cost of sales to US\$94 million during 2015 from US\$29 million during 2014, principally as a result of our consolidation of the results of Puerto Quetzal for the full year 2015 as compared to approximately three months during 2014 following the date of our acquisition of Puerto Quetzal in September 2014. This increase was partially offset by:

- a US\$34 million, or 29%, decline in Nejapa's cost of sales, primarily as a result of (1) a US\$21 million decline in Nejapa's fuel expense as a result of a decline in the average price of HFO purchased by Nejapa, despite a 56 GWh, or 17%, increase in net energy generated by our Nejapa plant as a result of the reduced volume of energy generated by Salvadorian hydroelectric plants and the decline of Nejapa's marginal cost as a result of the decline in HFO prices, and (2) a decline in the cost of energy purchased by Nejapa as a result of decline in the average spot market energy price in El Salvador, despite a 65 GWh, or 19% increase energy purchase by Nejapa principally due to the increased demand under Nejapa's PPAs, and
- a US\$25 million, or 26%, decline in ICPNH's cost of sales due to a US\$29 million decline in ICPNH's fuel expense during 2015 as a result of a decline in the average price of HFO purchased by ICPNH.

The depreciation and amortization expenses included in cost of sales of our Central America segment increased by US\$3 million, or 17%, to US\$21 million during 2015 from US\$18 million during 2014, primarily as a result of our consolidation of the results of ICPNH and Puerto Quetzal for the full year 2015 as compared to the portion of 2014 following the dates of their respective acquisitions in March and September 2014, respectively.

#### *Other Segment*

Cost of sales (excluding depreciation and amortization and impairment) of our Other segment declined by US\$31 million, or 20%, to US\$123 million for the year ended December 31, 2015 from US\$154 million for the year ended December 31, 2014, primarily as a result of the following:

- a US\$25 million, or 45%, decline in CEPP's cost of sales, principally resulting from (1) a US\$13 million decline in CEPP's fuel expense, despite a 55 GWh, or 23%, increase in net energy generated by our CEPP plants as a result of the reduced volume of energy generated by Dominican Republic hydroelectric plants and the decline of CEPP's marginal cost as a result of the decline in HFO prices, as a result of a 49% decline in the average price of HFO purchased by CEPP, and (2) a US\$12 million decline in CEPP's energy purchases, as a result of a 71 GWh, or 100%, decline in energy purchases by CEPP as a result of the expiration of CEPP's PPA in September 2014 following which CEPP no longer was required to make energy purchases to service this PPA; and
- a US\$11 million, or 31%, decline in Colmito's cost of sales, primarily due to a 31% decline in average spot market energy price in Chile to US\$89 per MWh during 2015 from US\$129 per MWh during 2014 due to an increase in hydrology levels in Chile. This decline in cost of sales occurred despite a 4% increase in Colmito's energy purchases to 255 GWh during 2015 from 245 GWh during 2014, as a result of an increase in the consumption of Colmito's non-regulated customers. This decline was partially offset by a US\$2 million



increase in Colmito's fuel expense as a result of a higher natural gas consumption driven by an increase in net energy generated to 26 GWh during 2015 from 5 GWh during 2014.

The effects of these declines were partially offset by our consolidation of JPPC in May 2014 (which incurred cost of sales of US\$41 million in 2015 as compared to US\$39 million in 2014 following the date of our consolidation of JPPC).

The depreciation and amortization expenses included in cost of sales of our Other segment increased by US\$3 million, or 14%, to US\$25 million during 2015 from US\$22 million during 2014, primarily as a result of our consolidation of the results of JPPC for the full year 2015 as compared to the portion of 2014 following the date of our acquisition of JPPC in May 2014.

### ***Selling, General and Administrative Expenses***

Our selling, general and administrative expenses (including depreciation) increased by US\$2 million, or 3%, to US\$60 million for the year ended December 31, 2015, from US\$58 million for the year ended December 31, 2014, primarily as a result of:

- a US\$5 million, or 63%, increase in our Central America segment's selling, general and administrative expenses, primarily as a result of our consolidation of the results of Puerto Quetzal and ICPNH for the full year 2015 as compared to the portion of 2014 following the dates of their respective acquisitions in September 2014 and March 2014; and
- a US\$1 million, or 6%, increase in our Peru segment's selling, general and administrative expenses, primarily as a result of higher personnel expenses due to higher headcount than 2014.

These effects were partially offset by a US\$4 million, or 13%, decrease in our Other segment's selling, general and administrative expenses, primarily as a decline in legal fees as a result of the settlement of litigation relating to Crystal Power in December 2014.

### ***Other Income***

Our other income declined by US\$6 million, or 38%, to US\$10 million during 2015 from US\$16 million during 2014.

During 2015, our other income consisted primarily of: US\$7 million consisting of insurance claims received in 2015, primarily related to Amayo II's claims in respect of three wind turbines, which were damaged in December 2014.

During 2014, our other income consisted primarily of (1) US\$7 million consisting of insurance claims received in 2014, primarily related to Amayo II's claims in respect of three of its wind turbines, which were damaged in December 2014, and (2) dividend income of US\$4 million from Edegel.

### ***Other Expenses***

Our other expenses declined by US\$4 million, or 40%, to US\$6 million during 2015 from US\$10 million during 2014.

During 2015, our other expenses consisted primarily of (1) our net loss on sale and disposal of fixed assets of US\$3 million, and (2) a US\$1 million provision for tax contingencies.

During 2014, our other expenses consisted primarily of (1) our net loss on sale and disposal of fixed assets of US\$8 million as a result of our retirement of three wind turbines which were damaged in December 2014, and (2) a net loss on sale of spare parts of US\$2 million.

### ***Profit from Operating Activities***

As a result of the above, our profit from operating activities increased by US\$42 million, or 37%, to US\$155 million during 2015 from US\$113 million during 2014. Our operating margin (representing profit from operating activities as a percentage of revenue) increased to 16.1% during 2015 from 11.7% during 2014.

### ***Finance Costs, Net***

Our finance costs, net, increased by US\$4 million, or 5%, to US\$80 million during 2015 from US\$76 million during 2014, as a result of a US\$9 million, or 11%, increase in finance costs, the effects of which were partially offset by a US\$4 million, or 100%, increase in finance income, and a US\$0.3 or 87.3%, increase in net gain from derivative financial instruments.

Our finance costs increased by to US\$8 million during 2015 from US\$4 million during 2014, principally as a result of (1) a US\$3 million increase in interest income on commercial operations (primarily consisting of interest charges on past due accounts receivables), and (2) a US\$1 million increase in interest income from investment.

Our finance costs increased to US\$89 million during 2015 from US\$80 million during 2014, principally as a result of a US\$12 million increase in foreign exchange losses, net, primarily as a result of the strengthening of the U.S. dollar against the Peruvian Sol during 2015, the effects of which were partially offset by (1) a US\$3 million decline in interest on loans from parent company as a result of our repayment of US\$168 million of related party debt owed to IC, our former indirect parent, during May and June 2014, and (2) a US\$1 million decline in interest expense on loans and bonds as a result of lower outstanding indebtedness.

### ***Share of Profit in Associate***

Our share of profit of associates, which is comprised of our proportionate interest in Pedregal's results of operations, declined by US\$2 million, or 100%, to US\$274 thousand during 2015 from US\$2 million during 2014 as a result of a decline in Pedregal's profit during the period.

### ***Gain on Bargain Purchase***

During 2014, we recognized gains on bargain purchases of US\$68 million, reflecting the acquisitions of (1) ICPNH in March 2014, which resulted in our recognition of a gain of US\$24 million, (2) the 84% of the outstanding equity of JPPC which we did not previously own, in May 2014, resulting in our recognition of a gain of US\$24 million, and (3) Puerto Quetzal in September 2014, which resulted in our recognition of a gain of US\$20 million.

### ***Income Taxes***

Our tax expenses increased by US\$7 million, or 21%, to US\$41 million during 2015 from US\$34 million during 2014. The approximate weighted average tax rate for our operating companies increased to 33.8% during 2015 from 31.1% during 2014. For more information on the tax rates applicable to our company and its operating subsidiaries, see “—Material Factors Affecting Results of Operations—Income Taxes.”

Our effective tax rate increased to 54.6% during 2015 from 30.9% during 2014. The principal factors causing the deviation between our effective tax rate and the approximate weighted average tax rate for our operating companies during 2014 were (1) our incurrence of bargain purchase gains, which income is permanently exempt from taxes, which reduced our effective tax rate by 19.5%, (2) the effects of differences between the measurement base of income reported for tax purposes and the income reported in the financial statements arising from the exchange differences from monetary items, which reduced our effective tax rate by 12.7%, (3) the effects of differences between the measurement base of income reported for tax purposes and the income reported in the financial statements arising from the translation of non-monetary assets, which increased our effective tax rate by 20.6%, and (4) the effects of expenses incurred by holding companies in jurisdictions with nil income tax, which increased our effective tax rate by 10.0%.

The principal factors causing the deviation between our effective tax rate and the approximate weighted average tax rate for our operating companies during 2014 were (1) our incurrence of bargain purchase gains, which income is permanently exempt from taxes, which reduced our effective tax rate by 19.5%, (2) difference between the measurement base of income reported for tax purposes and the income reported in the financial statements arising from the exchange differences from monetary items, which reduced our effective tax rate by 12.7%, (3) differences between the measurement base of income reported for tax purposes and the income reported in the financial statements arising from the translation of non-monetary assets, which increased our effective tax rate by 20.6%, and (4) expenses incurred by holding companies in jurisdictions with nil income tax, which increased our effective tax rate by 10.0%.

### ***Profit from Discontinued Operations, Net of Tax***

Our profit from discontinued operations, net of tax, declined to US\$4 million during 2015 from US\$128 million during 2014.

In 2015, our profit from discontinued operations, net of tax, consisted of US\$4 million in dividend income from Generandes which, although declared in November 2014 after the consummation of our disposition of Generandes, was distributed to us and received by us in December 2014 and April 2015, respectively, pursuant to the terms of our sale agreement.

In 2014, our profit from discontinued operations, net of tax, consisted of (1) the results of Acter Holdings, which includes our US\$18 million proportionate share of Generandes' results of operations during the period and (2) US\$110 million net gain on sale of discontinued operations as a result of the sale of our interest in Generandes, through which we held our indirect interest in Edegel, which generated US\$157 million of capital gains, which were partially offset by US\$47 million of income tax expenses.

### ***Profit for the Year***

As a result of the factors described above, our profit declined by US\$166 million, or 81.4%, to US\$38 million during 2015 from US\$204 million during 2014. Our net margin (representing profit as a percentage of revenue) declined to 3.9% during 2015 from 21.3% during 2014.

### **Liquidity and Capital Resources**

As of June 30, 2017 and December 31, 2016, we had cash and cash equivalents (excluding restricted cash) of US\$170 million and US\$173 million, respectively. In addition, we had restricted cash of US\$29 million and US\$42 million, respectively, either because such cash deposits are time deposits or as a result of the loan covenants relating to our Bolivian, Chilean, Nicaraguan, Guatemalan and Jamaican assets. For further information on potential limitations to our ability to receive dividends from certain of the entities in which we hold interests, see "Risk Factors—Risks Related to the Notes—Inkia is a holding company with no independent operations or generation or distribution assets and it is dependent on cash flow generated by its subsidiaries," "Risk Factors—Risks Related to Our Company—We are significantly leveraged" and notes 15 and 20 to our audited financial statements included in this offering memorandum.

As of June 30, 2017 we had working capital of US\$166 million. As of December 31, 2016, we had negative working capital of US\$91 million, primarily because (1) following our acquisition of Energuate, we were required to record guarantee deposits from Energuate's customers as current liabilities under IFRS (US\$57 million as of December 31, 2016), although we do not expect these liabilities to be repaid within the next 12 months, and (2) Energuate made unanticipated payments of US\$74 million in alleged back taxes during the second half of 2016 which are being contested. In May 2017, we reduced our short-term debt by US\$158 million as a result of our refinancing of the debt of DEOCSA and DEORSA and the repayment of the short-term loan of our subsidiary ICPDH. We believe that our working capital is adequate for our current operations.

Our principal sources of liquidity have traditionally consisted of cash flows from operating activities, including dividends received from entities in which we own non-controlling interests; short-term and long-term borrowings; and sales of bonds in domestic and international capital markets. We do not have funds designated for, or subject to, permanent reinvestment in any country in which we operate. Distributions of the earnings of our foreign subsidiaries are

subject to the withholding taxes imposed by the foreign subsidiaries' jurisdictions of incorporation. From time to time, however, we may be unable to receive dividends from our subsidiaries and associated company as a result of a lack of distributable reserves or limitations under our contractual arrangements.

Our principal needs for liquidity generally consist of capital expenditures related to the development and construction of generation projects and the acquisition of other generation and distribution companies; working capital requirements (e.g., maintenance costs that extend the useful life of our plants); and dividends on our shares. As part of our growth strategy, we expect to develop, construct and operate greenfield projects in the markets that we serve as well as start projects or acquire controlling interests in operating assets within Latin America. Our development of greenfield projects and our acquisition activities in the future may require us to make significant capital expenditures and/or raise significant capital. We believe that our liquidity is sufficient to cover our working capital needs in the ordinary course of our business.

## Cash Flows

The following table sets forth certain information about our cash flows for the six-month periods ended June 30, 2017 and 2016, and years ended December 31, 2016, 2015 and 2014.

|   | For the Six-Month<br>Period Ended<br>June 30, |       | For the Year Ended<br>December 31, |       |       |
|---|---|-------|------------------------------------|-------|-------|
|   | 2017  | 2016  | 2016                               | 2015  | 2014  |
|   | (US\$ in millions)                            |       |                                    |       |       |
| Net cash (used in) generated by operating activities:   |   |       |                                    |       |       |
| Profit for the period .....   | 66  | 20    | 27                                 | 38    | 204   |
| Adjustments.....  | 212   | 145   | 343                                | 218   | 51    |
| Changes in assets and liabilities .....   | (75)  | (78)  | (83)                               | 19    | (3)   |
| Income tax paid.....  | (33)  | (20)  | (116)                              | (36)  | (52)  |
| Dividends received (including dividends received<br>from discontinued operations).....          | —   | —     | 1                                  | 5     | 32    |
| Total net cash provided by operating activities .....   | 170   | 67    | 172                                | 244   | 232   |
| Net cash flows used in investing activities.....  | (40)  | (202) | (252)                              | (551) | (301) |
| Net cash (used in) provided by financing activities .....                                       | (143)   | 67    | 10                                 | 135   | 80    |
| Net (decrease) increase in cash and cash equivalents.....                                       | (13)  | (68)  | (70)                               | (172) | 11    |
| Cash and cash equivalents, at beginning of the period.....                                      | 173   | 239   | 239                                | 424   | 414   |
| Effects of exchange rate changes on cash and cash<br>changes on cash and cash equivalents ..... | 10  | 1     | 4                                  | (13)  | (1)   |
| Cash and cash equivalents, at end of the period.....  | 170   | 172   | 173                                | 239   | 424   |

### *Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016*

#### *Cash Flows Provided by Operating Activities*

Cash flows provided by our operating activities increased by US\$103 million to US\$170 million during the six-month period ended June 30, 2017 from US\$67 million during the corresponding period of 2016. This increase was primarily driven by (1) a US\$66 million increase in cash flows from operating activities as a result of the CODs of our CDA, Samay and Kanan plants during August 2016, May 2016 and April 2016, respectively; (2) a US\$33 million increase in Kallpa's cash flows from operating activities as a result of a reduction of payments to third parties following the completion of maintenance performed during the six months ended June 30, 2016, and the commencement of our receipt of revenue relating to secondary regulation services provided by Kallpa; (3) an US\$11 million increase in Nejapa's cash flows from operating activities as a result of a timing difference in collection from customers (as December 2016 payables to Nejapa were collected during January 2017); and (4) a US\$7 million increase in ICPNH's cash flows from operating activities as a result of a timing difference in collection from customers (as January 2016 payables to ICPNH were collected during December 2015). The effects of these increases was partially offset by a

US\$15 million decline in Energuate's cash flows from operating activities, primarily due to payments of energy purchases and other service providers that were due in 2016, but were effectively paid in January 2017.

#### *Cash Flows Used in Investing Activities*

Cash flows used in our investing activities declined by US\$162 million, or 80% to US\$40 million during the six-month period ended June 30, 2017 from US\$202 million during the corresponding period of 2016.

During the six-month period ended June 30, 2017, investing activities for which we used cash primarily consisted of acquisitions of property, plant and equipment of US\$57 million, consisting of US\$29 million used to make a payment to the EPC contractor for the CDA plant, US\$13 million used by Energuate for various projects to improve its operations, and US\$10 million related to capital expenditures in connection with maintenance of our other subsidiaries. The effects of these factors were partially offset by the release of the restrictions on restricted cash of US\$4 million, primarily as a result of a US\$3 million reduction in COBEE's debt service reserve accounts.

During the six-month period ended June 30, 2016, investing activities for which we used cash primarily consisted of (1) US\$206 million disbursed for business combination (net of the cash acquired) related to our acquisition of Energuate, RECSA and Guatemel, and (2) acquisitions of property, plant and equipment of US\$178 million, which primarily consisted of US\$63 million used in the construction of the CDA plant, US\$66 million used in the construction of the Samay I plant, and US\$11 million used in Kanan's project installation and interconnection to Panama's power system. The effects of these factors were partially offset by (1) the release of the restrictions on restricted cash of US\$125 million of the funds received by ICPDH for the acquisition of Energuate, RECSA and Guatemel, and (2) our liquidation of US\$50 million of short-time deposits in connection with the payment of the purchase price for Energuate, RECSA and Guatemel.

#### *Cash Flows Used in Financing Activities*

Cash flows used by our financing activities were US\$143 million during the six-month period ended June 30, 2017 compared to cash flows provided by our financing activities of US\$67 million during the corresponding period of 2016.

During the six-month period ended June 30, 2017, we received aggregate proceeds of US\$458 million from the incurrence of long-term debt, consisting primarily of (1) proceeds of US\$330 million under the Energuate Loan Agreement, and (2) proceeds of US\$120 million under the Energuate Guatemalan Loan Agreements.

During the six-month period ended June 30, 2017, we used cash (1) to repay long-term debt of US\$331 million, including (i) DEOCSA and DEORSA's obligations under their then-existing syndicated loan agreements, and (ii) amortization payments under our other outstanding long-term indebtedness, (2) to make payments of our short-term borrowings, net of proceeds of short term borrowings, of US\$141 million, primarily consisting of repayments of Energuate's short-term debt and the short-term loan of our subsidiary ICPDH, (3) to pay interest in the amount of US\$77 million, (4) to pay loans from our parent company of US\$32 million, and (5) to pay dividends to holders of non-controlling interests of certain of our subsidiaries of US\$15 million.

During the six-month period ended June 30, 2016, we received aggregate proceeds of US\$466 million from the incurrence of long-term debt, consisting primarily of (1) proceeds of US\$347 million from the May 2016 issuance by Kallpa of US\$350 million of the Kallpa 2026 Notes, (2) US\$55 million borrowed under the Kanan Credit Facility, (3) US\$44 million borrowed under the CDA Finance Facility, and (3) US\$20 million borrowed under the Samay I Finance Facility. In addition, proceeds of short term borrowings net of payment of short term borrowings provided US\$12 million (which includes a US\$45 million payment of our short-term loans from Banco de Crédito del Perú S.A.A. and Scotiabank Perú S.A.A.).

During the six-month period ended June 30, 2016, we used cash (1) to repay long-term debt of US\$318 million, including (i) the redemption of Kallpa's outstanding 8.50% bonds due 2022, (ii) the prepayment of all obligations under Kallpa's leases of the Kallpa II and Kallpa III turbines, (iii) the repayment of all outstanding amounts under Kallpa's secured syndicated credit facility. and (iv) amortization payments under our other outstanding indebtedness, (2) to pay interest in the amount of US\$46 million, (3) to pay issuance expenses related to Kallpa's debt refinancing in the amount

of US\$22 million, (4) to pay a consent fee of US\$10 million to Kallpa's previous bondholders, and (5) to pay dividends to holders of non-controlling interests of certain of our subsidiaries of US\$11 million.

### ***Year Ended December 31, 2016 Compared to Year Ended December 31, 2015***

#### *Cash Flows Provided by Operating Activities*

Cash flows provided by our operating activities declined by US\$72 million, or 30%, to US\$172 million during 2016 from US\$244 million during 2015. This decline was primarily driven by (1) a US\$24 million decrease in ICPNH's net operating cash flows as a result of a timing difference in collection from customers (as January 2016 payables to ICPNH were collected during December 2015), as well as lower energy sales due to lower wind levels at the Amayo plants, (2) a US\$23 million decrease in CEPP's net cash flows from operating activities as a result of the collection of US\$31 million from its accounts receivable due to the debt recognition and payment agreement signed by CEPP, the Dominican Republic's regulator and three distribution companies in September 2015, and (3) a US\$14 million decline as a result of the consolidation of negative operating cash flows from Energuate due to its payment of US\$79 million in connection with tax claims raised by the Guatemalan Tax Administrator in 2016.

#### *Cash Flows Used in Investing Activities*

Cash flows used in our investing activities declined by US\$299 million, or 54% to US\$252 million during 2016 from US\$551 million during 2015.

During 2016, investing activities for which we used cash primarily consisted of (1) acquisitions of property, plant and equipment of US\$226 million, which primarily consisted of US\$72 million used in the construction of the CDA plant, US\$66 million used in the construction of the Samay I plant, and US\$16 million used in Kanan's project installation and interconnection to Panama's power system; and (2) US\$206 million disbursed for business combination (net of the cash acquired) related to our acquisition of Energuate, RECSA and Guatemel. The effects of these factors were partially offset by (1) the release of the restrictions on restricted cash of US\$126 million of the funds received by ICPDH for the acquisition of Energuate, RECSA and Guatemel, and (2) our liquidation of US\$50 million of short-time deposits in connection with the payment of the purchase price for Energuate, RECSA and Guatemel.

During 2015, investing activities for which we used cash primarily consisted of (1) acquisitions of property, plant and equipment of US\$495 million, which primarily consisted of US\$225 million used in the construction of the Samay I plant, US\$187 million used in the construction of the CDA plant, and US\$29 million used in Kanan's project installation and interconnection to Panama's power system; (2) US\$115 million for short-term deposits and restricted cash, net, principally related to the funds received by ICPDH, which acquired indirect equity interests in Energuate, RECSA and Guatemel, in connection with the short-term loan for the acquisition of such businesses in January 2016; and (3) US\$17 million related to the acquisition of intangibles. During 2015, we sold an aggregate of US\$69 million of short-time deposits.

#### *Cash Flows Provided by Financing Activities*

Cash flows provided by our financing activities declined by US\$125 million, or 93%, to US\$10 million during 2016 from US\$135 million during 2015.

During 2016, we received aggregate proceeds of US\$541 million from the incurrence of long-term debt, as follows:

- US\$350 million from the issuance of Kallpa bonds in May 2016;
- US\$55 million borrowed under a credit facility entered into by Kanan;
- US\$44 million borrowed under the CDA Finance Facility;
- US\$24 million borrowed under the DEOCSA Syndicated Loan Facility;
- US\$22 million from the issuance of the bonds by COBEE;

- US\$20 million borrowed under the Samay I Finance Facility;
- US\$16 million borrowed under the DEORSA Syndicated Loan Facility; and
- US\$12 million borrowed under a credit facility entered into by Puerto Quetzal.

In addition, proceeds from short term borrowings net of the payment of short term borrowings provided US\$33 million, and capital contributions from minority shareholders of CDA and Surpetroil provided US\$9 million.

During 2016, we used cash (1) to repay long-term debt of US\$378 million, including cash used for the repayment of Kallpa's bonds due 2022, (2) to pay interest in the amount of US\$125 million, (3) to pay US\$24 million of issuance expenses and premium in connection with the Kallpa bonds, (4) to pay dividends to holders of non-controlling interests of certain of our subsidiaries of US\$23 million, and (5) to extend a loan to ICP of US\$13 million.

During 2015, we received aggregate proceeds of US\$226 million from our incurrence of long-term debt and US\$20 million from equity investments from certain of our partners, as follows:

- US\$138 million borrowed under the Samay I Finance Facility;
- US\$85 million borrowed under the CDA Finance Facility;
- US\$3 million borrowed under a loan agreement of Tipitapa Power; and
- US\$6 million from the investment of the minority partner in CDA and the investment of the minority partner in Surenergy Holdings S.A.S.

In addition, proceeds of short term borrowings net of payment of short term borrowings provided US\$123 million.

During 2015, we used cash to (1) repay long-term debt of US\$104 million, (2) pay interest in the amount of US\$74 million, (3) purchase a non-controlling interest in Nejapa Holdings from Crystal Power for US\$20 million, and (4) pay dividends to holders of non-controlling interests of certain of our subsidiaries of US\$12 million.

### ***Year Ended December 31, 2015 Compared to Year Ended December 31, 2014***

#### *Cash Flows Provided by Operating Activities*

Cash flows provided by our operating activities increased by US\$12 million, or 5%, to US\$244 million during 2015 from US\$232 million during 2014. This increase was primarily driven by (1) the consolidation of ICPNH cash flows from operating activities of US\$42 million for the full year 2015 compared to US\$27 million during the nine months of 2014 following the date of our acquisition of ICPNH in March 2014, (2) a US\$9 million increase in CEPP's cash flows from operating activities mainly due to a debt recognition and payment agreement signed with local distribution companies; and (3) a US\$7 million increase in Inkia's cash flows from operating activities mainly as a result of lower payments of legal fees in connection with the settlement reached with Crystal Power Company in December 2014 for the acquisition of Crystal's shares in Nejapa Holdings and as a result of 2014's deferred compensation paid during the year ended December 31, 2014. These effects were partially offset by a US\$22 million decline in dividends received from associated companies mainly due to the sale of Acter in September 2014.

#### *Cash Flows Used in Investing Activities*

Cash flows used in our investing activities increased by US\$250 million, or 83%, to US\$551 million during 2015 from US\$301 million during 2014.

During 2015, investing activities for which we used cash primarily consisted of (1) acquisitions of property, plant and equipment of US\$495 million, which primarily consisted of US\$225 million used in the construction of the Samay I plant, US\$187 million used in the construction of the CDA plant, and US\$29 million used in Kanan's project installation and interconnection to Panama's power system; (2) US\$115 million for short-term deposits and restricted cash, net,

principally related to the funds received by ICPDH, which acquired indirect equity interests in Energuate, RECSA and Guatemel, in connection with the short-term loan for the acquisition of such businesses in January 2016; and (3) US\$17 million related to the acquisition of intangibles. During 2015, we sold an aggregate of US\$69 million of short-time deposits.

During 2014, investing activities for which we used cash primarily consisted of (1) acquisitions of property, plant and equipment of US\$407 million, of which US\$260 million was used in connection with the construction of the CDA plant and US\$85 million was used in connection with the construction of the Samay I plant; (2) our acquisition of US\$117 million of short-term deposits in connection with the opening of time deposits related to the proceeds from the Acter sale; and (3) US\$70 million disbursed for business combination (net of the cash acquired) related to our acquisitions of ICPNH, JPPC, Surpetroil and Puerto Quetzal. The effects of these expenditures were partially offset by the receipt of net proceeds of US\$360 million in connection with the sale of Acter in September 2014.

#### *Cash Flows Provided by Financing Activities*

Cash flows provided by our financing activities increased by US\$55 million, or 69%, to US\$135million during 2015 from US\$80 million during 2014.

During 2015, we received aggregate proceeds of US\$226 million from the incurrence of long-term debt and US\$6 million from equity investments from certain of our partners, as follows:

- US\$138 million borrowed under the Samay I Finance Facility;
- US\$85 million borrowed under the CDA Finance Facility;
- US\$3 million borrowed under a loan agreement of Tipitapa Power; and
- US\$6 million from the investment of the minority partner in CDA and the investment of the minority partner in Surenergy Holdings S.A.S.

In addition, proceeds of short term borrowings net of payment of short term borrowings provided US\$123 million.

During 2015, we used cash to (1) repay long-term debt of US\$104 million, (2) pay interest in the amount of US\$74 million, (3) purchase a non-controlling interest in Nejapa Holdings from Crystal Power for US\$20 million, and (4) pay dividends to holders of non-controlling interests of certain of our subsidiaries of US\$12 million.

During 2014, we received aggregate proceeds of US\$564 million from our incurrence of long-term debt and US\$20 million from equity investments from certain of our partners, as follows:

- US\$319 million borrowed under the CDA Finance Facility;
- US\$153 million borrowed under the Samay I Finance Facility;
- US\$43 million from the issuance of bonds of COBEE;
- US\$25 million from the issuance of bonds of CEPP;
- US\$23 million borrowed under a credit facility of Colmito;
- US\$2 million borrowed under a loan agreement of Tipitapa Power; and
- US\$20 million from the investment of the minority partner in Samay I.

During 2014, we used cash to (1) pay loans to our then-parent company, IC, of US\$168 million, (2) repay long-term debt of US\$93 million, (3) pay interest in the amount of US\$71 million, (4) pay dividends to our shareholders of US\$32 million, and (5) pay dividends to holders of non-controlling interests of certain of our subsidiaries of US\$14 million. In



addition, our cash flows from financing activities were negatively affected during 2014 by the US\$129 million effect of discontinued operations relating to our sale of Acter.

### Tabular Disclosure of Contractual Obligations

The following table sets forth a summary of our contractual obligations, including indebtedness, and commercial commitments (including future interest payments) as of December 31, 2016:

|  | Payments Due by Period |                       |                        |                         | Total        |
|--|------------------------|-----------------------|------------------------|-------------------------|--------------|
|  | Less than<br>One Year  | One to<br>Three Years | Three to<br>Five Years | More than<br>Five years |              |
|  | (US\$ in millions)     |                       |                        |                         |              |
| Loans from banks and others, debentures,<br>and lease agreements (1) ..... | 485                    | 251                   | 1,506                  | 1,051                   | 3,293        |
| Trade payables .....   | 297                    | —                     | —                      | —                       | 297          |
| Other payables and credit balances .....                                   | 50                     | —                     | —                      | —                       | 50           |
| Purchase obligations(2) .....  | 189                    | 357                   | 354                    | 2,504                   | 3,404        |
| Operating and maintenance agreements (3) ....                              | 353                    | 263                   | 25                     | 143                     | 784          |
| Obligations under EPC Contract Retirement<br>(4) .....                     | 44                     | 1                     | —                      | 4                       | 49           |
| Total contractual obligations and<br>commitments .....                     | <u>1,418</u>           | <u>872</u>            | <u>1,885</u>           | <u>3,702</u>            | <u>7,877</u> |

- (1) Consists of estimated future payments of principal, interest and premium on loans from banks and others, debentures, and lease agreements, calculated based on interest rates and foreign exchange rates applicable as of December 31, 2016 and assuming that all amortization payments and payments at maturity on loans from banks and others, debentures, and lease agreements, will be made on their scheduled payment dates. Also includes the interest rate swaps relating to these obligations, which are calculated based on the LIBOR interest rate set forth in the applicable interest rate swap contract plus the applicable fixed spread.
- (2) Consists of purchase commitments for natural gas and gas transportation until 2033 pursuant to binding obligations which include all significant terms, including fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction, and purchase commitments with service providers (operation and maintenance and leasing) and material suppliers including fixed or minimum quantities to be purchased. Based upon the applicable purchase prices as of December 31, 2016.
- (3) Consists of future payments to be made under services contract with Siemens based on its projections of the hours of service of Kallpa's gas turbines.
- (4) Consists of future payments to be made under the EPC contract, assuming that all progress and completion payments will be made on their scheduled payment dates.

### Capital Expenditures

#### *Development Projects Completed During the Year Ended December 31, 2016*

During the year ended December 31, 2016, we completed the following projects:

- Kanan's thermal generation units, representing 92 MW of capacity, which reached their COD in April 2016 at a total development cost of US\$87 million (including US\$40 million of intercompany costs related to Kanan's acquisition of the barges from two of our other subsidiaries). We invested US\$16 million in 2016, US\$29 million in 2015 and US\$47 million in 2014 in the development of this project, including US\$40 million of intercompany costs related to Kanan's acquisition of barges from two of our other subsidiaries. The capital required for this project was sourced from a combination of cash generated from operating activities and cash generated by financing activities.

- Samay I's cold-reserve open-cycle diesel and natural gas (dual-fired) thermal plant in Mollendo, Arequipa (southern Peru), representing 632 MW of capacity (when operated with diesel fuel), which reached its COD in May 2016 at a total development cost of US\$377 million (excluding US\$26 million of diesel fuel inventory, which was financed using a short-term facility). We invested US\$66 million in 2016, US\$225 million in 2015 and US\$85 million in 2014 in the development of this project. This project was financed by the Samay I Finance Facility, a US\$311 million seven-year syndicated secured loan agreement, which was obtained in December 2014, and equity contributions of US\$78 million.
- CDA's run-of-the-river hydroelectric plant on the Mantaro River in central Peru, representing 545 MW of installed capacity, which reached its COD in August 2016 at a total development cost of US\$975 million. We invested US\$72 million in 2016, US\$187 million in 2015 and US\$260 million in 2014 in the development of this project. This project was financed by the CDA Finance Facility, a US\$591 million syndicated credit facility, which was obtained in 2012, equity contributions of US\$328 million and a US\$28 million (excluding capitalized interest) shareholder loan.

### ***Potential Projects***

We believe that our current platform, coupled with our agile and disciplined decision-making process, enables us to take advantage of opportunities as they arise. As such, we are constantly monitoring and considering development and acquisition opportunities relating to generation or distribution, and we are currently assessing projects in various Latin American countries, such as Chile, Colombia, Panama, Peru, the Dominican Republic, Argentina, Mexico, Nicaragua and Puerto Rico, relating to generation or distribution projects or companies. For example, through our subsidiary IC Power DR, we are developing a 50 MW wind project in the Dominican Republic, Agua Clara, which is expected to reach COD by the first quarter of 2019. With respect to our potential generation projects, such projects range in size from small-scale power facilities (e.g., less than 40 MW) to large-scale power facilities (e.g., approximately 850 MW) and utilize different fuels and technologies, including natural gas, hydroelectric, wind, coal and solar. In some instances, we have acquired land, secured necessary licenses or rights (including temporary concessions and water rights), commissioned studies, made bids, or initiated similar actions, in connection with our assessment of the viability of the relevant project.

We expect to finance our development and acquisition activity through a combination of cash generated by financing activities, in particular, the entry into new debt financings, which are generally stand-alone, secured, project-specific, and with no or limited recourse, cash generated from operating activities, and the proceeds raised in this offering.

### ***Capital Expenditures of Our Guatemalan Distribution Business***

During 2016, Energuate implemented significant improvements to its technological platform, which included:

- reengineering of the technological platform of the *Sistema de Gestión Comercial* (Management System);
- implementation of the PrimeGrid system to improve the control of losses in Energuate's systems;
- updating of the directory to the 2012 version;
- implementation of QOS solutions and grid contents filtering;
- updating of the technological platform of regulatory reports;
- implementation of a SAP system to coordinate work orders in the distribution and commercial areas; and
- development of a new version of its human resources system.

During the next five years, we intend to implement an investment program to further improve Energuate's service quality, increase the number of customers it serves and reduce its energy losses. The initiatives that we expect to include in this program are, among others, the following:

- replacement of 36 km per year of three-phase-conductor distribution lines for single-phase-conductor to improve voltage;
- reconditioning of 500 transformers per year presenting low-voltage problems;
- installation of 45 load-transfer equipment per year, to improve failure-response times;
- replacement of 1,517 overloaded transformers and 110 transformers with probability to overload;
- construction of six new medium-voltage circuits per year, to reduce length and over demand in existing circuits;
- construction of a new distribution substation each year;
- reconditioning of 35 medium-voltage outputs to comply with current regulations;
- installation of 136 triple trip circuit breakers per year, placed in critical derivatives that allow a fast recovery of faults; and
- installation of 4,900 connection works to add an estimated of 6,000 new customers that are within 200 meters from Energuate's network.

Additionally, as part of the investment program, we are planning to undertake the following measures related to the commercial and sale area:

- perform 60,000 customer regularizations (which consists of physical inspections of meters in high-loss regions to minimize technical and commercial losses) per year;
- modernization of our meter laboratory to certify regulatory measurement parameters and to reutilize meters;
- normalize 25,000 customers in conflict areas per year;
- installation of 60,000 new customer connections, improving installations to shield the network in order to reduce theft of material and equipment; and
- updating Energuate's technological infrastructure to improve operations and losses and collection procedures.

Finally, Energuate's distribution line may be expanded due to certain electrification projects that the Guatemalan government has historically conducted to promote access to energy within Energuate's service area.

### **Material Indebtedness**

As of June 30, 2017, our total outstanding consolidated indebtedness was US\$2,526 million, consisting of US\$198 million of short-term indebtedness, including the current portion of long-term indebtedness, and US\$2,328 million of long-term indebtedness.

As of December 31, 2016, our total outstanding consolidated indebtedness was US\$2,546 million, consisting of US\$361 million of short-term indebtedness, including the current portion of long-term indebtedness, and US\$2,185 million of long-term indebtedness.

Other than with respect to an aggregate of US\$210 million and US\$176 million of our outstanding indebtedness as of June 30, 2017 and December 31, 2016, respectively (representing some or all of the indebtedness of certain of our subsidiaries, including DEOCSA, DEORSA and COBEE, among others), our outstanding consolidated indebtedness is primarily denominated in, indexed to, or the subject of interest rate swaps tied to, the U.S. dollar.

Some of the debt instruments to which our operating companies are party require that Inkia, COBEE, CEPP, DEOCSA, DEORSA, JPPC and Samay I comply with financial covenants, semi-annually or quarterly. Under each of

these debt instruments, the creditor has the right to accelerate the debt or restrict the company from declaring and paying dividends if, at the end of any applicable period the applicable entity is not in compliance with the defined financial covenants ratios.

The instruments governing a substantial portion of the indebtedness of our operating companies contain clauses that would prohibit these companies from paying dividends or making other distributions in the event that the relevant entity was in default on its obligations under the relevant instrument.

As of June 30, 2017 and December 31, 2016:

- the loans under the CDA Finance Facility were secured by pledges of CDA's movable assets and offshore and onshore collateral accounts, a pledge of 100% of the equity interests in CDA, mortgages of the CDA plant and CDA's generation and transmission concessions, a collateral assignment of insurances and reinsurances in respect of CDA, and a conditional assignment of CDA's rights under certain contracts, including the CDA EPC contract and CDA's PPAs; all obligations under the CDA Finance Facility were prepaid in August 2017;
- the loans under the Samay I Finance Facility are secured by pledges of Samay I's movable assets and onshore collateral accounts, a pledge over 100% of the equity interests in Samay I, mortgages of the Samay I real estate property, plant and generation and transmission concessions, collateral assignments of insurances and reinsurances in respect of Samay I, a conditional assignment of Samay I rights under certain contracts, including Samay I's EPC contract, and trust agreement over certain cash flows of Samay I;
- obligations under the Las Flores lease are secured by the Las Flores plant;
- obligations under Kanan's long-term debt facility are secured by all of the assets of Kanan and, subsequent to the fire at this plant in April 2017, are guaranteed by Inkia; this guarantee will remain in effect until the power barge that we expect to transfer from Puerto Quetzal to Kanan has been placed into service;
- the loans under the 15-year secured loan agreement entered into by and between Amayo I, as borrower, and the Central American Bank for Economic Integration, as lender, for borrowings up to US\$71 million, or the Amayo I Finance Facility, are secured by a mortgage on improvements made to the Amayo I properties, pledges of Amayo I's machinery, equipment and debt service reserve account and conditional assignments of Amayo I's rights under certain contracts, including the Amayo I EPC contract and Amayo I's PPAs;
- obligations under the five 15-year loan agreements entered into pursuant to the common terms agreement executed in October 2010, by and between Amayo II and the Netherlands Development Finance Company, or FMO, and the Central American Bank for Economic Integration, or CABEI, each as senior lender and co-lead arranger, are secured by all of the assets of Amayo II; and
- obligations under the loan facility entered into in November 2016, by and among Puerto Quetzal, Poliwatt, Limitada and IC Power Guatemala, Limited, as co-borrowers, and Banco Industrial, Sociedad Anónima, as lender, are secured by all of the proceeds generated from the assets of Puerto Quetzal, as well as a pledge by IC Power Guatemala Holdings of all of its shares in Puerto Quetzal.

We have entered into hedging arrangements with respect to a portion of our long term debt, swapping variable interest for fixed rate interest. For further information on our hedging arrangements, see note 25 to our audited financial statements included in this offering memorandum.

### ***Short-Term Debt***

As of June 30, 2017, our consolidated short term debt was US\$198 million, consisting of US\$127 million of the current portion of long-term debt and US\$71 million outstanding under various short-term facilities entered into by our operating subsidiaries. As of December 31, 2016, our consolidated short term debt was US\$361 million, consisting of US\$147 million of the current portion of long-term debt, US\$120 million outstanding under a short-term facility entered into by ICPDH (which was fully repaid in May 2017), and US\$94 million outstanding under various short-term facilities entered into by our operating subsidiaries.

### Working Capital Facilities of Operating Subsidiaries

Samay I, Kallpa (formerly known as CDA), Puerto Quetzal, Nejapa, JPPC, COBEE and CEPP have borrowed under short-term lines of credit with financial institutions under which they have borrowed US\$42 million, US\$14 million, US\$9 million, US\$3 million, US\$2 million, US\$1 million and US\$1 million, respectively, as of June 30, 2017. These short-term borrowings are primarily used to finance these businesses' respective operating activities.

### Long-Term Debt

The following table sets forth selected information regarding our principal outstanding long-term debt and financial lease (net of transaction costs) as of June 30, 2017 and December 31, 2016.

|                                 | Outstanding Principal<br>Amount as of |                      | Interest Rate           | Final<br>maturity | Amortization   |
|---------------------------------|---------------------------------------|----------------------|-------------------------|-------------------|--|
|                                 | June 30,<br>2017                      | December 31,<br>2016 |                         |                   |  |
|                                 | (US\$ in millions)                    |                      |                         |                   |  |
| Inkia 2021 Notes .....          | 448                                   | 448                  | 8.375%                  | April 2021        | Bullet payment at final maturity   |
| CDA(1):                         |                                       |                      |                         |                   |  |
| Tranche A .....                 | 328                                   | 336                  | LIBOR+<br>4.25%-5.50%   | August 2024       | Quarterly principal payments to maturity   |
| Tranche B .....                 | 181                                   | 181                  | LIBOR+<br>4.25%-6.25%   | August 2024       | Bullet payment at final maturity   |
| Tranche D1 .....                | 40                                    | 41                   | LIBOR+<br>2.75%-3.60%   | August 2024       | Quarterly principal payments to maturity   |
| Tranche D2 .....                | 22                                    | 22                   | LIBOR+<br>2.75%-3.60%   | August 2027       | Quarterly principal payments commencing in May 2024 to maturity  |
| Kallpa 2026 Notes.....          | 327                                   | 326                  | 4.875%                  | May 2026          | Bullet payment at final maturity   |
| Las Flores lease .....          | 85                                    | 88                   | 5.08%                   | October 2023      | Quarterly principal payments to maturity<br>29% of principal to be paid in 23 quarterly payments to maturity |
| Samay I Finance Facility.....   | 307                                   | 307                  | LIBOR+<br>2.125%-2.625% | December 2021     | 84% of principal to be paid in bullet payment at final maturity  |
| Energuate Loan(2).....          | 321                                   | —                    | 5.875%                  | May 2027          | Bullet payment at final maturity   |
| DEOCSA Loan.....                | 72                                    | —                    | TAPP – 6.00%            | June 2027         | Quarterly principal payments commencing in September 2020 to maturity  |
| DEORSA Loan.....                | 48                                    | —                    | TAPP – 6.00%            | June 2027         | Quarterly principal payments commencing in September 2020 to maturity  |
| DEOCSA Syndicated Loan(3) ..... | —                                     | 174                  | Various                 | 2021-2025         | Quarterly principal payments to maturity   |
| DEORSA Syndicated Loan(3) ..... | —                                     | 113                  | Various                 | 2021-2025         | Quarterly principal payments to maturity   |

(1) All obligations outstanding under this facility were paid in full in August 2017 with proceeds of the CDA Bonds.

- (2) DEOCSA and DEORSA are jointly and severally liable for all obligations under this loan.
- (3) All obligations outstanding under this facility were paid in full in May 2017 with proceeds of the Energuate Loan Agreement and the Energuate Guatemalan Loan Agreements.

The following discussion briefly describes our most significant financing transactions.

#### *Inkia 2021 Notes*

In April 2011, Inkia issued and sold US\$300 million aggregate principal amount of the Inkia 2021 Notes, which are listed on the Global Exchange Market of the Irish Stock Exchange. Interest on these notes is payable semi-annually in arrears in April and October of each year and these notes mature in April 2021. Inkia used the net proceeds of the sale of these notes to finance a portion of its equity contributions to CDA, to repurchase all of its secured indebtedness, and for working capital and general corporate purposes.

In September 2013, Inkia issued and sold US\$150 million aggregate principal amount of the Inkia 2021 Notes, which constituted additional notes under the indenture governing the Inkia 2021 Notes issued in 2011. Inkia used the net proceeds of the sale of these notes to fund its projects under construction, both through greenfield projects and acquisitions, and for working capital and general corporate purposes.

In September 2014, Inkia received the requisite consents necessary to amend the indenture governing the Inkia 2021 Notes in connection with (1) the contribution by Inkia's former parent company, IC, of certain of its businesses and associated companies, including Inkia, to Kenon, thereby permitting the spin-off of Kenon from IC in January 2015 without requiring a change of control offer to be made to holders of the notes, and (2) the sale by Inkia of all its equity interests in Acter Holdings, which indirectly held all of Inkia's equity interest in Edegel, to Enersis S.A. and the repayment of certain indebtedness in connection therewith, which amended the asset sale covenant to require that Inkia apply the net proceeds received from such sale within 30 months of Inkia's receipt of such net proceeds (i.e., prior to March 2017).

As of June 30, 2017 and December 31, 2016, the aggregate principal amount outstanding under these notes was US\$457 million (US\$448 million net of transactions costs) and US\$457 million (US\$448 million net of transactions costs), respectively.

Concurrently with this offering, Inkia has commenced the tender offer for any and all of the Inkia 2021 Notes, subject to certain terms and conditions of the tender offer, including the consummation of this offering. For more information regarding the tender offer, see “—Recent Developments—Tender Offer for the Inkia 2021 Notes.”

#### *CDA Finance Facility*

In August 2012, CDA, as borrower, Sumitomo Mitsui Banking Corporation, as administrative agent, certain financial institutions, as lenders, and other parties thereto, entered into a senior secured syndicated credit facility, which we refer to as the CDA Finance Facility, in an aggregate principal amount not to exceed US\$591 million to finance the construction of CDA's plant. Loans under this facility were disbursed in three tranches.

Tranche A loans under this facility, in an aggregate principal amount of up to US\$342 million, initially bore interest at a rate of LIBOR plus 4.25% per annum, increasing over time beginning on the date after the interest payment date occurring after August 2017 to LIBOR plus 5.50% per annum. Principal of the Tranche A loans would be payable in 31 quarterly installments commencing in November 2016. Tranche A loans were guaranteed by Corporación Financiera de Desarrollo S.A., or COFIDE.

Tranche B loans under this facility, in an aggregate principal amount of up to US\$184 million, initially bore interest at a rate of LIBOR plus 4.25% per annum, increasing over time beginning on the date after the interest payment date occurring after August 2017 to LIBOR plus 6.25% per annum. Principal of the Tranche B loans would be payable in August 2024. Tranche B loans were guaranteed by COFIDE.

Tranche D loans under this facility, in an aggregate principal amount of up to US\$65 million, initially bore interest at a rate of LIBOR plus 2.75% per annum, increasing over time beginning on the date after the interest payment date occurring after August 2017 to LIBOR plus 3.60% per annum. Principal of the Tranche D loans would be payable in 42 quarterly installments commencing in November 2016. Tranche D loans were secured by a credit insurance policy provided by SACE S.p.A.—Servizi Assicurativi del Commercio Estero.

As of June 30, 2017 and December 31, 2016, the aggregate principal amount outstanding under this facility was US\$579 million (US\$571 million net of transactions costs) and US\$587 million (US\$579 million net of transactions costs), respectively. All loans under this facility were prepaid in full in August 2017.

#### *Kallpa 2026 Notes*

In May 2016, Kallpa issued US\$350 million of the Kallpa 2026 Notes. The proceeds of the notes were principally used to repay all of Kallpa's outstanding debt in May 2016, other than debt relating to the Las Flores lease. The remainder of the proceeds were used for general corporate purposes. Interest on these notes is payable in arrears in May and November of each year. Principal will be fully paid at maturity. As of June 30, 2017 and December 31, 2016, the principal amount outstanding under these notes was US\$350 million (US\$326 million net of transactions costs) and US\$350 million (US\$326 million net of transactions costs), respectively.

#### *Las Flores Lease*

In April 2014, Kallpa entered into a capital lease agreement with Banco de Crédito del Perú S.A.A. under which the lessor provided financing for the acquisition of Las Flores from a then-subsiary of Duke Energy Corp. in an aggregate amount of US\$108 million. Under this lease agreement, Kallpa will make quarterly payments to the lessors through the expiration of this lease in October 2023. As of June 30, 2017 and December 31, 2016, the aggregate principal amount outstanding under the Las Flores lease was US\$85 million and US\$88 million, respectively.

#### *Samay I Finance Facility*

In December 2014, Samay I entered into a US\$311 million, seven-year syndicated secured loan agreement with a syndicate including The Bank of Tokyo-Mitsubishi, as administrative agent, and certain financial institutions, as lenders, and other parties thereto, or the Samay I Finance Facility, to build an open-cycle diesel and natural gas (dual-fired) thermal plant in Mollendo, Arequipa (southern Peru). The loan will initially bear interest at a rate of LIBOR plus 2.125% per annum, increasing to LIBOR plus 2.375% per annum beginning on the date after the interest payment date occurring at the end of 2017 and increasing further to LIBOR plus 2.625% per annum from the date after the interest payment date occurring at the end of 2020 through maturity; 29% of the total principal is payable in 23 quarterly payments commencing in May 2017; the other 71% of the total principal is payable at maturity. Loans under this facility are secured by pledges of Samay I's movable assets and onshore collateral accounts; a pledge over 100% of the equity interests in Samay I; mortgages of the Samay I real estate property, plant and generation and transmission concessions; collateral assignments of insurances and reinsurances in respect of Samay I; a conditional assignment of Samay I rights under certain contracts, including Samay I's EPC contract; and trust agreement over certain cash flows of Samay I. As of June 30, 2017 and December 31, 2016, the aggregate principal amount outstanding under this facility was US\$311 million (US\$307 million net of transactions costs).

#### *Energuate Loan Agreement*

In May 2017, DEOCSA and DEORSA entered into the Energuate Loan Agreement, a 10-year loan agreement under which DEOCSA and DEORSA, joint and severally, borrowed US\$330 million. The lender under the Energuate Loan Agreement sold a 100% participation in the Energuate Loan Agreement to the Energuate Trust, which, in turn, issued US\$330 million of its 5.875% Senior Notes due 2027, or the Energuate Trust Notes. The Energuate Trust Notes are unconditionally guaranteed on a joint and several basis by DEOCSA and DEORSA. The Energuate Loan Agreement bears interest at a fixed rate of 5.875% per annum payable semi-annually in arrears. Principal under the Energuate Loan Agreement is due upon maturity in May 2027. The proceeds of the Energuate Loan Agreement, together with the proceeds of the Energuate Guatemalan Loan Agreements, were used to repay all obligations under syndicated loan

agreements that had been entered into by DEOCSA and DEORSA and to make distributions to their shareholders, including one of our subsidiaries.

As of June 30, 2017 the aggregate principal amount outstanding under the Energuate Loan Agreement was US\$330 million.

#### *Energuate Guatemalan Loan Agreements*

In May 2017, DEOCSA borrowed Q529 million (approximately US\$72 million) and DEORSA borrowed Q352 million (approximately US\$48 million) under 10-year loan agreements which they had entered into with a Guatemalan bank, or the Energuate Guatemalan Loan Agreements. The Energuate Guatemalan Loan Agreements bear interest at a variable interest rate equal to the weighted average rate (*Tasa Activa Promedio Ponderada*), or TAPP rate, as published by the Guatemalan Central Bank, less 6.0% (subject to a floor rate of 7.0%). Principal under the Energuate Guatemalan Loan Agreements is payable in quarterly installments commencing in September 2020 through maturity in June 2027.

As of June 30, 2017, the aggregate principal amounts outstanding under the Energuate Guatemalan Loan Agreements were US\$72 million and US\$48 million, respectively.

#### *Other Long-Term Facilities*

Many of our subsidiaries have entered into long-term loan facilities, financial leases or bonds. The table below sets forth the aggregate indebtedness (including current portion of long-term debt) of each of these entities as of December 31, 2017 and December 31, 2016.

|                            | <b>Outstanding Principal<br/>Amount as of</b> |                              |
|----------------------------|---|------------------------------|
|                            | <b>June 30,<br/>2017</b>                      | <b>December 31,<br/>2016</b> |
|                            | <b>(US\$ in millions)</b>                     |                              |
| COBEE.....                 | 74  | 83                           |
| Amayo I and Amayo II ..... | 69  | 74                           |
| Kanan(1).....              | 41  | 46                           |
| Central Cardones.....      | 33  | 35                           |
| Colmito.....               | 16  | 17                           |
| Puerto Quetzal.....        | 11  | 12                           |
| CEPP .....                 | 10  | 10                           |
| Corinto .....              | 5   | 7                            |
| Tipitapa Power .....       | 5   | 6                            |
| RECSA.....                 | 5   | 5                            |
| JPPC.....                  | —   | 1                            |

- (1) In June 2017, Inkia agreed to guarantee up to US\$41.3 million of Kanan's obligations under its long-term debt facility, plus any interest, fees and expenses arising thereunder, until adequate subsequent collateral, which we expect to be a power barge that we intend to transfer from Puerto Quetzal to Kanan, has been obtained by Kanan and placed into service.

#### **Quantitative and Qualitative Disclosures about Market Risk**

For quantitative and qualitative information on our market risk, see note 25 to our audited financial statements included in this offering memorandum.



**Research and Development, Patents and Licenses, Etc.**

We did not have significant research and development expenses during the six months ended June 30, 2017 and the years ended December 31, 2016, 2015 and 2014.

**Off-Balance Sheet Arrangements**

We are not party to any off-balance sheet arrangements.

## INDUSTRY

### Industry Overview

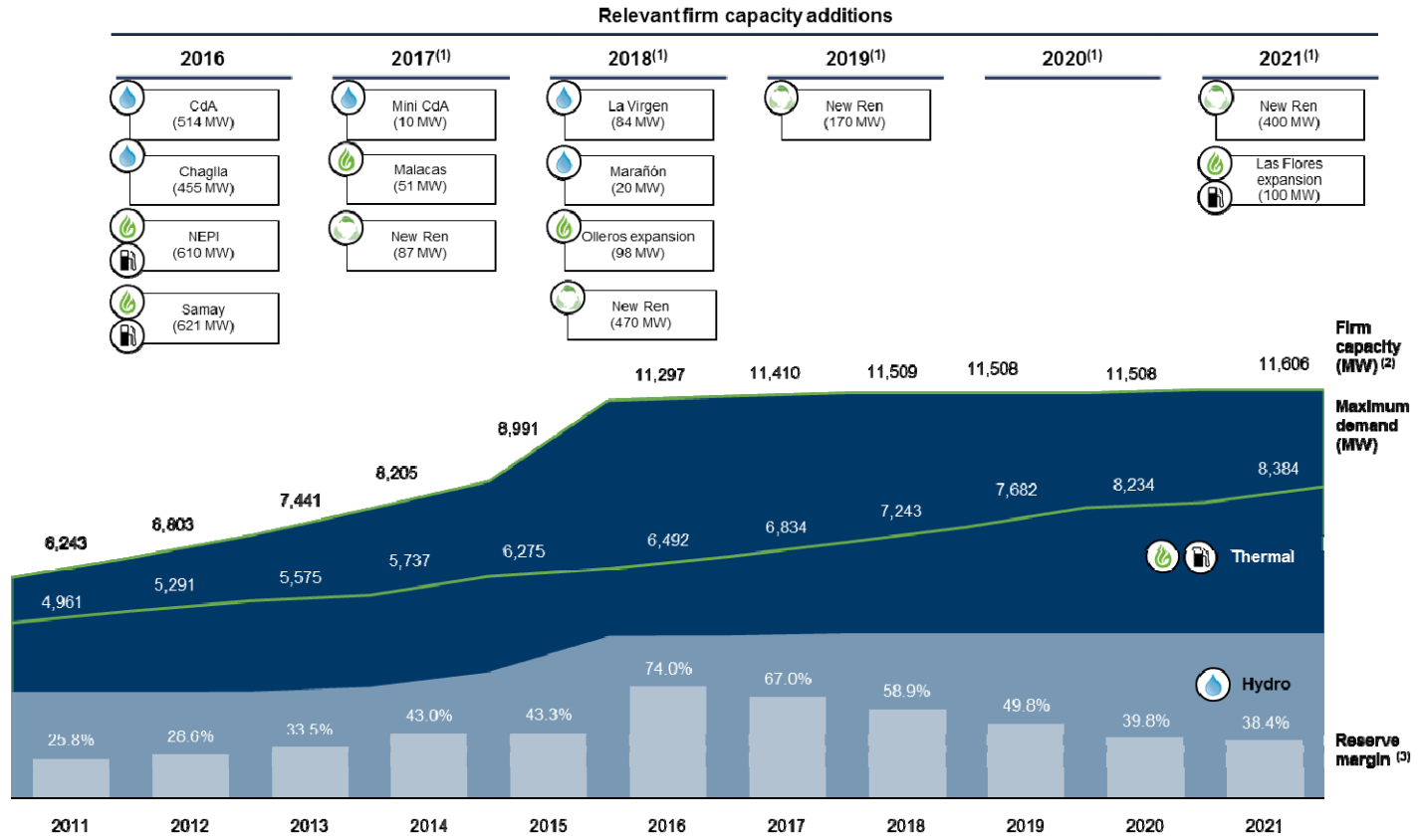
#### *Overview of Peruvian Electricity Generation Industry*

The power utility market in Peru is currently our primary market of operation and, driven by the growth in GDP and the expansion of energy coverage, Peruvian energy consumption has grown in recent years. According to the Peruvian National Institute of Statistics and Informatics (*Instituto Nacional de Estadística e Informática*—INEI), Peru had a population of approximately 31 million as of December 31, 2016. Peruvian GDP grew by 3.9%, 3.3% and 2.4% in 2016, 2015 and 2014, respectively. An increase in domestic demand, resulting from growth in the overall economic activity of Peru, an increase in the population's income and consumption and an increase in investment in infrastructure, has also led to an increase in investments in value-added manufacturing processes to create products to serve the domestic market and for export. In addition, the availability and extraction of natural resources, in particular metals, has led to increased energy-intensive mining activity, which, according to the MINEM, has supported the increase in Peru's energy consumption from 31,792 GWh in 2011 to 43,115 GWh in 2016, representing a CAGR of 6%. Nonetheless, the generation capacity in Peru increased at a faster rate than the demand for such electricity, resulting in a temporary oversupply of capacity in the Peruvian market, which has resulted in downward pressure on negotiated and spot energy and capacity prices in Peru and is expected to continue in the short- to medium-term.

As of the date of this offering memorandum, spot prices in the Peruvian electricity market are at historically low levels (a monthly average of approximately U.S.\$8.73/MWh during the first half of 2017 as compared to a monthly average of U.S.\$17.97 MWh for the first half of 2016), primarily due to a sustained increase in installed capacity, which has been boosted by thermal power plants fueled by natural gas from the Camisea fields. A moderate demand growth, coupled with the increase in installed capacity has increased the reserve margin in Peru from 25.8% in 2011 to 74.0% in 2016. According to the COES, demand is expected to increase as a result of large mining and industrial projects such as Las Bambas, Cerro Verde, Toquepala, Antamina, Toromocho and Cuajone, among others, as well as sustained growth in underlying demand. As a result, the COES expects the maximum demand to grow at a 6.4% CAGR between 2017 and 2021.

Total firm capacity is expected to increase at a 0.4% CAGR between 2017 and 2021. According to the COES, the low increase in supply after 2017, coupled with sustained demand growth, is expected to cause the reserve margin to decrease. According to the COES and our projections, we expect reserve margins to decline to 67.0% in 2017 and reach 44.8% by 2020 (a decrease of 43% versus 2017). These factors may lead to rising spot prices in the medium term and may provide for an improvement in future PPA prices.

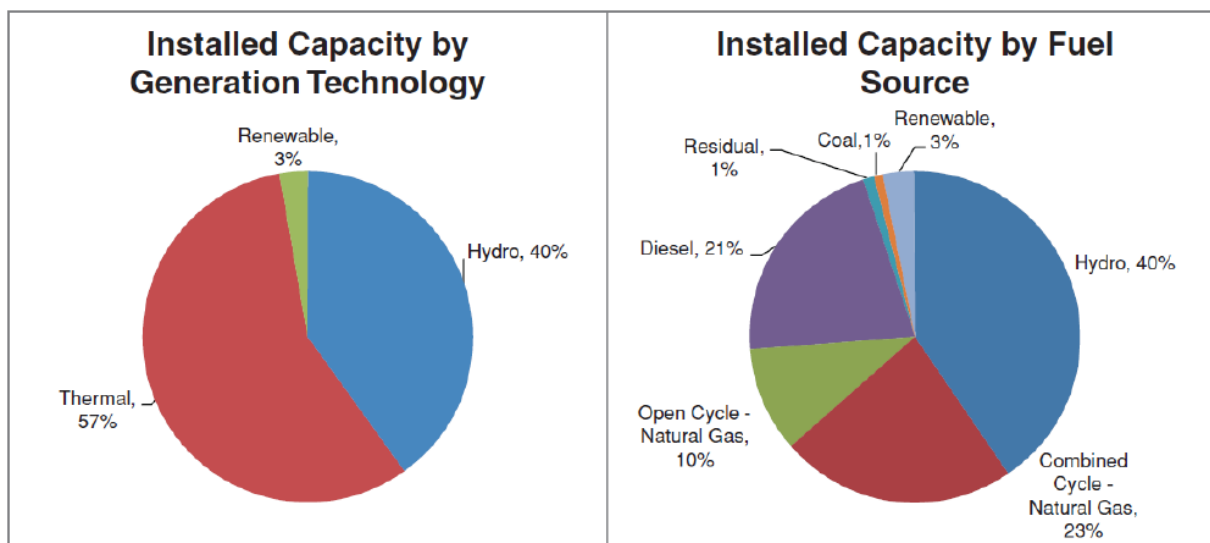
The following chart sets forth the historical and expected evolution of firm capacity, demand and the reserve margin in Peru:



Source: Company projections based on COES report “*Estudio de verificación del margen de reserva firme objetivo (MRFO) del SEIN, Periodo 2016-2019*”

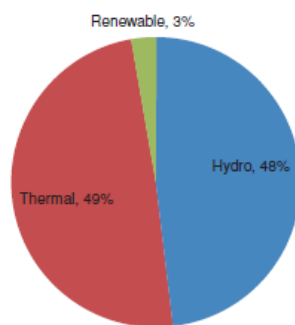
- (1) Generation plan forecast.
- (2) Wind and solar energy projects not included because firm capacity for such projects is defined as zero. Firm capacity as declared by COES.
- (3) Reserve margin calculated as firm capacity *minus* maximum demand / maximum demand.

The following chart presents a breakdown of installed capacity in Peru based on generation technology and fuel source, as of December 31, 2016:



The following chart presents a breakdown of gross generation by generation technology as of December 31, 2016:

**Gross Generation by Generation Technology**



Source: COES.

The power utility market in Peru has experienced significant changes in the past 25 years, as a result of privatizations following structural reforms initiated in 1992. In that context, the Peruvian power industry underwent a structural reform characterized by: (1) the enactment of a new regulatory model under the Electricity Concessions' Law (*Ley de Concesiones Eléctricas*, or "Law 25844"); (2) the restructuring and reorganization of the vertically integrated state owned power utilities into non vertically integrated generation, transmission and distribution companies; (3) the privatization of most of the state owned utilities; (4) the promotion of private investment; (4) the regulation of the remuneration model for distribution and transmission activities based on cost-efficient standards; (5) the creation of an "open access" principle for the use of transmission and distribution networks; (6) the creation of a compensation system between generators that operates independently from contractual arrangements; and (7) the segmentation of power consumers as "regulated" and "non-regulated," the latter being entitled to directly contract the supply of electricity from

generators. From a regulatory perspective, the Peruvian system has split the regulatory roles among (1) an independent regulator, the OSINERGMIN, (2) a policy body, the MINEM, and (3) a market operator that is a private entity, the COES. The structure and its separation have remained constant since the start of the reforms in 1992 and the economic model (i.e., marginal cost system) upon which the reform has been built is effectively embedded in the general electricity laws of Peru, providing long-term economic stability for investment.

The Law to Ensure Effective Development of Power Generation (*Ley para Asegurar el Desarrollo Eficiente de la Generación Eléctrica*), or Law 28832, published on July 23, 2006, and together with The Law of Power Concessions (*Ley de Concesiones Eléctricas*), or Law 25844, published on November 1992, introduced further changes to the power utility market and strengthened the model, mainly aiming to: (1) maintain the economic principles used in Law 25844 and add new measures to facilitate competition in the wholesale market; (2) reduce government intervention in establishing power generation tariffs; (3) allow power generation tariffs for regulated power consumers to reflect a competitive market, facilitating the construction of new generation plants when required; and (4) ensure a sufficient supply of power by reducing the power system's exposure to the risks of high prices and rationing inherent to situations of undersupply of natural gas or transportation congestion. Law 28832 was approved as a consequence of a severe crisis in the Peruvian electricity market that resulted from, among other causes, OSINERGMIN defining the tariff at which distribution companies purchased electricity to supply to regulated customers at levels that did not reflect market conditions and were not attractive for generators to sell to distribution companies. The changes introduced by this law strengthened the model and incorporated mechanisms to effectively transfer risks from generators to end users that were not contemplated when the reforms were approved in 1992.

The reforms of 1992, together with the Peruvian Constitution of 1993, liberalized ownership across the Peruvian electricity sector and opened it to private investment, effectively eliminating any ownership restriction based upon nationality (except within 50 km of Peru's international land borders, where certain restrictions apply) or otherwise. The privatization and concession award process was structured based upon the need to attract foreign investment and expertise that the country lacked. As a result of such ownership rules, the majority shareholders of almost all the private companies acting in the Peruvian electricity market are controlled by foreign investors. The second largest investors in the electricity sector are the Peruvian private pension funds administrated by the Private Pension Funds Administrators.

Since 1992, the Peruvian market has been operating based upon a marginal generation cost system. This system is embedded in the general electricity laws of Peru and is administrated by the COES. In such capacity the COES has as its main mandate the satisfaction of all the demand for electricity at any given time (i.e., periods of 15 minutes each) with the most efficient generation assets available at such time, independently of contractual arrangements between generators and their clients. For this purpose, the COES determines which generation facilities will be in operation at any given time with an objective of minimizing the overall system energy cost. Energy units are dispatched (i.e., ordered by the COES to inject energy into the system) on a real-time basis; units with lower variable generation costs are dispatched first and then other less efficient generation units will be dispatched, until the electricity demand is satisfied.

The variable cost for the most expensive generation unit dispatched in each 15-minute time period determines the price of electricity in such time period for those generation companies that sell or buy power on the spot market price during such time period. The COES determines, for each such 15-minute period, the spot market at which such transactions among generators take place and acts as a clearinghouse of all such transactions.

Generation companies in the Peruvian electricity market sell their capacity and energy under PPAs or in the spot market. The principal consumers under PPAs are distribution companies and non-regulated customers. Under regulations governing the Peruvian power sector, customers with a capacity demand above 2,500 kW participate in the non-regulated power market and can enter into PPAs directly with generation companies at freely-negotiated prices. Customers with a capacity demand between 200 kW and 2,500 kW may choose to participate in the non-regulated power market or contract as a regulated client with a distribution company. PPAs to sell capacity and energy to distribution companies for resale to regulated customers must be made at fixed prices based on public bids received by the distribution companies from generation companies or at the applicable bus bar tariff set by the OSINERGMIN. Generation companies are authorized to buy and sell capacity and energy in the spot market to cover their needs and their commitments under their PPAs. Customers that are entitled to participate in the non-regulated power market must enter into PPAs with generation or distribution companies covering all their electricity demand as they are not allowed to purchase energy or capacity directly in the spot market.

Within Peru, power is generally generated by hydroelectric or thermal power stations, including those power stations that use natural gas as fuel. The power generated by these power stations varies in accordance with the rainy seasons and rainfall patterns in each year. For example, greater amounts of hydroelectric power are dispatched between November and April in Peru—the Peruvian rainy season—than between May and October, when the volume of rainfall declines and operators have less water available for electricity generation in the reservoirs serving their plants. During periods of drought, thermal plants are used more frequently. During periods of excessive rainfall when hydroelectric plants increase their generation, there may be a reduction in the spot market prices in the system and also a reduced dispatch of thermal power plants. Accordingly, revenues within the Peruvian generation industry are generally subject to seasonality and the effects of rainfall. Although generators in Peru act to reduce this exposure to seasonality by contracting long-term PPAs, this effect cannot be completely neutralized. For further information on the impact of seasonality on our operations, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Material Factors Affecting Results of Operations—Seasonality.”

For further information on Peru’s regulatory environment, see “Regulatory Overview—Regulation of the Peruvian Electricity Sector.”

The following table sets forth a summary of energy sales in the Peruvian market for the periods presented:

| Year Ended December 31, | Energy Sales<br>Under PPAs |             |
|-------------------------|----------------------------|-------------|
|                         | Distribution               | Unregulated |
|                         | (GWh)                      |             |
| 2012 .....              | 18,961                     | 14,661      |
| 2013 .....              | 19,880                     | 15,841      |
| 2014 .....              | 20,823                     | 16,426      |
| 2015 .....              | 21,494                     | 18,264      |
| 2016 .....              | 20,850                     | 22,362      |

The demand for power and electricity in Peru is served by a variety of generation companies, including our subsidiaries Kallpa and Samay I, Edegel, a subsidiary of Enel, ElectroPerú, a state-owned generation company whose primary generation facilities are hydroelectric plants, Engie Energía Perú S.A. (formerly EnerSur S.A.), a subsidiary of Engie, and Orazul Energy S. en C. por A. (formerly Duke Energy Egenor S. en C. por A.), or Orazul Energy.

The following table sets forth a summary of the principal generation companies in Peru, indicating their capacity by type of generation, as of December 31, 2016:

|                                     | Capacity as of December 31, 2016 |                                     |                                  |              |       |      |       |       | Percentage<br>of Installed<br>Capacity<br>(%) |
|-------------------------------------|----------------------------------|-------------------------------------|----------------------------------|--------------|-------|------|-------|-------|---|
|                                     | Hydro-<br>electric               | Combined<br>Cycle<br>Natural<br>Gas | Open-<br>Cycle<br>Natural<br>Gas | (MW)         |       |      |       | Total |   |
|                                     |                                  |                                     |                                  | Dual<br>Fuel | HFO   | Coal | Other |       |   |
| Engie Energía Perú<br>S.A. ....     | 254                              | 920                                 | —                                | —            | 1,214 | 142  | —     | 2,530 | 21  |
| Enel Generación<br>Perú(1) .....    | 787                              | 479                                 | 292                              | 230          | 189   | —    | —     | 1,977 | 16  |
| Kallpa(2).....                      | —                                | 870                                 | 193                              | —            | —     | —    | —     | 1,063 | 9   |
| CDA(3).....                         | 545                              | —                                   | —                                | —            | —     | —    | —     | 545   | 5   |
| Samay I.....                        | —                                | —                                   | —                                | —            | 632   | —    | —     | 632   | 5   |
| ElectroPerú .....                   | 898                              | —                                   | —                                | —            | 16    | —    | —     | 914   | 8   |
| Orazul Energy(4)....                | 360                              | —                                   | 176                              | —            | —     | —    | 16    | 552   | 4   |
| Other generation<br>companies ..... | 1,846                            | 565                                 | 354                              | —            | 573   | —    | 559   | 3,987 | 32  |

**Capacity as of December 31, 2016**

|                    | <b>Hydro-<br/>electric</b> | <b>Combined<br/>Cycle<br/>Natural<br/>Gas</b> | <b>Open-<br/>Cycle<br/>Natural<br/>Gas</b> | <b>Dual<br/>Fuel<br/>(MW)</b> | <b>HFO</b>   | <b>Coal</b> | <b>Other</b> | <b>Total</b>  | <b>Percentage<br/>of Installed<br/>Capacity<br/>(%)</b> |
|--------------------|----------------------------|---|--|-------------------------------|--------------|-------------|--------------|---------------|---|
| <b>Total</b> ..... | <b>4,690</b>               | <b>2,834</b>                                  | <b>1,015</b>                               | <b>230</b>                    | <b>2,624</b> | <b>142</b>  | <b>575</b>   | <b>12,110</b> | <b>100</b>  |

- (1) Includes Enel Piura S.A. and Chinango S.A.C.
- (2) On August 16, 2017, Kallpa merged with and into CDA. CDA, the surviving entity, was subsequently renamed Kallpa Generación S.A.
- (3) In March 2017, following of the completion of CDA’s acceptance tests, the COES, the Peruvian system operator, declared that the installed capacity of CDA had tested at 545 MW.
- (4) Includes Termoselva S.R.L.

**Overview of Guatemalan Energy Distribution Market**

***Background***

During the 1970s, the Guatemalan government was the only distributor of energy in Guatemala through the INDE and EEGSA. In the next two decades, the Guatemalan electricity sector became increasingly privatized, and in 1994, the Guatemalan government adopted a new law to deregulate and privatize the Guatemalan electric energy industry in order to encourage privately funded growth. In 1996, the Guatemalan government adopted the General Electricity Law, which created a legal and regulatory framework designed to reduce government intervention and attract private investment into the sector.

***Operations and Regulations***

Guatemalan distribution companies acquire electricity on behalf of their clients through PPAs from generation facilities, transport such electricity to their grids, and then deliver electricity through low-voltage and medium-voltage transmission lines to regulated customers and large users and perform a range of related services such as metering, billing and management. Distribution companies also collect tolls from large users who purchase electricity from third parties for their use of the transmission grid.

The General Electricity Law provides that transmission companies and distribution companies must permit physical connections to the transmission and distribution systems for all non-regulated customers in exchange for a toll set by the CNEE. Large users are entitled to purchase electricity from any source and transmission and distribution companies must allow such electricity to pass through their transmission and distribution lines in exchange for a toll. Distribution and transmission companies are entitled to collect distribution tariffs and transmission tolls for the use of their systems. Failure to provide such access by a transmission or distribution company may lead to fines and ultimately to the termination of such company’s distribution authorization. In principle, such tolls should be equal to the VAD charged to regulated customers.

There are three large distribution companies authorized to distribute electricity in Guatemala: EEGSA, which predominantly serves Guatemala City, Sacatepéquez and Escuintla (urban areas), and DEORSA and DEOCSA. Guatemala has an electricity distribution market model that supports access to any person or legal entity that fulfills the requirements of the General Electricity Law. Authorizations for distribution services are granted on a non-exclusive basis for specific geographic areas and have terms of up to 50 years, which can be renewed indefinitely. In addition to these large distribution companies, there are approximately 16 municipal distributors.

Distribution companies are required to have PPAs in place with generating companies for the supply of sufficient energy to supply their projected demand for the current year and for the following year. Each distribution company is annually required to establish its own projection of demand for the period from May 1 of the following year through April 30 of the subsequent year. This projection of demand is then approved by the AMM and used to establish the distributor’s minimum contracting requirements. If there is a disagreement of more than +5% or -2% between a

distributor and the AMM regarding the demand estimation, the CNEE will have 15 business days to determine the estimation of the demand. If the contracted capacity under a distributor's PPAs is insufficient to meet the demand of its customers or prices under PPAs are not advantageous to a distributor, the distributor may make purchases on the spot market, if authorized by the CNEE or permitted under the terms of its PPAs authorized by the CNEE. Under these PPAs, the distributor has the option of purchasing from the generator or in the spot market (rather than under the PPAs) if the spot market price is lower.

The industry is regulated by the MEM, the CNEE and the AMM. The MEM is responsible for enforcing the General Electricity Law and the related regulations and for the coordination of policies between the CNEE and the AMM. The CNEE acts as the technical arm of the MEM and determines the transmission and distribution tariffs while ensuring compliance with electricity laws. The AMM is a private entity that coordinates the operation of the generation facilities and international interconnections and transmission lines that form the Guatemalan National Electricity System. The AMM is responsible for the safety and operation of the Guatemalan National Electricity System, performing economically efficient dispatch, and managing electricity resources in a manner that seeks to minimize operating costs, including failure costs within restrictions imposed by the transmission system and service quality requirements.

For further information on distribution tariffs, see "Regulatory Overview—Regulation of the Guatemalan Electricity Distribution Market—Distribution and Transmission Tariffs and Tolls."

For further information on macroeconomic conditions in Guatemala, see "—Overview of Electricity Generation Industry Outside Peru—Guatemala."

## **Overview of Electricity Generation Industry Outside Peru**

Our generation businesses outside Peru operate in power utility markets in Latin America and the Caribbean, each of which are governed by different regulations and regulatory systems (as further explained below) and provide varying degrees of incentives for private investment. These markets are typically characterized by relatively high rates of growth of GDP and lower overall and per capita energy consumption, as compared with more developed markets.

In the Latin American and Caribbean markets that we serve, power utility market regulation generally allows for the sale and delivery of power from power generators (private or state-owned) to distribution companies (private or state-owned) and to non-regulated customers.

In the countries in which our generation businesses operate, there is typically structural segregation between the companies involved in power generation and the companies involved in power transmission and distribution. In most of these countries, the government operates the power grid, and transmission services are provided on an open access basis (i.e. the transmission company must transmit power through the grid, and in exchange, the transmission company charges a transmission rate set by the supervisory authority or resulting from a competitive process). In the markets where private and state-owned entities compete in the power generation sector, transmission and distribution services are conducted subject to exclusive franchises, effectively regulating the transmission and distribution operations.

Although operating permits are required in each of the countries in which we operate, the markets in these countries generally have no material regulatory barriers to entry. The financial resources required to enter these markets and the significant costs associated with the construction of power facilities, however, pose barriers to entry.

The following discussion sets forth a brief description of the key electricity generation markets in which our generation companies operate.

### ***Nicaragua***

According to the World Bank, Nicaragua had a population of approximately 6 million as of December 31, 2016. Nicaraguan GDP grew by an estimated 4.7%, 4.9% and 4.6% in 2016, 2015 and 2014, respectively.

Nicaragua's interconnected power system had an installed capacity of approximately 1,244 MW, consisting of thermal, wind, hydroelectric, geothermal and biomass power stations using HFO or diesel, which accounted for 55%, 15%, 11%, 11% and 8%, respectively, of Nicaragua's capacity as of December 31, 2016 according to the National



Dispatch Committee of Nicaragua (*Centro Nacional de Despacho de Carga*). Nicaragua is part of the Central American Electrical Interconnection System (*Sistema de Interconexión Eléctrica de los Países de América Central*), or SIEPAC, that connects the transmission systems of Nicaragua, Panama, Costa Rica, Honduras, El Salvador and Guatemala through a 230 KW transmission line with a transport capacity of 300 MW, thereby permitting the creation of a Central American wholesale power generation market. For information on Nicaragua’s regulatory environment, see “Regulatory Overview—Regulation of the Nicaraguan Electricity Sector.”

The following table sets forth a summary of capacity and energy sales in the Nicaraguan market for the periods presented:

| <b>Year Ended December 31,</b> | <b>Capacity Sales</b> |                    | <b>Energy Sales</b> |                    |
|--------------------------------|-----------------------|--------------------|---------------------|--------------------|
|                                | <b>Under PPAs</b>     | <b>Spot Market</b> | <b>Under PPAs</b>   | <b>Spot Market</b> |
|                                | <b>(MW)</b>           |                    | <b>(GWh)</b>        |                    |
| 2012 .....                     | 728                   | 72                 | 3,536               | 91                 |
| 2013 .....                     | 740                   | 72                 | 3,695               | 133                |
| 2014 .....                     | 749                   | 72                 | 3,933               | 140                |
| 2015 .....                     | 736                   | 79                 | 4,051               | 185                |
| 2016 .....                     | 742                   | 115                | 4,202               | 213                |

### ***Bolivia***

According to the World Bank, Bolivia had a population of approximately 11 million as of December 31, 2016. Bolivian GDP grew by 4.1%, 4.8% and 5.5% in 2016, 2015 and 2014, respectively.

Based upon information available from the National Dispatch Committee of Bolivia (*Comité Nacional de Despacho de Carga*), or CNDC, as of December 31, 2016, thermal plants fueled by natural gas accounted for 72% of Bolivian capacity and hydroelectric plants accounted for 25%. As of December 31, 2016, thermal plants in Bolivia had a capacity of 1,468 MW and hydroelectric plants in Bolivia had a capacity of 483 MW, according to the CNDC.

Following the nationalization of Guaracachi, Valle Hermoso and Corani in May 2010 by the Bolivian government, all of the generation companies currently developing power projects in Bolivia are government-owned entities. It is unclear whether the Bolivian government will continue nationalizing entities involved in its power utility market and it is unclear whether such nationalization (if any) would be adequately compensated for by the Bolivian government. For further information on the Bolivian government’s acts of nationalization, see “Risk Factors—Risks Related to the Countries in Which We Operate—The Bolivian government has nationalized energy industry assets, and our remaining operations in Bolivia may also be nationalized.”

In December 2011, the Bolivian government amended the applicable law to prohibit generation companies from entering into new PPAs. For further information on risks related to our inability to renew, enter into, or replace long-term PPAs, see “Risk Factors—Risks Related to Our Generation Business—Our generation companies may not be able to enter into, or renew existing, long-term contracts for the sale of energy and capacity—contracts which reduce volatility in our results of operations.” For further information on Bolivia’s regulatory environment, see “Regulatory Overview—Regulation of the Bolivian Electricity Sector.”

Bolivian generation companies sell capacity and energy under PPAs or in the spot market. The following table sets forth a summary of capacity and energy sales in the Bolivian market for the periods presented:

| <b>Year Ended December 31,</b> | <b>Capacity Sales</b> |                    | <b>Energy Sales</b> |                    |
|--------------------------------|-----------------------|--------------------|---------------------|--------------------|
|                                | <b>Under PPAs</b>     | <b>Spot Market</b> | <b>Under PPAs</b>   | <b>Spot Market</b> |
|                                | <b>(MW)</b>           |                    | <b>(GWh)</b>        |                    |
| 2012 .....                     | 43                    | 1,060              | 369                 | 6,236              |
| 2013 .....                     | 47                    | 1,119              | 368                 | 6,645              |
| 2014 .....                     | 44                    | 1,254              | 357                 | 7,121              |

| Year Ended December 31, | Capacity Sales |             | Energy Sales |             |
|-------------------------|----------------|-------------|--------------|-------------|
|                         | Under PPAs     | Spot Market | Under PPAs   | Spot Market |
|                         | (MW)           |             | (GWh)        |             |
| 2015 .....              | 47             | 1,317       | 360          | 7,583       |
| 2016 .....              | 42             | 1,391       | 367          | 8,011       |

In Bolivia, wages are periodically increased by governmental decree and, as a result, labor costs, which already represent a significant portion of the operating expenses of Bolivian generation and distribution companies, are expected to continue to increase and represent a greater portion of generation expenses.

### Chile

According to the World Bank, Chile had a population of approximately 18 million as of December 31, 2016. Chilean GDP grew by 1.6%, 2.3% and 2.0% in 2016, 2015 and 2014, respectively.

Two of Chile's four power systems represent a significant portion of its 22,412 MW electricity market. The largest of such systems is the Central Interconnected System (*Sistema Interconectado Central*), or the SIC, which has a capacity of 16,837 MW, primarily consisting of hydroelectric stations, dual-fueled power stations using liquid natural gas or diesel, coal-based power stations, and wind farms and solar power stations which accounted for 39%, 33%, 14% and 11%, respectively, of the SIC's capacity as of December 31, 2016. The SIC serves approximately 92% of the Chilean population. The second largest power system is the Interconnected System of Norte Grande of Chile (*Sistema Interconectado Norte Grande*), or SING, which has a capacity of 5,401 MW and serves approximately 6% of the Chilean population.

In 1982, Chile became the first country in the region to adopt the marginal generation cost system. Chile still uses the marginal generation cost system to ensure demand for power is met at the minimum system cost. For further information on Chile's regulatory environment, see "Regulatory Overview—Regulation of the Chilean Electricity Sector."

The following table sets forth a summary of capacity and energy sales in the SIC for the periods presented:

| Year Ended December 31, | Capacity Sales      |                         | Energy Sales        |                         |
|-------------------------|---------------------|-------------------------|---------------------|-------------------------|
|                         | Regulated Customers | Non-regulated Customers | Regulated Customers | Non-regulated Customers |
|                         | (MW)                |                         | (GWh)               |                         |
| 2012 .....              | 4,422               | 1,967                   | 32,031              | 14,251                  |
| 2013 .....              | 4,765               | 2,029                   | 33,511              | 14,266                  |
| 2014 .....              | 4,923               | 2,157                   | 34,057              | 14,920                  |
| 2015 .....              | 4,935               | 2,172                   | 34,410              | 15,142                  |
| 2016 .....              | 5,313               | 2,443                   | 34,564              | 15,893                  |

### El Salvador

According to the World Bank, El Salvador had a population of approximately 6 million as of December 31, 2016. Salvadorian GDP grew by 2.4%, 2.5% and 1.4% in 2016, 2015 and 2014, respectively.

Hydroelectric plants accounted for 34% of El Salvador's capacity as of December 31, 2016 and geothermal plants accounted for 12%, based upon information available from the SIGET. The remaining 54% of El Salvador's capacity was provided by thermal plants powered by HFO, diesel and bio-mass.

Prior to August 2011, a market for capacity sales did not exist and customers of electricity, including non-regulated consumers, purchased only energy. However, as a result of regulatory changes, and similar to generation companies operating in the Peruvian market, Salvadorian generation companies sell capacity and energy under PPAs or in the spot

market. For further information on these reforms and El Salvador’s regulatory environment, see “Regulatory Overview—Regulation of the Salvadorian Electricity Sector.”

The following table sets forth a summary of capacity and energy sales in the Salvadorian market for the periods presented:

| <u>Year Ended December 31,</u> | <u>Capacity Sales</u> |                    | <u>Energy Sales</u> |                    |
|--------------------------------|-----------------------|--------------------|---------------------|--------------------|
|                                | <u>Under PPAs</u>     | <u>Spot Market</u> | <u>Under PPAs</u>   | <u>Spot Market</u> |
|                                | (MW)                  |                    | (GWh)               |                    |
| 2012 .....                     | 655                   | 332                | 3,122               | 2,761              |
| 2013 .....                     | 715                   | 285                | 3,823               | 2,177              |
| 2014 .....                     | 764                   | 271                | 4,176               | 1,891              |
| 2015 .....                     | 515                   | 581                | 3,828               | 2,482              |
| 2016 .....                     | 687                   | 398                | 2,946               | 3,405              |

### ***Panama***

According to the World Bank, Panama had a population of approximately 4 million as of December 31, 2016. Panamanian GDP grew by 5.0%, 5.8% and 6.1% in 2016, 2015 and 2014, respectively.

Panama’s interconnected power system had an installed capacity of approximately 3,221 MW, mainly consisting of hydroelectric, thermal, coal and other technologies, which accounted for 52%, 33%, 4% and 11%, respectively, of Panama’s capacity as of December 31, 2016, according to the National Dispatch Center of Panama (*Centro Nacional de Despacho*).

The following table sets forth a summary of capacity and energy sales in the Panamanian market for the periods presented:

| <u>Year Ended December 31,</u> | <u>Energy Sales</u> |                    |
|--------------------------------|---------------------|--------------------|
|                                | <u>Under PPAs</u>   | <u>Spot Market</u> |
|                                | (GWh)               |                    |
| 2012 .....                     | 7,217               | 1,884              |
| 2013 .....                     | 7,359               | 2,615              |
| 2014 .....                     | 7,542               | 3,193              |
| 2015 .....                     | 8,858               | 2,656              |
| 2016 .....                     | 10,034              | 2,828              |

An energy deficit has accumulated in Panama’s generation market, and such deficit has recently increased as a result of an extended dry season, which led to increased electricity shortages. For example, in 2014, as an emergency measure, the Panamanian government called for an emergency bid to attempt to cover electricity shortfalls in the short-term. We submitted a bid in response to this request and, in October 2014, Kanan was awarded a five-year contract to supply energy in Panama in connection with the Panamanian government’s effort.

### ***Guatemala***

According to the World Bank, Guatemala had a population of approximately 16 million as of December 31, 2016. Guatemalan GDP grew by 3.0% in 2016, 4.1% in 2015 and 4.2% in 2014.

Guatemala’s interconnected power system had an installed capacity of approximately 3,398 MW, consisting of hydroelectric, thermal and other technologies, which accounted for 38%, 57%, and 5%, respectively, of Guatemala’s capacity as of December 31, 2016 according to the AMM.

Guatemala, which is also a member of the SIEPAC, was a net exporter of energy in 2016.

All long-term capacity sales in Guatemala are made pursuant to PPAs. The following table sets forth a summary of capacity and energy sales in the Guatemalan market for the periods presented:

| <u>Year Ended December 31,</u> | <u>Capacity Sales</u>     | <u>Energy Sales</u> |                             |
|--------------------------------|---------------------------|---------------------|-----------------------------|
|                                | <u>Under PPAs</u><br>(MW) | <u>Under PPAs</u>   | <u>Spot Market</u><br>(GWh) |
| 2012 .....                     | 1,533                     | 7,500               | 1,056                       |
| 2013 .....                     | 1,564                     | 7,394               | 1,785                       |
| 2014 .....                     | 1,635                     | 8,223               | 1,899                       |
| 2015 .....                     | 1,672                     | 8,984               | 1,502                       |
| 2016 .....                     | 1,702                     | 10,624              | 790                         |

### ***Dominican Republic***

According to the Dominican Republic’s National Statistics Office (*Oficina Nacional de Estadística*), the Dominican Republic had a population of approximately 11 million as of December 31, 2016. The Dominican Republic’s GDP grew by 6.6%, 7.0% and 7.6% in 2016, 2015 and 2014, respectively; the significant growth in 2014 primarily resulted from the decline in international fuel prices.

Based upon information available from the Coordinating Body (*Organismo Coordinador*), or OC, as of December 31, 2016, HFO plants accounted for 79.7% of the Dominican Republic’s capacity and hydroelectric plants accounted for 17.0%. The remainder of the Dominican Republic’s capacity was provided by open-cycle and combined-cycle plants fueled by natural gas, thermal plants fueled by coal, and wind plants. As of December 31, 2016, thermal plants in the Dominican Republic had a capacity of 2,863 MW, hydroelectric plants in the Dominican Republic had a capacity of 612 MW and wind plants had a capacity of 115 MW, according to the OC.

The large-scale theft of power from the grid is prevalent in the Dominican Republic. Since generation and distribution companies do not pass through the cost associated with such theft to consumers, the government must provide significant subsidies to these companies. For information on the Dominican Republic’s regulatory environment, see “Regulatory Overview—Regulation of the Dominican Electricity Sector.”

Dominican Republic generation companies sell capacity and energy under PPAs or in the spot market. The following table sets forth a summary of capacity and energy sales in the Dominican Republic market for the periods presented:

| <u>Year Ended December 31,</u> | <u>Capacity Sales</u> |                            |                    | <u>Energy Sales</u> |                            |                    |
|--------------------------------|-----------------------|----------------------------|--------------------|---------------------|----------------------------|--------------------|
|                                | <u>Under PPAs</u>     |                            | <u>Spot Market</u> | <u>Under PPAs</u>   |                            | <u>Spot Market</u> |
|                                | <u>Distribution</u>   | <u>Other Non-regulated</u> |                    | <u>Distribution</u> | <u>Other Non-regulated</u> |                    |
|                                | (MW)                  |                            |                    | (GWh)               |                            |                    |
| 2012 .....                     | 1,429                 | 238                        | 634                | 11,084              | 1,792                      | 2,657              |
| 2013 .....                     | 1,676                 | 212                        | 596                | 10,929              | 2,164                      | 3,114              |
| 2014 .....                     | 1,453                 | 163                        | 852                | 10,045              | 1,389                      | 4,109              |
| 2015 .....                     | 1,110                 | 183                        | 1,010              | 9,411               | 1,557                      | 4,268              |
| 2016 .....                     | 881                   | 184                        | 1,258              | 9,166               | 1,623                      | 5,359              |

### ***Jamaica***

According to the World Bank, Jamaica had a population of approximately 3 million as of December 31, 2016. Jamaican GDP grew by 1.5%, 1.0% and 0.5% in 2016, 2015 and 2014, respectively. Jamaica’s interconnected power system had an installed capacity of approximately 1,017 MW, consisting of thermal and renewable technologies, which

accounted for 86% and 14%, respectively, of Jamaica's capacity as of December 31, 2016, according to the Jamaica Public Service Company.

Unlike the other Latin American and Caribbean countries in which we operate, or may operate in the future, Jamaica does not employ a marginal cost regulatory framework. As a result, the relevant regulatory agencies do not determine which generation units are to be dispatched, so as to minimize the cost of energy supplied. All capacity and energy sales in the Jamaican market are made pursuant to PPAs.

The following table sets forth a summary of capacity and energy sales in the Jamaican market for the periods presented:

| <b>Year Ended December 31,</b> | <b>Capacity Sales</b> | <b>Energy Sales</b> |
|--------------------------------|-----------------------|---------------------|
|                                | <b>Under PPAs</b>     | <b>Under PPAs</b>   |
|                                | <b>(MW)</b>           | <b>(GWh)</b>        |
| 2012 .....                     | 854                   | 4,135               |
| 2013 .....                     | 854                   | 4,142               |
| 2014 .....                     | 938                   | 4,107               |
| 2015 .....                     | 935                   | 4,209               |
| 2016 .....                     | 1,017                 | 4,344               |

### **Potential Markets**

The following discussion sets forth brief descriptions of the electricity markets in Argentina, Mexico and Colombia, which we have identified as potential countries in which we may expand our operations in the near- to medium-term.

#### ***Argentina***

According to the World Bank, Argentina had a population of approximately 43 million as of December 31, 2016. Argentinian GDP decreased by 2.3% in 2016, increased by 2.6% in 2015 and decreased by 2.3% in 2014.

Argentina's interconnected power system had an installed capacity of approximately 33,901 MW, as of December 31, 2016. Thermal, hydroelectric, nuclear and other plants accounted for 61%, 32%, 5% and 2%, respectively, of Argentina's installed capacity as of December 31, 2016.

The following table sets forth a summary of installed capacity and energy consumption in the Argentinian market for the periods presented:

| <b>Year Ended December 31,</b> | <b>Installed Capacity</b> | <b>Energy Demand</b> |
|--------------------------------|---------------------------|----------------------|
|                                | <b>(MW)</b>               |                      |
| 2012 .....                     | 31,250                    | 121,188              |
| 2013 .....                     | 31,377                    | 125,234              |
| 2014 .....                     | 31,405                    | 126,467              |
| 2015 .....                     | 33,480                    | 132,021              |
| 2016 .....                     | 33,901                    | 132,949              |

#### ***Mexico***

According to the World Bank, Mexico had a population of approximately 121 million as of December 31, 2016. Mexican GDP increased by 2.3%, 2.6% and 2.3% in 2016, 2015 and 2014, respectively.

As of December 31, 2016, Mexico's interconnected power system had an installed capacity of approximately 73,510 MW, of which the Federal Electricity Commission (*Comisión Federal de Electricidad*) (Mexico's state-owned

power utility), IPPs and other accounted for 58.9%, 18.0% and 23.1%, respectively. Thermal, hydroelectric, wind and other plants accounted for 71%, 17%, 5% and 7%, respectively, of Mexico's installed capacity as of December 31, 2016.

Mexico has undertaken reforms of its electricity market in an effort to drive significant investments in new generation capacity. For example, in 2016, the Federal Electricity Commission granted concessions to construct approximately 1.7 GW of additional solar and wind energy generation capacity. In addition, Petróleos Mexicanos, or PEMEX, has announced that it aims to reach an installed capacity of approximately 3.0 GW in the medium-term by partnering with power companies for the development of cogeneration plants. The Mexican government has also announced initiatives towards the development of significant renewable energy capacity, targeting the addition of approximately 4.6 GW of wind capacity over the next decade.

The following table sets forth a summary of effective capacity and energy consumption in the Mexican market for the periods presented:

| Year Ended December 31, | Effective Capacity  |        | Energy Consumption |                   |
|-------------------------|---------------------|--------|--------------------|-------------------|
|                         | Total Public System | IPPs   | Internal Sales     | Final Consumption |
|                         | (GWh)               |        |                    |                   |
| 2012 .....              | 53,114              | 12,418 | 206,480            | 440,934           |
| 2013 .....              | 54,035              | 12,851 | 206,130            | 445,640           |
| 2014 .....              | 54,379              | 12,851 | 208,015            | 457,243           |
| 2015 .....              | 54,853              | 12,952 | 212,201            | 472,557           |
| 2016 .....              | 58,881              | 13,255 | 218,072            | 485,560           |

#### **Colombia**

According to the World Bank, Colombia had a population of approximately 48 million as of December 31, 2016. Colombia's GDP grew by 2.0%, 3.1% and 4.4% in 2016, 2015 and 2014, respectively.

Colombia's interconnected power system had an installed capacity of approximately 16,597 MW, consisting of hydroelectric plants, thermal plants, minor plants and cogenerators, which accounted for 69.9%, 29.4%, 0.6% and 0.1%, respectively, of Colombia's capacity as of December 31, 2016, according to the Mining and Energy Planning Unit (*Unidad de Planeación Minero Energética*), or UPME. The following table sets forth a summary of energy sales and consumption in the Colombian market for the periods presented:

| Year Ended December 31, | Energy Sales |             | Energy Consumption |               |
|-------------------------|--------------|-------------|--------------------|---------------|
|                         | Under PPAs   | Spot Market | Regulated          | Non-regulated |
|                         | (GWh)        |             | (GWh)              |               |
| 2012 .....              | 67,183       | 17,016      | 39,175             | 19,800        |
| 2013 .....              | 71,375       | 14,948      | 40,282             | 20,237        |
| 2014 .....              | 69,846       | 15,544      | 43,323             | 20,867        |
| 2015 .....              | 71,549       | 16,905      | 44,629             | 21,187        |
| 2016 .....              | 65,669       | 20,143      | 45,029             | 20,806        |

## BUSINESS

### Overview

We are a leading owner, developer and operator of power generation facilities located in key energy markets in Latin America and the Caribbean with an aggregate installed capacity of 3,364 MW as of June 30, 2017. Our power generation assets utilize a range of energy sources, including natural gas, hydroelectric, HFO, diesel and wind. In January 2016, we acquired DEOCSA and DEORSA, which jointly operate in Guatemala under the trade name “Energuate”, marking our initial entry in the electricity distribution sector. In August 2016, our hydroelectric CDA project reached COD and added 545 MW to our generation capacity.

We focus our operations in Latin American markets, which typically have higher growth rates of gross domestic product, or GDP, and lower overall and per capita energy consumption, as compared with more developed markets. We believe that economic growth in Latin American markets will drive increases in overall and per capita energy consumption and therefore require significant additional investments in power generation assets in those markets.

We are the second largest power producer in Peru in terms of installed capacity. As of June 30, 2017, our aggregate installed capacity in Peru of 2,240 MW represented 18.7% of Peru’s installed capacity. During the year ended December 31, 2016, we generated 14.3% of the gross energy generated (in GWh) in Peru, one of the fastest-growing economies in Latin America. Our generation assets in Peru include Kallpa’s 870 MW combined cycle plant, Peru’s largest power generation facility, Kallpa’s 193 MW Las Flores open cycle plant, Samay I’s 632 MW cold-reserve thermoelectric plant, which began to operate in May 2016, and Kallpa’s 545 MW hydroelectric CDA plant, which began to operate in August 2016. Our generation operations in Peru represented 109% and 122% of our net profit and 62% and 52% of our Adjusted EBITDA for the six-month period ended June 30, 2017 and the year ended December 31, 2016, respectively.

In January 2016, we entered the electricity distribution sector through our acquisition of Energuate. As of June 30, 2017, Energuate was the largest distribution company in Central America based on population served, providing electric service to approximately 1.7 million regulated customers in Guatemala (representing approximately 56.0% of Guatemala’s population and 54.3% of Guatemala’s regulated distribution customers) across a service area of 101,914 km<sup>2</sup> in Guatemala (representing approximately 93.6% of Guatemala’s territory, primarily rural areas with a total population of approximately 11.8 million inhabitants). We hold the non-exclusive right to distribute electricity within our service area until 2048. Our distribution operations represented 24% and 130% of our net profit and 17% and 23% of our Adjusted EBITDA for the six-month period ended June 30, 2017 and the year ended December 31, 2016, respectively.

In addition to our positions in generation in Peru and distribution in Guatemala, we have developed an attractive footprint in several generation markets in Latin America and the Caribbean and have development offices in Colombia, Mexico, Argentina and the United States, where we monitor and consider development and acquisition opportunities relating to generation or distribution throughout Latin America. By successfully pursuing growth opportunities, primarily through contracted greenfield development projects in existing markets and acquisitions of anchor investments in new markets, we have expanded our regional presence, diversified our generation portfolio through the addition of various facilities which use a range of energy sources, and significantly increased our cash flows. In 2016, our net profit was US\$27 million, as compared to a net loss of US\$4 million in 2008. In 2016, our Adjusted EBITDA was US\$363 million, as compared to US\$41 million in 2008, representing a CAGR of 31.3% during this period. Adjusted EBITDA is a non-IFRS measure. For a reconciliation of our profit to our Adjusted EBITDA, see “Selected Consolidated Financial and Other Data.”

The following table sets forth certain of our consolidated financial and operational data as of the dates and for the periods set forth below:

|  | <b>As of and for the<br/>Six Months Ended<br/>June 30,</b> |             | <b>As of and for the Year Ended<br/>December 31,</b> |             |             |
|--|--|-------------|--|-------------|-------------|
|  | <b>2017</b>  | <b>2016</b> | <b>2016</b>  | <b>2015</b> | <b>2014</b> |
| <b>(US\$ millions, except as otherwise indicated)</b>        |  |             |  |             |             |
| <b>Statement of profit or loss data:</b>                     |  |             |  |             |             |
| Revenue .....  | 882  | 696         | 1,517  | 963         | 959         |
| Profit from operating activities(1).....                     | 189  | 98          | 218  | 155         | 113         |
| Finance costs, net.....                                      | (77)   | (59)        | (135)  | (80)        | (76)        |
| Profit before income tax and discontinued<br>operations..... | 113  | 40          | 84   | 75          | 110         |
| Income tax expense.....                                      | (47)   | (20)        | (57)   | (41)        | (34)        |
| Profit from continuing operations.....                       | 66   | 20          | 27   | 34          | 76          |
| Discontinued operations.....                                 | —  | —           | —  | 4.0         | 128         |
| Profit .....   | 66   | 20          | 27   | 38          | 204         |
| <b>Other financial data:</b>                                 |  |             |  |             |             |
| Adjusted EBITDA (2).....                                     | 277  | 162         | 363  | 253         | 246         |
| LTM Adjusted EBITDA (2).....                                 | 478(3)   | —           | —  | —           | —           |
| <b>Operating data:</b>                                       |  |             |  |             |             |
| Installed capacity at end of period<br>(in MW)(4).....       | 3,364(5)   | 2,926       | 3,487  | 2,207       | 2,202       |

(1) Excludes profit from discontinued operations.

(2) Adjusted EBITDA is a non-IFRS measure. We defined “Adjusted EBITDA” for each period as profit (loss) for the period before depreciation and amortization, finance costs, net, income tax expense and impairment, excluding share of (profit) loss of associates, gain on bargain purchase, capital gains (excluding capital gains from sales of fixed assets), and profit from discontinued operations, net of tax (excluding dividends received from discontinued operations). For a reconciliation of our profit to our Adjusted EBITDA, see “Selected Consolidated Financial and Other Data—Non-IFRS Financial Information.”

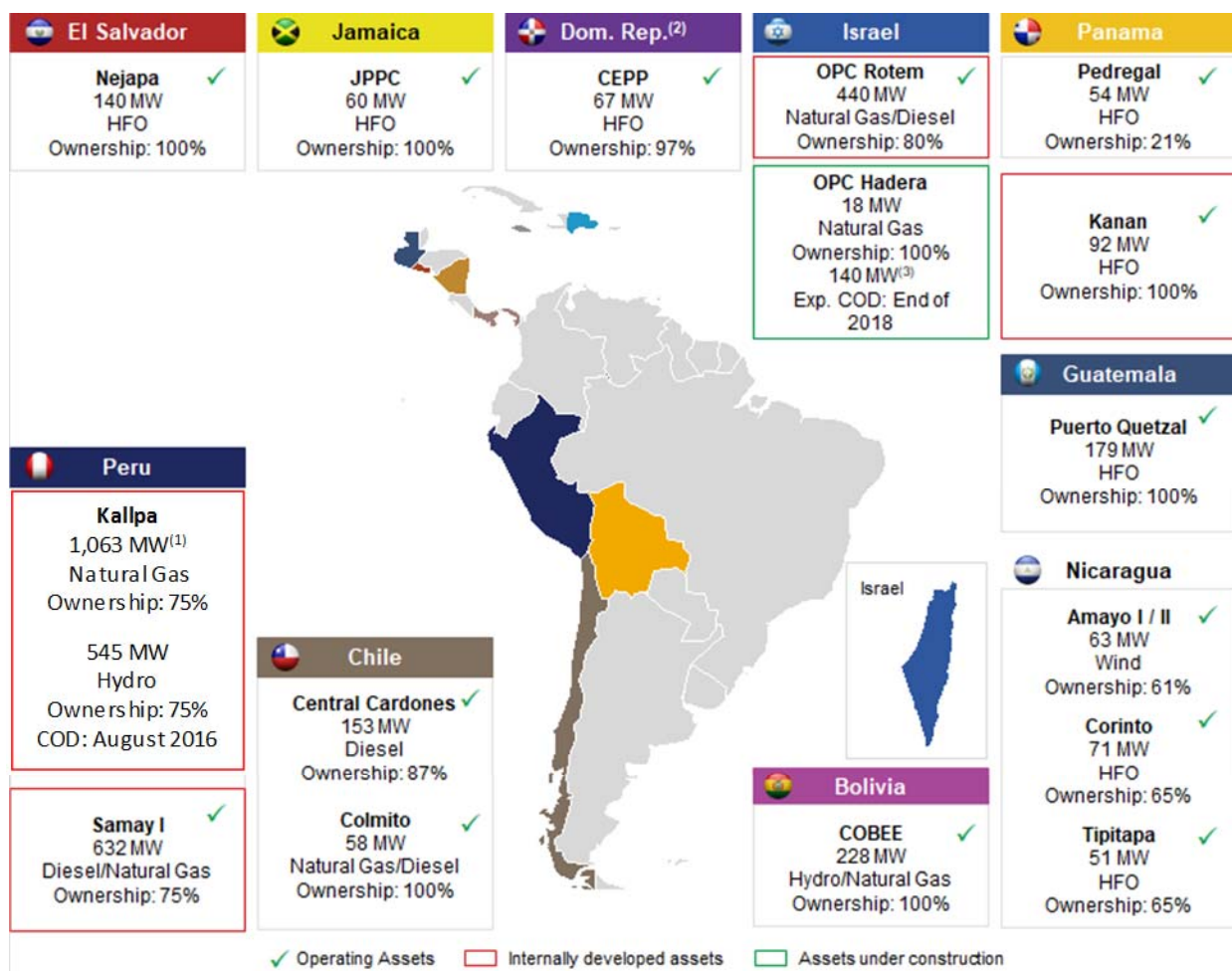
(3) Represents Adjusted EBITDA for the twelve-month period ended June 30, 2017.

(4) Reflects 100% of the capacity of each of our assets, regardless of our ownership interest in the entity that owns each such asset.

(5) Our installed capacity as of June 30, 2017 declined in comparison to December 31, 2016 as a result of our sale of our interest in Surpetroil in April 2017 and a fire at our Kanan plant in April 2017, as a result of which both of the Kanan plant’s power barges were placed off-line permanently.

Our generation activities are conducted through various operating companies in which, with the exception of Pedregal, we hold controlling interests. The following graphic sets forth our generation companies as of June 30, 2017 (the percentage of holdings stated alongside each generation company are, in some cases, indirect holdings):





(1) Includes 193 MW capacity of the Las Flores plant.

(2) Excludes Agua Clara, a 50 MW wind project, which is expected to commence commercial operations by the first quarter of 2019.

The following table sets forth summary operational information regarding each of our operating companies and associated company in our generation business as of June 30, 2017:

| Country   | Entity    | Ownership Percentage (1) | Fuel                   | Installed Capacity (MW)(2) | Type of Assets | Weighted Average Remaining Life of PPAs Based on Contracted Capacity (Years) | LTM Energy Sales Under PPAs (GWh)(3) |
|-----------|-----------|--------------------------|------------------------|----------------------------|----------------|--|--------------------------------------|
| Peru      | Kallpa(4) | 75%                      | Natural Gas            | 1,063(5)                   | Greenfield     | 6  | 6,204                                |
|           | CDA       | 75%                      | Hydroelectric          | 545                        | Greenfield     | 11   | 1,118                                |
|           | Samay I   | 75%                      | Diesel and Natural Gas | 632                        | Greenfield     | 19   | —                                    |
| Nicaragua | Corinto   | 65%                      | HFO                    | 71                         | Acquired       | 2  | 339                                  |
|           | Tipitapa  | 65%                      | HFO                    | 51                         | Acquired       | 2  | 347                                  |
|           | Amayo I   | 61%                      | Wind                   | 40                         | Acquired       | 7  | 132                                  |

| Country                         | Entity           | Ownership Percentage (1) | Fuel                          | Installed Capacity (MW)(2) | Type of Assets       | Weighted Average Remaining Life of PPAs Based on Contracted Capacity (Years) | LTM Energy Sales Under PPAs (GWh)(3) |
|---------------------------------|------------------|--------------------------|-------------------------------|----------------------------|----------------------|--|--------------------------------------|
| Bolivia                         | Amayo II         | 61%                      | Wind                          | 23                         | Acquired             | 8  | 88                                   |
|                                 | COBEE            | 100%                     | Hydroelectric and Natural Gas | 228                        | Original Inkia Asset | —  | 275                                  |
| Chile                           | Central Cardones | 87%                      | Diesel                        | 153                        | Acquired             | —  | —                                    |
|                                 | Colmito          | 100%                     | Diesel and Natural Gas        | 58                         | Acquired             | 1  | 256                                  |
| El Salvador                     | Nejapa           | 100%                     | HFO                           | 140                        | Original Inkia Asset | —  | 806                                  |
| Panama                          | Kanan(6)         | 100%                     | HFO                           | —                          | Greenfield           | 3  | 515                                  |
|                                 | Pedregal(7)      | 21%                      | HFO                           | 54                         | Original Inkia Asset | 3  | 215                                  |
| Guatemala                       | Puerto Quetzal   | 100%                     | HFO                           | 179                        | Acquired             | 1  | 531                                  |
| Dominican Republic              | CEPP             | 97%                      | HFO                           | 67                         | Original Inkia Asset | 2  | 151                                  |
| Jamaica                         | JPPC             | 100%                     | HFO                           | 60                         | Original Inkia Asset | 1  | 422                                  |
| <b>Total Operating Capacity</b> |                  |                          |                               | <u>3,364</u>               |                      |  |                                      |

(1) Ownership interest rounded to nearest percentage.

(2) Reflects 100% of the capacity of each of our assets, regardless of our ownership interest in the entity that owns each such asset.

(3) Reflects energy sales under PPAs for the 12 months ended June 30, 2017.

(4) On August 16, 2017, Kallpa merged with and into CDA. CDA, the surviving entity, was subsequently renamed Kallpa Generación S.A.

(5) Kallpa's thermal plant was developed as a greenfield project in four different stages between 2005 and 2012, resulting in 870 MW of installed capacity. In addition, Kallpa acquired Las Flores' power plant in 2014, adding 193 MW to Kallpa's capacity.

(6) In April 2017, the Kanan power plant, which consisted of a 37 MW power barge and a 55 MW power barge, experienced a fire and, as a result, both barges were placed off-line permanently. We expect that our subsidiary Puerto Quetzal will sell one of its two power barges, with an installed capacity of 124 MW, to Kanan and, following modification and maintenance works on this power barge, we currently expect Kanan to resume operations in the first quarter of 2018. For further information regarding insurance payments made in connection with this fire, see "Business—Generation Businesses Outside Peru—Panamanian Operations and Associated Companies – Kanan and Pedregal." For further information on our insurance policies, see "Business—Insurance."

(7) Pedregal is a minority investment. Therefore, from an income statement perspective, it is only reflected as share of profit in associated companies.

### Competitive Strengths

**Attractive footprint in Peru and other high growth Latin American markets.** Our focus is on Latin American markets, which typically have higher growth rates of GDP and lower overall and per capita energy consumption, as compared with more developed markets. We expect continued growth in these key markets, providing us with the opportunity to generate attractive, risk-adjusted returns through additional investments in power generation assets in those countries.

We are the second largest power producer in Peru in terms of installed capacity. Peru is one of the fastest growing economies in Latin America, with an average GDP growth of approximately 4.6% per year from 2011 through 2016, according to the International Monetary Fund, a mature regulatory framework, and a well-run power system. As of June 30, 2017, our aggregate installed capacity in Peru of 2,240 MW represented 18.7% of Peru's installed capacity. During the year ended December 31, 2016, we generated 14.3% of the gross energy generated (in GWh) in Peru using Kallpa's

870 MW combined cycle plant, Peru's largest power generation facility, Kallpa's Las Flores 193 MW thermal power generation plant, which we acquired in April 2014, our Samay I 632 MW cold-reserve thermoelectric plant, which began to operate in May 2016, and Kallpa's 545 MW hydroelectric CDA plant, which began to operate in August 2016. Our generation operations in Peru represented 109% and 122% of our net profit and 62% and 52% of our Adjusted EBITDA for the six-month period ended June 30, 2017 and the year ended December 31, 2016, respectively. Although energy and capacity prices in Peru have recently experienced downward pressure due to an oversupply of capacity in the market, we expect demand and spot prices to increase in the medium term as a result of large mining and industrial projects in Peru and sustained growth in underlying demand.

In addition to our position in Peru, we have also developed an attractive footprint in several other markets in Latin America and have development offices in Colombia, Mexico, Argentina and the United States, where we monitor and consider development and acquisition opportunities relating to generation or distribution throughout Latin America. We believe that our current platform, coupled with our agile and disciplined decision-making process, enables us to take advantage of opportunities as they arise.

***Long-term PPAs and supply agreements that limit exposure to market fluctuations.*** Most of our generation subsidiaries typically enter into long-term U.S. dollar-linked PPAs, which generally limit their exposure to fluctuations in energy spot market rates, generate stable and predictable margins and help to create stability and predictability in our cash flows. During the year ended December 31, 2016, we made 86% of our aggregate energy sales (in GWh) pursuant to long-term PPAs. As of December 31, 2016, the weighted average remaining life of our PPAs was 8 years, and we have historically sought, and will continue to seek, to renew our long-term PPAs as they expire.

As most of our power facilities utilize and are dependent upon natural gas, HFO, diesel or a combination of these energy sources, we seek to enter into long-term supply and transportation agreements to acquire the necessary fuel for our facilities. As of December 31, 2016, the majority of our PPAs were indexed to the price of the corresponding power plant's operating fuel prices in U.S. dollars (for plants that use fuel), and all of our PPAs provided for payment in, or were linked to, the U.S. dollar, thereby mitigating such plant's exposure to fuel price and exchange rate fluctuations, including the effect of such fluctuations on our margins. Additionally, the counterparties to our long-term PPAs are typically large local distribution companies or non-regulated customers, including subsidiaries of large multi-national corporations, which we believe have strong credit profiles, mitigating the risk of customer default. Some of our major non-regulated customers within Peru include Southern Copper Corporation, Sociedad Minera Cerro Verde S.A.A. (a subsidiary of Freeport-McMoRan) and Compañía Minera Antapaccay S.A. (a subsidiary of Glencore Xstrata), as well as governments and quasi-governmental entities.

We believe that the stable and predictable margins and cash flows which generally result from such PPAs help us to successfully secure significant project and bank/bond financings with no or limited recourse, from a diverse international lender base during the construction of our greenfield projects. This financing in turn helps us to successfully develop our project pipeline.

***Driving operational excellence through partnerships with leading OEMs and reliance on efficient technologies.*** We seek to optimize our power generation capacity by using leading technologies (e.g., turbines manufactured by Siemens, General Electric and Andritz) and entering into long-term service agreements with leading, multinational OEMs. Our technologies and long-term partnerships enable our power generation assets to perform more efficiently and at relatively high levels of reliability. Additionally, our experienced staff is committed to increasing our operating performance and ensuring the disciplined maintenance of our power generation assets. We believe that our generation plants' weighted average availability rate of 82% for the year ended December 31, 2016 was the result of our optimization efforts and our commitment to improving our operating efficiency and performance.

Additionally, our acquisition or construction of power generation assets that use efficient technologies (e.g., the conversion of Kallpa's thermal plant into a combined cycle operation in 2012) places our generation assets competitively in the dispatch merit order in certain of the countries in which we operate. For example, Kallpa's thermal plant, a base load plant and combined cycle gas turbine, is among the first power plants to be dispatched, due to its efficiency and competitiveness in the dispatch stack. Similarly, our hydroelectric CDA plant, which reached COD in August 2016, is also among the first power plants to be dispatched in Peru. Having a portfolio which includes efficient power plants with lower production costs allows us to potentially earn higher margins than companies that utilize certain other competing technologies in their plants and are therefore less competitive in the dispatch merit order.

***Strong track record in project development, with a disciplined approach to capital structure.*** We leverage our core competencies—project identification, evaluation, development, construction and operation—to develop power generation facilities using various technologies in attractive markets that typically have relatively high GDP growth rates and relatively low levels of per capita energy consumption. For example, in 2012, we completed our third expansion of Kallpa’s thermal plant, which is the largest power generation facility in Peru in terms of capacity, by converting it into a combined cycle facility and thereby adding an additional 292 MW to the facility’s capacity. This expansion was completed on time and under budget. In April, May and August 2016, we also completed the development of Kanan’s 92 MW thermal generation project in Panama, the development of Samay I’s 632 MW cold-reserve thermoelectric project in Peru and the development of the three generating units of our 545 MW run-of-the-river hydroelectric CDA plant in Peru, respectively.

Our projects have been developed with a disciplined capital structure, which reflects our commitment to develop projects in accordance with three key fundamental principles. First, we endeavor to construct projects by entering into turnkey EPC agreements that define the total project cost and transfer most of the risks of construction delays and cost overruns to our EPC contractors. For example, we constructed the Samay I and CDA plants pursuant to EPC contracts. Second, we seek to secure a revenue stream prior to the construction of our plants by sourcing and entering into long-term PPAs, which provide our development projects with predictable projected margins and cash flows, before construction has commenced. Finally, we leverage our EPC contracts and PPAs to secure long-term project financing agreements which are generally stand-alone, secured, project-specific, and with no or limited recourse. Over the course of our history, we have secured different types of financings (e.g., leases, local and international bonds, syndicated loans, etc.) during times of changing financial markets and in connection with our construction of various projects using a range of energy sources.

In Guatemala, Energuate’s sizeable distribution base and limited exposure to fluctuations in the cost of energy (given the applicable tariff framework) allow us to generate predictable cash flows from our operations. The energy charge portion of tariffs is set annually and adjusted quarterly for effective cost of energy, capacity and transmission, and the VAD charge portion of the tariff is calculated and fixed for five-year periods and adjusted semi-annually for inflation and exchange rate fluctuations.

***Established and disciplined track record in acquiring generation and distribution assets.*** We have acquired numerous generation and distribution assets from 2007 through June 30, 2017, resulting in the expansion of our operations by 783 MW in five countries in Latin America. We believe our recognition as a regional generator and developer with a relatively strong balance sheet, and our ability to act quickly with respect to acquisitions has complemented our development capabilities by allowing us to strategically source and execute acquisitions. Furthermore, our positioning as a mid-sized regional market participant allows us to manage projects that are too small for large companies, as well as projects that are too large for small companies. Such acquisitions facilitate our entry into new markets and allow us to act as consolidators in the countries in which we already operate. Our acquisition of Central Cardones in 2011, for example, provided us with an initial footprint in Chile, a dynamic and important power market, and facilitated our acquisition of Colmito in October 2013. Similarly, our acquisition of certain Nicaraguan assets in 2014, representing 185 MW of installed capacity provided us with an entry into the Nicaraguan market and diversified our portfolio with operational wind generation assets.

In January 2016, we further expanded and diversified our portfolio by completing our acquisition of Energuate, which operates distribution companies in Guatemala, a country with a historically stable electricity sector framework. Our purchase of Energuate marks our initial entry into electricity distribution and we believe this purchase will provide us with a platform to further expand our distribution portfolio. As of June 30, 2017, we were the largest distribution company in Central America based on population served, providing electric service to approximately 1.7 million regulated customers in Guatemala (representing approximately 56.0% of Guatemala’s population and 54.3% of Guatemala’s regulated distribution customers) across a service area of 101,914 km<sup>2</sup> in Guatemala (representing approximately 93.6% of Guatemala’s territory, primarily rural areas with a total population of approximately 11.8 million inhabitants). We expect that Energuate’s sizeable distribution base and limited exposure to fluctuations in the cost of electricity (both as a result of Energuate’s entry into PPAs and a compensation framework anchored on predefined distribution tariffs) will provide us with predictable cash flows from Energuate’s operations, which we believe will contribute significantly to our further expansion within the distribution industry. We have also created a new corporate platform with highly experienced executives from the Latin American distribution sector to manage our

distribution business. We believe that this will provide us with the required organizational support to operate Energuate, as well as a strong platform for future expansion in the distribution business in the region.

***Experienced management team with strong local presence.*** Our management team has extensive experience in the power generation business. Our executive officers have an average of approximately 20 years of experience in the power generation industry, and significant portions of our core management team have been working together in international large power generation companies since 1996. We believe that this overall level of experience contributes to our ability to effectively manage our existing operating companies and to identify, evaluate and integrate high-quality growth opportunities within Latin America. Furthermore, our hands-on management team utilizes a lean decision-making process, which allows us to quickly take advantage of strategic acquisitions and potential developments and opportunities as they materialize. Our managers are compensated, in part, on the basis of our financial performance, which incentivizes them to continue to improve our operating results. Additionally, our local management teams provide in-depth market knowledge and power industry experience. These teams consist primarily of local executives with significant experience in the local energy industry and with local government regulators. We believe that the market-specific experience of our local management provides us with insight into the local regulatory, political and business environment in each of the countries in which we operate.

In addition, in connection with our acquisition of Energuate in January 2016, we recruited an experienced management team for our distribution business' operations. This management team consists of officers, who work directly with our management team to oversee and manage the Energuate business with us, as well as local executives who manage Energuate's day-to-day operations. Additionally, this management team has extensive experience managing large distribution companies in various countries throughout Central and South America.

### ***Business Strategies***

***Continue to successfully develop greenfield assets in attractive markets.*** One of our core competencies is identifying, evaluating, constructing, and operating greenfield development projects in our target markets. We will continue to seek to develop power generation assets in countries with relatively stable, growing economies, low levels of per capita energy consumption or developing private energy generation markets. We also seek to develop assets that can be expanded through further investment, or as additional fuels become available, which provides us with the ability to further develop an asset and increase its installed capacity in connection with market trends, industry developments, or changing fuel availability.

We place particular focus on our ability to complete the development of our greenfield projects on time and within budget and will continue to use extensive project planning and contracting mechanisms to minimize our development risk. For example, in connection with our development activities, we typically enter into lump-sum, turnkey EPC contracts to minimize our construction risks and mitigate construction cost overruns, while also entering into long-term PPAs to generate stable and predictable margins and cash flows; we believe this combination facilitates our access to long-term construction financing. Engaging in such practices has allowed us to successfully complete several generation projects, including the conversion of the Kallpa thermal plant, which added an additional 292 MW to the facility's capacity, and our development of the Samay I 632 MW cold-reserve thermoelectric project. Additionally, our first hydroelectric development, the CDA plant, is fully operational at a cost of US\$1.8 million per MW, making the CDA plant among the most efficiently constructed hydroelectric facilities in Peru and Latin America in terms of cost per MW.

***Optimize portfolio to maximize returns while minimizing risk.*** We regularly assess our portfolio of operating companies and employ disciplined portfolio management principles to optimize our operations in light of changing industry dynamics in a particular country or region, create financing flexibility and address specific risk management and exposure concerns. Our strategy is to optimize the composition of our portfolio by focusing on profitable developments and acquisitions within key power generation markets typically in Latin America and the Caribbean.

For example, prior to Kallpa's 2014 acquisition of the Las Flores plant, a 193 MW thermal power generation plant, Las Flores had operated intermittently due to the lack of a long-term regular supply of natural gas. The Kallpa thermal plant, which is located near the Las Flores plant, had an excess supply of natural gas. We identified these and other potential synergies and, since our acquisition of the Las Flores facility, have been able to significantly improve the operations and generation activities of the Las Flores plant, while also maximizing the use of the Kallpa thermal plant's natural gas supply and transportation capabilities.

Additionally, in 2014, we divested our 21% indirect equity interest in Edegel, one of Peru's largest power generation companies. While the Edegel investment was a strong cash flow generator which helped to fund the initial stages of our growth, we opted to sell this investment in order to redeploy the proceeds from such sale into projects in which we have majority control, which we believe will provide a better risk and return profile for our business in the future. In addition, while continuing to maintain a majority interest in our key operating businesses, we may sell further minority interests in some of these assets, so as to raise additional capital to re-invest in the business.

***Complement organic development with dynamic and disciplined acquisitions.*** We seek to invest in countries and/or assets where we can significantly increase our cash flows and optimize our operations. Therefore, in addition to greenfield developments, we also seek to enter into and/or expand our presence in attractive markets by acquiring controlling interests in operating assets to anchor our geographical expansion. For example, we acquired power generation assets in Nicaragua, which represented our initial entry into this market, through our acquisition of ICPNH, which provided us with controlling interests in two HFO and two wind energy Nicaraguan generation companies. Chile represents an important part of our growth strategy. We continue to seek expansion in Chile, and we expect that our assets in this country will provide us with the initial footprint from which to carry out our organic development strategy in this market. Additionally, consistent with our strategy of maintaining controlling interests in our power generation assets, in May 2014, we increased our equity ownership in JPPC (which has an aggregate 60 MW of installed capacity in two HFO generation units in Jamaica) from 16% to 100%, and in January 2015, we increased our equity ownership in Nejapa (which has 140 MW of installed capacity at an HFO power generation facility in El Salvador) from 71% to 100%. We will continue to seek to leverage our acquisitions of assets in new markets and/or of assets utilizing a broad range of technologies (which may include new fuels, such as solar power) to generate attractive risk-adjusted returns.

***Continue to expand and optimize our operations within the electricity distribution sector.*** Our acquisition of Energuate's businesses represents our initial entry into the electricity distribution business. We intend to further expand our portfolio and diversify our revenue streams by applying our disciplined acquisition principles as we seek to purchase additional distribution assets in countries where we believe we can significantly increase our cash flows, optimize our operations and leverage the experience gained from our acquisition of Energuate. Additionally, we will endeavor to optimize Energuate's existing distribution operations by targeting Energuate's electricity losses (both commercial and technical) in the near- to medium-term. We intend to reduce Energuate's commercial losses (e.g., losses from illegal connections, fraud and billing errors) through increasing targeted inspections and meter replacements, implementing a communication program with local communities and modernizing Energuate's facilities to reduce tampering, especially in areas where electricity theft has been more prevalent, and reduce technical losses (i.e., losses occurring in the ordinary course of electricity distribution) by investing in the modernization of Energuate's transmission grid and distribution system. To this end, we invested US\$13 million in capital expenditures in respect of Energuate's tangible fixed assets during the six-months ended June 30, 2017 and US\$30 million during the year ended December 31, 2016, and we expect that our capital expenditures relating to Energuate will increase in the coming years.

***Continue to enter into long-term PPAs with credit-worthy counterparties.*** During the year ended December 31, 2016, we made 86% of our aggregate energy sales (in GWh) pursuant to long-term PPAs, most of which are denominated in, or linked to, the U.S. dollar. Our strategy of generating strong and predictable cash flows from long-term PPAs has enabled us to successfully secure financing for our greenfield projects from a diverse international lender base to fund our development and construction projects. Our generation companies seek to enter into long-term capacity PPAs prior to committing to a new project so as to predict expected cash flows and margins of a particular asset, which facilitates its financing. For example, Kallpa has sourced and entered into three long-term PPAs beginning in 2016, 2018 and 2022 for a significant portion of the capacity of our CDA plant, contracting most of the estimated firm energy we expect the CDA plant to generate between 2018 and 2027. As of June 30, 2017, the weighted average remaining life of the PPAs associated with the CDA plant based on contracted capacity was 11 years. The expected cash flows associated with such PPAs contributed to CDA's attractive credit profile, which supported the financing of the CDA plant's development. Similarly, prior to our construction of the Samay I project, the Peruvian government guaranteed capacity payments for 600 MW for a 20-year period at rates above regulated capacity rates, which also provided support for the financing of the plant's development. We also continue to seek to enter into, or renew, long-term PPAs for our currently operating generation assets. For example, Kallpa entered into two PPAs with Southern Copper Corporation, a 10-year PPA for 120 MW and a 12-year PPA for 70 to 85 MW, both starting in 2017. In addition to significantly improving our access to financing with no or limited recourse, our strategy of contracting our assets' energy and capacity significantly reduces our exposure to changes in spot prices.

## **Background and History**

Inkia was formed in June 2007 by IC as a special purpose vehicle to acquire Globeleq's power generation assets and property in Latin America and the Caribbean.

Set forth below is a further summary of the history and development of our portfolio of assets.

### ***Original Inkia Assets***

In June 2007, Inkia acquired the outstanding shares of Globeleq, which indirectly owned:

- 100% of the outstanding shares of Kallpa—When Inkia acquired its interest in Kallpa in 2007, the Kallpa I turbine was still under commissioning and reached its COD a few days after Inkia's acquisition of Kallpa. Between July 2007 and August 2012, we developed the Kallpa II and Kallpa III turbines and completed the conversion of the Kallpa thermal plant from an open-cycle to a combined-cycle operation. In October 2009, Energía del Pacífico agreed to subscribe to newly-issued shares of Kallpa, representing 25% of Kallpa's issued and outstanding shares, thereby reducing Inkia's interest in Kallpa to 75%;
- 100% of the outstanding shares of COBEE and Cenérgica;
- 97% of the outstanding shares of CEPP;
- 87% of the outstanding shares of Nejapa Holdings—In October 2008, Nejapa Holdings issued additional shares to Crystal Power pursuant to a shareholder's agreement, thereby reducing Inkia's interest in Nejapa to 71%. We increased our ownership interest in Nejapa to 100% in January 2015;
- 68% of the outstanding shares of Southern Cone Power Perú S.A., or Southern Cone, which at the time owned 39% of the outstanding shares of Generandes, which, in turn, owned 54% of the outstanding shares of Edegel—In 2010, we purchased the remaining 32% of Southern Cone's share capital. We divested of Southern Cone, thereby divesting of our 21% indirect equity interest in Edegel, in September 2014;
- 21% of the outstanding shares of Pedregal; and
- 16% of the outstanding shares of JPPC—We increased our ownership interest in JPPC to 100% in May 2014.

### ***Acquisition of Generation Assets***

Since our formation in 2007, we have acquired interests in the following generation assets:

- 87% of the outstanding shares of Central Cardones in December 2011;
- 100% of the outstanding shares of Colmito in October 2013;
- 100% of the outstanding shares of ICPNH in March 2014; through ICPNH, we indirectly hold 65% interests in Corinto and Tipitapa Power and 61% interests in Amayo I and Amayo II;
- 60% of the outstanding shares of Surpetroil in March 2014, which we disposed of in April 2017;
- Las Flores's 193 MW power plant in April 2014; and
- 100% of the outstanding shares of Puerto Quetzal in September 2014.

### ***Development of Generation Assets***

Since our formation in 2007, in addition to our development of the Kallpa I, Kallpa II and Kallpa III turbines and the conversion of the Kallpa thermal plant from an open-cycle to a combined-cycle operation, we formed CDA, Samay I and

Kanan in July 2010, July 2010 and August 2013, respectively, to carry out the greenfield development projects of the following generation assets:

- CDA, a run-of-the-river hydroelectric plant on the Mantaro River in central Peru, representing 545 MW of installed capacity, which reached its COD in August 2016 at a total development cost of US\$975 million;
- Samay I, a cold-reserve open-cycle diesel and natural gas (dual-fired) thermal plant in Mollendo, Arequipa (southern Peru), representing 632 MW of capacity (when operated with diesel fuel), which reached its COD in May 2016 at a total development cost of US\$377 million; and
- Kanan's thermal generation units, representing 92 MW of capacity, which reached its COD in April 2016 at a total development cost of US\$87 million. In April 2017, the Kanan power plant experienced a fire and, as a result, its power barges were placed off-line permanently. For more information regarding the status of the Kanan assets, see “—Generation Business Outside Peru—Panamanian Operations and Associated Company – Kanan and Pedregal.”

In addition, through our subsidiary IC Power DR Operations S.A.S. we are developing Agua Clara, a 50 MW wind project in the Dominican Republic, which is expected to reach COD by the first quarter of 2019.

#### ***Acquisition of Guatemalan Distribution Business***

In January 2016, we completed our acquisition of:

- Energuate, the trade name for our Guatemalan electricity distribution business, which consists of:
  - DEOCSA, in which we hold a 91% interest; the remaining 9% interest is held by private minority shareholders;
  - DEORSA, in which we hold a 93% interest; the remaining 7% interest is held by private minority shareholders; and
- Guatemel, an electricity trading company that supplies large users within Guatemala's unregulated sector, in which we hold a 100% interest; and
- RECSA, an electricity transmission company that supports Guatemala's electrical system by operating 32 km of transmission lines and eight sub-stations, in which we hold a 100% interest.

We acquired the foregoing businesses from Deorsa-Deocsa Holdings Limited, an investment company of Actis LLP, a private equity firm, which had acquired the businesses in 2011. This acquisition marked our initial entry in the electricity distribution sector. We paid US\$266 million in cash for Energuate, Guatemel and RECSA, and assumed indebtedness totaling US\$284 million. We funded the payment of the acquisition through internally generated funds and a US\$120 million loan facility, which was entered into by our subsidiary ICPDH in December 2015.

In May 2017, DEOCSA and DEORSA entered the US\$330 million Energuate Loan Agreement and the Energuate Guatemalan Loan Agreements for the equivalent of US\$120 million in Guatemalan *Quetzales*. The proceeds of the Energuate Loan Agreement and the Energuate Guatemalan Loan Agreements were used to repay all obligations under syndicated loan agreements that had been entered into by DEOCSA and DEORSA and to fund dividends and capital reductions of Energuate. Our subsidiary ICPDH used its portion of these dividends and capital distributions to repay all obligations under a US\$120 million loan facility that had been entered into by ICPDH in connection with our acquisition of Energuate.



## Growth of Generation Capacity

The table below presents information, by country, about our installed capacity as of the dates indicated.

|                                  | As of June 30,      |                     | As of December 31,  |                     |                     |                     |                     |                   |                   |
|----------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|-------------------|-------------------|
|                                  | 2017                | 2016                | 2015                | 2014                | 2013                | 2012                | 2011                | 2010              | 2009              |
|                                  | (MW)                |                     |                     |                     |                     |                     |                     |                   |                   |
| <b>Original Inkia Assets(1):</b> |                     |                     |                     |                     |                     |                     |                     |                   |                   |
| El Salvador (Nejapa)(2) .....    | 140                 | 140                 | 140                 | 140                 | 140                 | 140                 | 140                 | 140               | 140               |
| Panama (Pedregal) .....          | 54                  | 54                  | 54                  | 54                  | 54                  | 54                  | 54                  | 54                | 54                |
| Bolivia (COBEE) .....            | 228                 | 228                 | 228                 | 228                 | 228                 | 228                 | 228                 | 228               | 228               |
| Dominican Republic (CEPP) .....  | 67                  | 67                  | 67                  | 67                  | 67                  | 67                  | 67                  | 67                | 67                |
| Jamaica (JPPC)(3) .....          | 60                  | 60                  | 60                  | 60                  | 60                  | 60                  | 60                  | 60                | 60                |
|                                  | <u>549</u>          | <u>549</u>          | <u>549</u>          | <u>549</u>          | <u>549</u>          | <u>549</u>          | <u>549</u>          | <u>549</u>        | <u>549</u>        |
| <b>Greenfield:</b>               |                     |                     |                     |                     |                     |                     |                     |                   |                   |
| Peru (Kallpa)(4) .....           | 870                 | 870                 | 870                 | 870                 | 870                 | 870                 | 578                 | 368               | 174               |
| Panama (Kanan)(5) .....          | —                   | 92                  | —                   | —                   | —                   | —                   | —                   | —                 | —                 |
| Colombia (Surpetroil) .....      | —                   | 16                  | 5                   | —                   | —                   | —                   | —                   | —                 | —                 |
| Peru (Samay I) .....             | 632                 | 632                 | —                   | —                   | —                   | —                   | —                   | —                 | —                 |
| Peru (CDA) .....                 | 545                 | 545                 | —                   | —                   | —                   | —                   | —                   | —                 | —                 |
|                                  | <u>2,047</u>        | <u>2,155</u>        | <u>875</u>          | <u>870</u>          | <u>870</u>          | <u>870</u>          | <u>578</u>          | <u>368</u>        | <u>174</u>        |
| <b>Acquired Assets:</b>          |                     |                     |                     |                     |                     |                     |                     |                   |                   |
| Peru (Las Flores) .....          | 193                 | 193                 | 193                 | 193                 | —                   | —                   | —                   | —                 | —                 |
| Nicaragua (ICPNH) .....          | 185                 | 185                 | 185                 | 185                 | —                   | —                   | —                   | —                 | —                 |
| Guatemala (Puerto Quetzal) ..... | 179                 | 179                 | 179                 | 179                 | —                   | —                   | —                   | —                 | —                 |
| Chile (Central Cardones) ....    | 153                 | 153                 | 153                 | 153                 | 153                 | 153                 | 153                 | —                 | —                 |
| Chile (Colmito) .....            | 58                  | 58                  | 58                  | 58                  | 58                  | —                   | —                   | —                 | —                 |
| Colombia (Surpetroil) .....      | —                   | 15                  | 15                  | 15                  | 15                  | —                   | —                   | —                 | —                 |
|                                  | <u>768</u>          | <u>783</u>          | <u>783</u>          | <u>783</u>          | <u>226</u>          | <u>153</u>          | <u>153</u>          | <u>—</u>          | <u>—</u>          |
| <b>Total installed capacity</b>  | <b><u>3,364</u></b> | <b><u>3,487</u></b> | <b><u>2,207</u></b> | <b><u>2,202</u></b> | <b><u>1,630</u></b> | <b><u>1,572</u></b> | <b><u>1,280</u></b> | <b><u>917</u></b> | <b><u>723</u></b> |

- (1) Does not reflect the installed capacity of Edegel, an original Inkia asset. In September 2014, we divested our indirect 21% equity interest in Edegel.
- (2) In January 2015, we acquired the 29% of Nejapa's outstanding equity interest that we did not own, which increased our equity interest in Nejapa from 71% to 100%.
- (3) In May 2014, we acquired the 84% of JPPC's outstanding equity interest that we did not own, which increased our equity interest in JPPC from 16% to 100%.
- (4) When Inkia acquired its interest in Kallpa in 2007, the Kallpa I turbine was still under commissioning and reached its COD a few days after Inkia's acquisition of Kallpa. Between July 2007 and August 2012, we developed the Kallpa II and Kallpa III turbines and completed the conversion of the Kallpa thermal plant from an open-cycle to a combined-cycle operation.
- (5) In April 2017, the Kanan power plant, which consisted of a 37 MW power barge and a 55 MW power barge, experienced a fire and, as a result, both power barges were placed off-line permanently. We expect that our subsidiary Puerto Quetzal will sell one of its two power barges, with an installed capacity of 124 MW, to Kanan and, following modification and maintenance works on this power barge, we currently expect Kanan to resume operations in the first quarter of 2018.

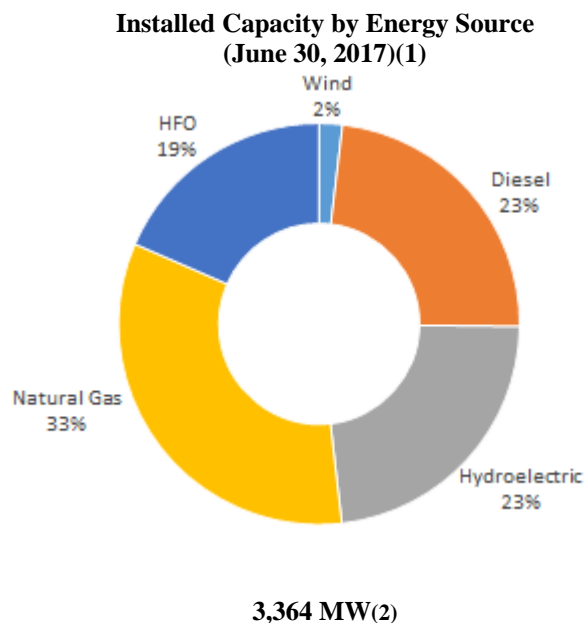
## Generation Portfolio Overview

Our generation operations are focused in Latin American and Caribbean markets—primarily Peru—characterized by relatively high rates of GDP growth and relatively low base levels of per capita energy consumption (in comparison to

those of developed markets). Our generation portfolio includes power generation plants that operate on a range of energy sources, including natural gas, hydroelectric, HFO, diesel and wind. As of June 30, 2017, our installed capacity was 3,364 MW.

We own, operate and develop power plants to generate and sell electricity to distribution companies and non-regulated customers under long-term PPAs and to the spot market. Our largest generation asset is our Kallpa thermal plant, a combined-cycle plant in Peru that includes three gas-fired generation turbines and is the largest power plant in Peru, in terms of capacity. In 2016, 86% of our energy and capacity sales were made pursuant to long-term PPAs, reducing our exposure to fluctuating electricity and fuel prices. Our generation businesses sold 12,279 GWh of electricity during the year ended December 31, 2016; 6,876 GWh of this electricity, representing 56% of volume sold, to distribution companies, 3,710 GWh of electricity, representing 30% of volume sold, to consumers in the non-regulated markets, and 1,693 GWh of electricity, representing 14% of volume sold, in the spot markets. During the year ended December 31, 2016, our generation operations in Peru generated 35% of our consolidated revenues, 122% of our net profit and 52% of our Adjusted EBITDA.

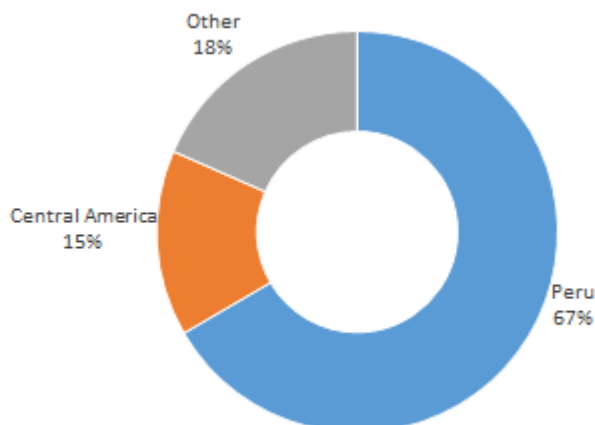
The following chart sets forth the relative percentages of our generation business' installed capacity by energy source as of June 30, 2017:



(1) Our dual-fueled assets, COBEE, Samay I and Colmito are categorized as (i) hydroelectric and natural gas (COBEE), and (ii) diesel and natural gas (Samay I and Colmito).

The following chart sets forth the relative percentage of our generation business' installed capacity by geographic region as of June 30, 2017:

### Installed Capacity by Geographic Region (June 30, 2017)



3,364 MW(1)

#### Peruvian Generation Business

Our generation business in Peru is comprised of the operations of our subsidiaries:

- Kallpa, which owns and operates (1) the integrated combined cycle Kallpa thermal plant with an installed capacity of 870 MW, (2) the open cycle Las Flores plant with an installed capacity of 193 MW, and (3) a run-of-the-river CDA hydroelectric plant with three generating units that have a combined installed capacity of 545 MW.
- Samay I, which owns and operates a cold-reserve open-cycle diesel and natural gas (dual-fired) plant with an installed capacity of 632 MW.

#### *Kallpa*

We own 75% of Kallpa; the remaining 25% is held by Energía del Pacífico. Energía del Pacífico is a member of the Quimpac group, a Peruvian chemical company. Energía del Pacífico also holds a 25% interest in Samay I. As part of a strategy to optimize and diversify our operations, on August 16, 2017, Kallpa merged with and into CDA with CDA becoming the surviving entity. Following the merger, the name of the surviving entity was changed to Kallpa Generación S.A.

Kallpa is our largest asset and the second largest power generation company in Peru in terms of installed capacity as of June 30, 2017. Kallpa owns and operates three power plants, including the Kallpa thermal plant, which is the largest power generation facility in terms of capacity in Peru, our largest market, and utilizes natural gas for its operations, and CDA plant, which is the largest privately-owned hydroelectric plant in Peru in terms of installed capacity and is among the largest in Latin America.

Kallpa's combined cycle plant has a capacity of 870 MW, representing approximately 7% of the total capacity in Peru, as of December 31, 2016. Kallpa's combined-cycle plant is among the most efficient plants in Peru (by cost of operations in U.S. dollars per MW capacity) and was among the most efficient thermal plants in Peru in terms of heat rate in 2016, according to the COES. As a result of the efficiency and low cost of operations of Kallpa's combined-cycle plant, this plant has a strong competitive position in the Peruvian market and is the largest thermoelectric power plant in Peru (according to market share, in terms of energy dispatched by thermoelectric power plants during 2016).

In April 2014, Kallpa purchased, for US\$114 million, the 193 MW single turbine natural gas-fired plant "Las Flores," which reached its COD in May 2010 and is located in Chilca, Peru, increasing Kallpa's installed capacity from

870 MW to 1,063 MW, representing approximately 9% of the total installed capacity in Peru as of December 31, 2016. Prior to Kallpa's acquisition of the Las Flores plant in 2014, the Las Flores plant had operated intermittently due to the lack of a long-term regular supply of natural gas and an associated natural gas transportation contract. The Kallpa thermal plant, which is located near the Las Flores plant, had an excess of available gas supply, and was, therefore, in a position to significantly improve the Las Flores plant's operations and generation activities. In its current phase, Kallpa's supply contract can cover up to 43% of Las Flores' natural gas needs. Since Kallpa's acquisition of the Las Flores plant, the Las Flores plant has been able to utilize Kallpa's excess gas supply and enjoys several synergies in the use and transport of gas to its facility.

Additionally, Las Flores holds environmental permits for a future 197 MW gas-fired expansion and has sufficient space to locate such a facility, as well as a combined cycle expansion, on its existing premises. In July 2015, Kallpa received environmental approval to convert both its existing unit and the future gas turbine in Las Flores, if developed, into a combined-cycle plant. If completed, these expansion projects, which we have not committed to initiate, are expected to increase the capacity of Las Flores' plant by 400 MW from 193 MW to 593 MW.

Kallpa's CDA plant has an installed capacity of 545 MW. In October 2010, Kallpa entered into—and in June 2011, Kallpa transferred to CDA—a concession agreement with the Government of Peru that provides a concession, which grants Kallpa, for an unlimited term, the right to construct and operate a run-of-the-river hydroelectric project on the Mantaro River in central Peru. The CDA plant is located 16 kilometers downstream of Peru's largest hydroelectric complex, formed by the Mantaro and the Restitución hydroelectric plants, with a capacity of 679 MW and 219 MW, respectively, and the Junin water reservoir, the second largest in Peru. The Mantaro plants form the largest hydroelectric complex in Peru (in terms of capacity and generation), run as a year round base load unit and have stable generation levels. The Junin water reservoir is expected to provide a relatively constant water flow for the downstream power plants, benefiting the CDA plant's hydrology. Kallpa holds water rights granted by the ANA in connection with the operation of the CDA plant. We estimate that the CDA plant will have an average annual capacity factor of approximately 65%, which is significantly above the average (60%) for similar projects in Latin America. The CDA plant consists of a 6 kilometer headrace tunnel and a 17 kilometer transmission line. The three generating units of the CDA plant reached COD in August 2016 at a total development cost of US\$975 million, or US\$1.8 million per MW, making the CDA plant among the most efficiently constructed hydroelectric facilities in the Peruvian and Latin American generation industries in terms of cost per MW.

During the six months ended June 30, 2017 and the years ended December 31, 2016, 2015 and 2014, Kallpa generated revenues of US\$225 million, US\$438 million, US\$448 million and US\$437 million, respectively, representing 26%, 29%, 47% and 46% of our consolidated revenues, respectively. During the six months ended June 30, 2017 and the year ended December 31, 2016, Kallpa generated 1,878 GWh and 6,015 GWh, respectively, representing 7.7% and 12.4%, respectively, of the Peruvian interconnected system's energy production.

During the six-month period ended June 30, 2017 and the year ended December 31, 2016, approximately 100% and 96% of Kallpa's aggregate energy sales (in GWh) were made pursuant to PPAs, respectively. As of June 30, 2017, all of Kallpa's PPAs were indexed to the price of the corresponding power plant's operating fuel prices in U.S. dollars and provided for payment in, or were linked to, the U.S. dollar, thereby generally limiting Kallpa's exposure to fuel price and exchange rate fluctuations. As of June 30, 2017, the weighted average remaining life of Kallpa's PPAs based on contracted capacity was six years. As of June 30, 2017, Kallpa had committed to sell more than 81% of its available energy (in MWh) in every year up to 2021.

The following table sets forth certain information regarding each of Kallpa's gas turbines for each of the periods presented:

| Turbine               | COD/<br>Acquisition | As of                         | For the Years Ended December 31, |                        |                           |                        |                           |                        |
|-----------------------|---------------------|-------------------------------|----------------------------------|------------------------|---------------------------|------------------------|---------------------------|------------------------|
|                       |                     | June 30,                      | 2016                             |                        | 2015                      |                        | 2014                      |                        |
|                       |                     | 2017                          | Gross Energy<br>Generated        | Availability<br>Factor | Gross Energy<br>Generated | Availability<br>Factor | Gross Energy<br>Generated | Availability<br>Factor |
|                       |                     | Installed<br>Capacity<br>(MW) | (GWh)                            | (%)                    | (GWh)                     | (%)                    | (GWh)                     | (%)                    |
| Kallpa<br>I(1).....   | 2007                | 186                           | 1,314                            | 98                     | 954                       | 91(3)                  | 1,243                     | 96                     |
| Kallpa<br>II(1).....  | 2009                | 195                           | 1,109                            | 84(4)                  | 1,126                     | 99                     | 1,266                     | 97                     |
| Kallpa<br>III(1)..... | 2010                | 197                           | 1,257                            | 99                     | 1,218                     | 99                     | 1,262                     | 96                     |
| Kallpa<br>IV(2).....  | 2012                | 292                           | 2,016                            | 99                     | 1,759                     | 95                     | 2,027                     | 98                     |
| Las<br>Flores....     | 2014                | 193                           | 319                              | 99                     | 109                       | 100                    | 122                       | 96                     |
| <b>Total</b> .....    |                     | <b>1,063</b>                  | <b>6,015</b>                     |                        | <b>5,166</b>              |                        | <b>5,920</b>              |                        |

- (1) Reflects the effective capacity of the turbine at its COD.
- (2) Reflects the installed capacity. The Kallpa IV turbine is the steam turbine built to convert the Kallpa thermal plant to combined cycle, at its COD.
- (3) Kallpa I underwent a major scheduled maintenance for a 29-day period from January 30, 2015 until February 28, 2015.
- (4) Kallpa II underwent a major scheduled maintenance for a 30-day period from March 19, 2016 until April 18, 2016.

During the six months ended June 30, 2017 and the year ended December 31, 2016 following the CDA plant's COD in August 2016, CDA generated revenues of US\$59 million and US\$50 million, respectively, representing 7% and 3% of our consolidated revenues, respectively. During the six months ended June 30, 2017 and the year ended December 31, 2016, CDA generated 1,124 GWh and 693 GWh, respectively, representing 4.6% and 1.4%, respectively, of the Peruvian interconnected system's energy production.

During the six-month period ended June 30, 2017 and the year ended December 31, 2016, approximately 53% and 74% of CDA's aggregate energy sales (in GWh) were made pursuant to PPAs, respectively. As of June 30, 2017, all of CDA's PPAs were indexed to the U.S. producer price index and were either denominated in U.S. dollars or denominated in the Peruvian *Sol*, but indexed to natural gas prices in Peru, which are denominated in U.S. dollars, thereby generally limiting CDA's exposure to U.S. inflation (which affects CDA's maintenance costs) and exchange rate fluctuations. Although Kallpa's CDA plant is a hydroelectric plant, two of the three PPAs entered into by CDA are indexed to natural gas prices, exposing Kallpa to fluctuations in such prices, which directly impacts profitability.

As of June 30, 2017, the weighted average remaining life of CDA's PPAs based on contracted capacity was 11 years. As of June 30, 2017, CDA had committed to sell more than 89% of its available energy (in MWh) in every year up to 2027.

Kallpa also generates revenue from ancillary services (principally transmission tolls that are typically passed through to Kallpa's customers pursuant to its PPAs). During the six months ended June 30, 2017 and the years ended December 31, 2016, 2015 and 2014, Kallpa generated revenues from ancillary services of US\$54 million, US\$98 million, US\$88 million and US\$73 million, respectively, representing 24%, 22%, 20% and 17% of Kallpa's consolidated revenues for those years, respectively.

### **Samay I**

We own 75% of Samay I; the remaining 25% is held by Energía del Pacífico. Samay I's plant has an installed capacity of 632 MW, and is the fifth largest power generation company in Peru in terms of installed capacity as of December 31, 2016.

In November 2013, Samay I won a public bid auction conducted by MINEM to build a cold-reserve open-cycle diesel and natural gas (dual-fired) thermal plant in Mollendo, Arequipa in southern Peru. The two-bid auction, which was won by Samay I and a subsidiary of Engie, is part of an effort by the Peruvian government to promote the construction of a power node in southern Peru, which will be fueled by natural gas once a natural gas pipeline, or the Gasoducto Sur Peruano, begins to deliver gas to the area. The construction of the Gasoducto Sur Peruano was suspended in January 2017, following the termination of the concession agreement entered into with a partnership comprised of Odebrecht, Graña & Montero and Enagás. Such termination has not affected the existing PPA between Samay I and the Peruvian government. The Peruvian government expects to award a new concession in January 2018. We do not expect to incur additional costs as a result of the temporary suspension.

The Samay I plant is expected to have three operational stages. First, it will operate as a cold reserve plant operated with diesel fuel until natural gas becomes available in the area through the Gasoducto Sur Peruano. It is uncertain when the Gasoducto Sur Peruano will be completed. Second, once natural gas becomes available to the facility through the Gasoducto Sur Peruano, the Samay I plant will have the obligation to operate as a natural gas-fired power plant and will be able to do so with minor investments by us in Samay I's facilities. When fueled by natural gas, the Samay I plant is expected to have an installed capacity of approximately 720 MW. Finally, following an additional investment in the conversion of the Samay I plant, which we have not committed to make, the Samay I plant could operate as a combined cycle thermoelectric plant, which is expected to increase Samay I's installed capacity to approximately 1,080 MW. The Samay I plant reached COD for the first operational stage in May 2016, on schedule in accordance with the terms of its agreement with the Peruvian government, at a total development cost of US\$377 million (excluding US\$26 million of diesel fuel inventory).

During the six months ended June 30, 2017 and the year ended December 31, 2016 following the Samay I plant's COD in May 2016, Samay I generated revenues of US\$58 million and US\$40 million, respectively, representing 7% and 3% of our consolidated revenues, respectively. As a cold reserve plant, Samay I's revenues consisted primarily of capacity payments under its PPA. During the six months ended June 30, 2017 and the year ended December 31, 2016, Samay I generated 255 GWh and 94 GWh, respectively.

In July 2016, Samay I, Posco Engineering & Construction Co., Ltd. (the EPC contractor for the construction of the Samay I plant), or Posco, and General Electric (the manufacturer of the Samay I plant's turbines) inspected the Samay I plant's units. Such inspections revealed damage to the shafts in three of the plant's four units. As a result, all of the plant's four units were declared unavailable to the system. The MINEM and OSINERGMIN were informed that there had been a *force majeure* event which caused the plant to be placed off-line. Samay I also notified its project lenders and its insurance providers of the incident. Samay I continued to receive payments under its PPA while the plant was off-line, but such payments were subject to negative adjustments based on the amount of time the plant was unavailable when called for dispatch. Although we are disputing such negative adjustments, in 2016 we recorded negative revenue adjustments of US\$3 million as a result of Samay I's unavailability. For a further description of the possible risk of *force majeure* events see, "Risk Factors—Risks Related to our Company—Certain of our facilities are affected by climate conditions, and changes in the climates or other occurrences of natural phenomena in the countries in which these facilities operate could have a material adverse effect on us," and "Regulatory Overview—Regulation of the Peruvian Electricity Sector—Generation Companies."

By February 2017, all four of the units had been repaired and declared available to the system. The cost of the repairs was initially paid by the EPC contractor. Pursuant to a settlement agreement, Samay I and the EPC contractor each agreed to pay 50% of the cost of the outage, including repair costs and loss of profits, or US\$14 million. In August 2017, we filed a claim with the insurance company for reimbursement of our portion of these costs (subject to deductibles). However, our insurance coverage may not cover such losses or such insurance coverage may not be sufficient to cover the full amount of such losses. For further information on Samay I's insurance, see "—Insurance."

### ***Power Purchase Agreements of Our Peruvian Generation Business***

Customers of our Peruvian generation business includes governments, local distribution companies, and non-regulated customers. Kallpa seeks to enter into long-term PPAs with power purchasers. During the six-month period ended June 30, 2017 and the year ended December 31, 2016, approximately 83% and 92% the capacity and energy sales of our Peruvian generation businesses were made pursuant to long-term PPAs. Additionally, the majority of the capacity of our Peruvian generation businesses has been contracted for sale, according to long-term agreements.

In attempting to limit the effects of counterparty risks, we analyze the creditworthiness and financial strengths of our various counterparties during the PPA negotiations as well as during the life of each PPA. Where the creditworthiness of the power purchaser is deemed to be below standard, various contractual agreements and structures are negotiated (such as letters of credit, liquidity facilities, and government guarantees) to provide the credit support.

As of December 31, 2016, the weighted average remaining life of the PPAs of our Peruvian generation business based on firm capacity was 10 years. The following table sets forth a summary of the significant PPAs for our Peruvian generation companies as of December 31, 2016:

| <b>Company</b> | <b>Principal Customer</b>   | <b>Commencement</b> | <b>Expiration</b> | <b>Contracted Capacity (MW)</b> |
|----------------|---|---------------------|-------------------|---------------------------------|
| Kallpa         | Enel Distribución Perú S.A.A., Luz del Sur S.A.A., Hidrandina S.A., Electosureste S.A., Seal S.A., Electro Puno S.A.A.(1) | January 2014        | December 2021     | 350                             |
|                | Enel Distribución Perú S.A.A., Luz del Sur S.A.A., Hidrandina S.A., Electosureste S.A., Seal S.A., ElectroSur S.A.(2)     | January 2014        | December 2023     | 210                             |
|                | Sociedad Minera Cerro Verde S.A.A. (3)  | January 2011        | December 2020     | 132                             |
|                | Compañía Minera Antapaccay S.A. (4)   | November 2011       | December 2025     | 100                             |
|                | Southern Copper Corporation   | April 2017          | April 2027        | 120                             |
|                | Southern Copper Corporation (Toquepala)   | May 2017            | April 2029        | 70-85                           |
|                | InRetail Properties Management S.R.L.   | September 2016      | December 2021     | 54                              |
| CDA            | ElectroPerú   | August 2016         | December 2030     | 200                             |
|                | Luz del Sur S.A.A. (5)  | January 2018        | December 2027     | 202                             |
|                | Enel Distribución Perú S.A.A.   | January 2022        | December 2031     | 81                              |
| Samay I        | Peruvian Investment Promotion Agency ( <i>Pro Inversión</i> )   | May 2015            | April 2035        | 600                             |

- (1) Kallpa executed 14 PPAs, consisting of two PPAs with each of the following six entities: (i) Enel Distribución Perú S.A.A., (ii) Luz del Sur S.A.A., (iii) ElectroSur S.A., (iv) Electro Sur Este S.A.A., (v) Sociedad Eléctrica del Sur Oeste S.A. and (vi) Electro Puno S.A.A. Each of ElectroSur S.A. and Electro Puno S.A.A. assigned their PPAs to Hidrandina S.A. in August 2012 and in October 2012, respectively. The 350 MW capacity represents the aggregate contracted capacity of these 14 PPAs.
- (2) Kallpa executed 12 PPAs, consisting of two PPAs with each of the following six entities: (i) Enel Distribución Perú S.A.A., (ii) Luz del Sur S.A.A., (iii) ElectroSur S.A., (iv) Electro Sur Este S.A.A., (v) Electro Puno S.A.A. and (vi) Sociedad Eléctrica del Sur Oeste S.A. Electro Puno S.A.A. assigned its PPAs to Hidrandina S.A. in October 2012. The 210 MW capacity represents the aggregate contracted capacity of these 12 PPAs.
- (3) A subsidiary of Freeport McMoRan, Inc.
- (4) A subsidiary of Glencore Xstrata.
- (5) Represents capacity under three separate PPAs.

Utilizing PPAs allows our Peruvian generation companies to lock in gross margins and provides us with earnings stability. Under the terms of most Kallpa's PPAs, the power purchaser is contractually obligated to purchase energy, and sometimes capacity and/or ancillary services, from the power generator based upon a base price (denominated either in U.S. dollars or in Peruvian *Soles*) that is adjusted for (1) fluctuations in exchange rates, (2) the U.S. inflation index, (3) a local inflation index, (4) fluctuations in the cost of operating fuel, (5) supply of natural gas, (6) transmission costs and/or (7) spot prices in the case of an interruption of the supply or transportation of natural gas. Many of these PPAs differentiate between peak and off-peak periods.

Under the PPA that CDA entered into with ElectroPerú, ElectroPerú is contractually obligated to purchase energy and capacity based upon a base price denominated in U.S. dollars that is indexed to the U.S. producer price index. Under the PPAs that CDA entered into with Luz del Sur S.A.A. and Enel Distribución Perú S.A.A., these purchasers are contractually obligated to purchase energy and capacity based upon a base price denominated in Peruvian *Soles*, indexed

to natural gas prices in Peru which are denominated in U.S. dollars, and indexed to the U.S. producer price index. Assuming a consumption factor of between approximately 0.60 and 0.70 and certain volumes of capacity, peak and off-peak sales occurring at each PPA's average price (from the beginning of the PPA until 2020), we expect the PPA that CDA entered into with ElectroPerú to generate annual revenues in the range of US\$80 million to US\$88 million per full year, the PPAs that CDA entered into with Luz del Sur S.A.A. and Enel Distribución Perú S.A.A. to generate annual revenues in the range of US\$52 million to US\$57 million per full year and the PPA that CDA entered into with Enel Distribución Perú S.A.A. and Luz del Sur S.A.A. to generate annual revenues in the range of US\$20 million to US\$23 million per full year. The PPA with ElectroPerú has an average price of US\$54/MWh, capacity payments of US\$6.4/kW-month, is denominated in U.S. Dollars and is indexed to the U.S. producer price index. The PPA with Luz del Sur S.A.A. and Enel Distribución Perú S.A.A. has an average price of US\$50/MWh, capacity payments of US\$6.6/kW-month, is denominated in Peruvian *Soles*, but indexed to natural gas prices in Peru, which are denominated in U.S. Dollars, and indexed to the U.S. producer price index. The PPA with Luz del Sur S.A.A. and Enel Distribución Perú S.A.A. has an average price of US\$41/MWh, capacity payments of US\$6.5/kW-month, is denominated in Peruvian *Soles*, but indexed to natural gas prices in Peru, which are denominated in U.S. Dollars, and indexed to the U.S. producer price index. Although Kallpa's CDA plant is a hydroelectric plant, the PPAs entered into by CDA with Luz del Sur S.A.A. and Enel Distribución Perú S.A.A. are indexed to natural gas prices, exposing Kallpa to fluctuations in such prices, which directly impacts profitability. Kallpa has provided bank guarantees of US\$4 million and has undertaken to provide bank guarantees of US\$19 million to secure obligations under the PPAs.

Under Samay I's PPA with Peruvian Investment Promotion Agency, an agency of the Peruvian government, Samay I will receive fixed monthly capacity payments denominated in U.S. dollars and will pass-through all of the variable costs during the cold reserve phase of the Samay I plant, representing an aggregate amount of approximately US\$1 billion in revenues from the Samay I plant over the 20-year term of this agreement. The amount of monthly payments required to make up the total amount to which Samay I is entitled will be calculated by the COES, and will be paid by all generators that form part of the SEIN, who, in their turn will collect the corresponding fee from their customers through a surcharge in the transmission tariffs applicable to, and payable by, all end consumers. This surcharge mechanism has been used for almost 20 years in Peru to cover the cost of various energy projects and does not involve the use of government funds or any appropriation process.

### ***Gas and Gas Transportation***

Access to a supply of natural gas has been a primary factor that has limited the development of new power projects in Peru. For example, prior to Kallpa's acquisition of the Las Flores plant in 2014, the Las Flores plant had operated intermittently due to the lack of a long-term regular supply of natural gas and an associated natural gas transportation contract. Since Kallpa's acquisition of the Las Flores plant, the Las Flores plant has been able to utilize Kallpa's excess gas supply.

#### ***Kallpa Natural Gas Supply and Transportation Agreements***

Kallpa purchases its natural gas requirements for its generation facilities from the Camisea Consortium, pursuant to a natural gas supply agreement. Under this agreement, the Camisea Consortium has agreed to supply Kallpa's natural gas requirements, subject to a daily maximum amount, and Kallpa has agreed to acquire natural gas exclusively from the Camisea Consortium. The Camisea Consortium is obligated to provide a maximum of 4.3 million cubic meters of natural gas per day to Kallpa's thermal plant and Kallpa is obligated to purchase a minimum of 2.2 million cubic meters of natural gas per day. Should Kallpa fail to consume the contractual minimum volume on any given day, it may make up the consumption volume shortage on any day during the following 18 months. For further information on the risks related to supply agreements, see "Risk Factors—Risks Related to Our Generation Business—Supplier concentration may expose us to significant financial credit or performance risk, particularly with respect to those agreements which may expire during the life of our power plants." The price that Kallpa pays to the Camisea Consortium for the natural gas supplied is based upon a base price in U.S. dollars set on the date of the supply agreement, indexed each year based on two producer price indices: Fuels and Related Products Power Index and Oil Field and Gas Field Machinery Index, with discounts available based on the volume of natural gas consumed. This price formula generally limits Kallpa's exposure to fuel price fluctuations, including the impact of such fluctuations on our margins. This supply agreement expires in June 2022. For information on the risks related to Kallpa's inability to renew, extend or replace this agreement prior to its expiration, see "Risk Factors—Risks Related to Our Generation Business—Supplier concentration may expose us to



significant financial credit or performance risk, particularly with respect to those agreements which may expire during the life of our power plants.”

Kallpa’s natural gas transportation services are rendered by Transportadora de Gas del Perú S.A., or TGP, pursuant to a natural gas firm transportation agreement and an interruptible gas transportation agreement. In April 2014, the firm transportation agreement was further modified to include the transportation agreement between Orazul Energy and Las Flores. These agreements both expire in December 2033.

Additionally, Kallpa is party to two additional natural gas transportation agreements that expire in April 2030 and April 2033, respectively, and on April 1, 2014, Kallpa entered into an agreement with TGP to cover the period up to the completion of the expansion of TGP’s pipeline facilities.

Set forth below is a summary of the natural gas transportation services under these agreements (in cubic meters of gas per day):

| <b>Periods</b>                                    | <b>Firm</b> | <b>Interruptible</b> |
|---|-------------|----------------------|
| Initial Date of Dispatch up to pipeline expansion | 3,474,861   | 1,329,593            |
| April 22, 2016 – March 20, 2020                   | 4,854,312   | 764,463              |
| March 20, 2020 – January 1, 2021                  | 4,655,000   | 764,463              |
| January 2, 2021 – March 31, 2030                  | 4,655,000   | 530,000              |
| April 1, 2030 – March 31, 2033                    | 3,883,831   | 1,301,169            |
| April 1, 2033 – December 31, 2033                 | 2,948,831   | 1,301,169            |

Natural gas distribution services are rendered by Gas Natural de Lima y Callao S.A. (known by its trade name, Cálidda), under a natural gas distribution agreement. Under such agreement, which expires on December 31, 2033, Cálidda is obliged to distribute up to approximately 3.71 million cubic meters of natural gas per day to the Kallpa plant and 1.14 million cubic meters of natural gas per day to the Las Flores plant.

#### *Samay I Diesel Agreement*

Samay I purchases diesel for its generation facilities from Petr6leos del Per6 S.A., or Petroper6, a Peruvian state-owned oil refinery. In May 2016, Samay I entered into a 20-year fuel supply agreement with Petroper6, a Peruvian state-owned oil refinery, pursuant to which Petroper6 agreed to provide B5 S-50 grade diesel, or diesel of a similar quality to Samay I. To place a fuel order, Samay I is required to deliver a purchase order to Petroper6 at least 25 days before the date of delivery, which includes the volume of diesel to be supplied as well as a tentative diesel fuel delivery schedule. If upon receipt of Samay I’s purchase order, Petroper6 is unable to supply the required volume of diesel fuel requested by Samay I, Petroper6 and Samay I shall negotiate the terms of the purchase order within three days of the receipt of such order. The fuel supply agreement does not provide a maximum or a minimum volume supply of diesel fuel that Petroper6 is obligated to sell to Samay I or that Samay I is obligated to purchase from Petroper6. Once the purchase order is agreed upon, Petroper6 is responsible for making the diesel fuel available to Samay I and Samay I is responsible for pumping the diesel fuel from Petroper6’s Mollendo Terminal onto its premises under the terms agreed in the purchase order. Pursuant to the terms of the fuel supply agreement, Samay I assumes all liability and costs for any loss, destruction, variation, spillage, contamination, damage or prejudice, partial or total, that the diesel fuel may cause to any third party from Samay I’s point of connection to Petroper6’s sales plant. The price that Samay I pays to Petroper6 for the diesel fuel supplied is based upon the sum of a base price in U.S. dollars set on the date of the supply agreement, which is adjusted every six months based on Petroper6’s Mollendo Terminal differential, plus the average of the last five spot prices of ultra-low sulfur diesel published by Platts Marketscan for the U.S. Gulf Coast.

#### *Samay I Rights to Natural Gas Supply Upon Completion of the Gasoducto Sur Peruano*

Samay I is one of only two power generation companies that have defined rights to a natural gas supply and transportation capacity once the Gasoducto Sur Peruano is completed. The developer of the Gasoducto Sur Peruano will have a contractual obligation under its concession agreement with the government of Peru to build a branch of this pipeline to connect this pipeline with the Samay I plant. We believe that our strategic development of the Samay I plant will provide us with a significant advantageous position in the future southern Peru power node, which will develop once

the Gasoducto Sur Peruano is completed. Pursuant to the terms of its tender in the public bid auction conducted by MINEM in 2013, Samay I must receive gas and transportation services pursuant to terms which are similar to other power plants located in other parts of Peru and served by the existing TGP pipeline, such as the Kallpa thermal plant. According to Peruvian Law No. 29970, natural gas transportation costs of the Samay I plant will be eventually subsidized by additional tariffs on the electricity transmission toll periodically determined by OSINERGMIN with the purpose of decentralizing the generation of electricity with natural gas, which is one of the main goals of the government of Peru in developing the southern Peru power node. Prior to the suspension of the construction of the Gasoducto Sur Peruano, ElectroPerú had commenced negotiations with suppliers and concessionaires for the supply and transport of natural gas to each of Samay I and the other plant with a defined right to the firm supply of natural gas. However, as a result of the suspension in the construction of the Gasoducto Sur Peruano, such negotiations have also been suspended. Moreover, ElectroPerú may not be successful in obtaining an agreement which conforms to the conditions as contemplated in the tender documents of the cold reserve bidding process, we believe Samay I has the right to reject entering into any supply and transportation agreements which do not comply with the conditions set forth in its tender.

### ***Maintenance***

Kallpa's gas turbines are maintained according to a predefined schedule based upon the running hours of each turbine and the manufacturer specifications particular to it. Kallpa anticipates the first maintenance of its Kallpa IV turbine to occur in 2019. Kallpa's maintenance schedule is coordinated with, and approved by, the COES. Kallpa is a party to a services contract with Siemens Energy, Inc. and a supply and support contract with Siemens Power Generation, Inc., each of which provides for an 22-year term of service for each of the Kallpa I, II and III turbines, or the equivalent of 116,000 hours of operation, beginning in March 2006, in December 2007, and in July 2008, respectively. These agreements have been amended to include Las Flores, thereby requiring the OEM to supply spare parts, hardware and maintenance services to Las Flores during the term of the agreement. We also have a relationship with the OEM, which periodically performs onsite analyses and make annual feedback and recommendations regarding transmission line maintenance. Spare parts for the Kallpa IV turbine are generally available and can be obtained from the OEM as well as from other suppliers.

Samay I is a party to a contractual service agreement with General Electric International Inc., as offshore contractor, General Electric International Peru, as onshore contractor, and GE Energy Parts International, LLC, as offshore parts contractor, which together provide for approximately a 23-year term of service for each of Samay I's four gas turbines, or of 128,000 hours of operation for each turbine, beginning as of May 2016. Pursuant to the service agreement, the contractors agree to provide parts and services necessary for the periodic inspection, repair, provision and replacement of parts to the turbines. Additionally, the contractors agree to bear the first US\$500,000 of the price for parts and services to repair damages that results from the failure of or defect in a part of an affected turbine, up to a maximum total of US\$2 million for repairs in any one calendar year. Samay I's maintenance schedule is coordinated by Samay I and the contractors to occur each year between the months of December and April.

### ***Competition in Peru***

In Peru, power generation companies compete along a number of dimensions, including the ability to (1) source and enter into long-term PPAs with power purchases, (2) source and secure land for the development or expansion of additional power generation plants, (3) source and secure natural gas to fuel power generation stations, (4) win tenders by the Peruvian government to build cold reserve plants, or other generation supply, and (5) maintain or increase market share in the growing Peruvian electricity market, particularly in connection with the balance of energy supply and demand within Peru. In Peru, we compete with state-owned generation companies (although their relative weight in the market has been diminishing over time since the privatization process started in the 1990s), as well as large international and domestic private generators.

The following table sets forth the quantity of energy generated by each of the principal generation companies in Peru for the periods presented:

| <b>Gross Energy Generation</b>                           |               |                         |               |                         |               |                         |
|--|---------------|-------------------------|---------------|-------------------------|---------------|-------------------------|
| <b>For the Year Ended December 31,</b>                   |               |                         |               |                         |               |                         |
|  | <b>2016</b>   |                         | <b>2015</b>   |                         | <b>2014</b>   |                         |
|  | <b>(GWh)</b>  | <b>Market Share (%)</b> | <b>(GWh)</b>  | <b>Market Share (%)</b> | <b>(GWh)</b>  | <b>Market Share (%)</b> |
| Kallpa .....   | 6,015         | 12.45                   | 5,166         | 11.60                   | 5,920         | 14.17                   |
| CDA.....   | 693           | 1.55                    | —             | —                       | —             | —                       |
| Samay I.....   | 136           | 0.28                    | —             | —                       | —             | —                       |
| Enel Generación Perú S.A.A.(1).....                      | 8,832         | 18.28                   | 8,370         | 20.10                   | 8,848         | 22.26                   |
| Engie Energía Perú S.A. (formerly EnerSur S.A.) .....    | 8,182         | 16.93                   | 7,172         | 16.10                   | 7,098         | 16.98                   |
| ElectroPerú S.A. (a state-owned generation company)..... | 6,644         | 13.75                   | 7,172         | 16.10                   | 7,041         | 16.85                   |
| Orazul Energy (2) .....                                  | 2,423         | 5.01                    | 2,648         | 5.95                    | 2,534         | 6.06                    |
| Other generation companies .....                         | 15,537        | 31.75                   | 14,012        | 30.15                   | 10,351        | 23.63                   |
| <b>Total</b> .....                                       | <b>48,326</b> | <b>100.0</b>            | <b>44,540</b> | <b>100.0</b>            | <b>41,796</b> | <b>100.0</b>            |

(1) Includes Chinango S.A.C. and Enel Generación Piura.

(2) Includes Termoselva S.R.L.

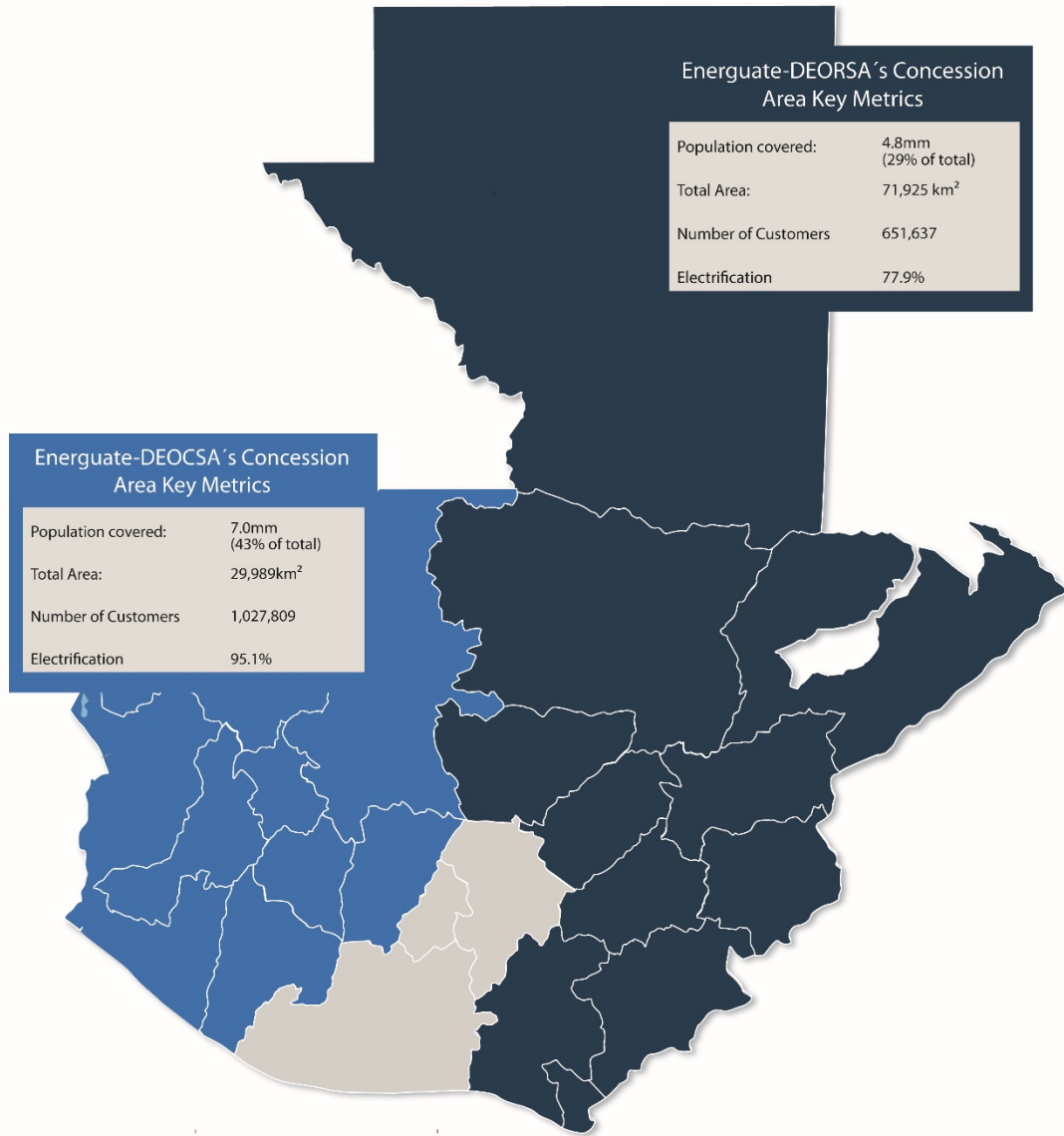
### **Guatemalan Distribution Business**

Energuate is one of two large energy distributors in Guatemala and the largest distribution company in Central America measured by population served. We use the trade name “Energuate” for the collective distribution businesses of DEOCSA and DEORSA, but Energuate is not a legal entity. Energuate’s service area represented approximately 93.6% of the country’s territory in which approximately 76.5% of its total population resided as of December 31, 2016. As of June 30, 2017, Energuate provided services to approximately 1.7 million regulated customers in Guatemala, which we estimate represent approximately 56.0% of Guatemala’s population and approximately 54.3% of Guatemala’s regulated distribution customers. Energuate operated 78,179 km of distribution lines in Guatemala, representing approximately 83.1% of Guatemala’s distribution lines as of June 30, 2017. During the six months ended June 30, 2017 and the years ended December 31, 2016, 2015 and 2014, Energuate sold 1,123 GWh, 2,316 GWh, 2,315 GWh and 2,184 GWh of energy, respectively.

### **Service Area**

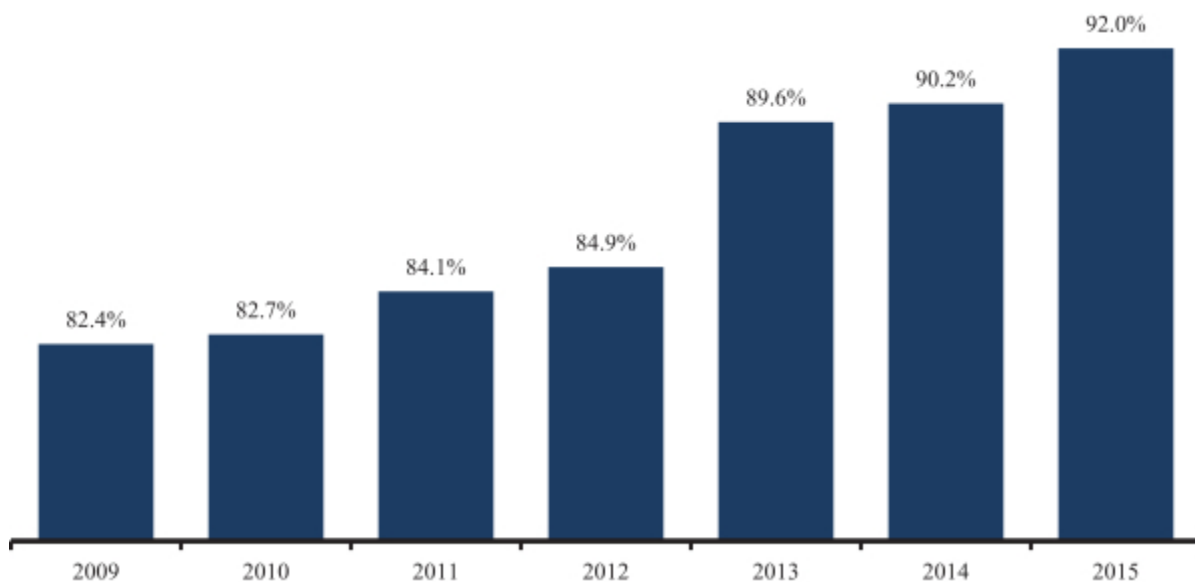
Energuate has authorizations to provide electricity distribution services within its service area until 2048. Energuate operates in 21 of Guatemala’s 22 departments, excluding Sacatepéquez, covering 101,914 km<sup>2</sup> with approximately 11.8 million inhabitants. DEOCSA’s service area covers the south-western region of Guatemala, while DEORSA’s service area covers northern and eastern regions of Guatemala. Energuate’s authorizations are non-exclusive and the MEM has historically granted, and may in the future grant, authorizations to one or more competing distribution companies in Energuate’s service area. For Further information see, “Risk Factors—Risks Related to our Distribution Business—Energuate’s authorizations to provide energy distribution services are non-exclusive. Therefore, Energuate may face more competition from other distributors in certain departments.”

The following map indicates, as of June 30, 2017, the areas in which DEOCSA and DEORSA operate.



Compared to the urban and residential departments in which EEGSA, the other large Guatemalan distribution company, operates, Energuate's service area is predominantly rural and characterized by lower electrification levels and underdeveloped infrastructure. For example, in Energuate's service area, there are still some households that utilize propane and wood for cooking, illumination and other household needs. As a result, we believe that Energuate's service area has room for further growth in electricity distribution. In addition, the Guatemalan government has historically implemented projects to increase electrification levels in Guatemala. We believe the Guatemalan government will continue to promote access to electric energy through policies such as subsidies for rural customers with low-consumption.

The following chart shows the growth of electrification levels in all of Guatemala between 2009 and 2015.



Source: The Ministry of Public Finance of Guatemala.

As of December 31, 2016, the combined electrification level in Energuate's service area was 87.9%.

### ***Distribution Network***

During the six months ended June 30, 2017 and the year ended December 31, 2016, we distributed approximately 28.9% and 29.1% of the energy distributed in Guatemala. Energy is transferred from supply points connected with the Guatemalan National Electricity System to customers through Energuate's distribution system, which consists of a wide network of overhead lines, cables and substations carrying successively lower voltages. As of June 30, 2017, Energuate's distribution system represented approximately 83.1% of Guatemala's distribution lines.

The following table provides certain information concerning Energuate's distribution system as of the dates indicated:

|   | <b>As of December 31,</b> |             |             |
|---|---------------------------|-------------|-------------|
|   | <b>2016</b>               | <b>2015</b> | <b>2014</b> |
| <b>Kilometers of distribution lines</b> |                           |             |             |
| Medium-voltage.....                     | 34,230                    | 34,158      | 33,180      |
| Low-voltage.....                        | 36,150                    | 35,670      | 35,504      |
| <b>Transformer Capacity (MVA)</b>       |                           |             |             |
| Medium-voltage / Low-voltage .....      | 1,932                     | 1,941       | 1,904       |

### ***Customer Base***

As of June 30, 2017, Energuate provided electric service to approximately 1.7 million regulated customers and 111 unregulated customers. Energuate's regulated customer base is divided into four categories:

- Residential (some of whom receive subsidies for their purchase of electricity);
- Commercial (small- to medium-sized enterprises, such as local hospitals, gas stations, irrigation pumps and small-sized agricultural facilities);
- Industrial (large-sized enterprises, such as hotel and resort complexes, commercial malls and large-scale agricultural facilities); and
- Other (which includes certain government entities, such as municipalities).

The following table sets forth the volume of energy purchased, the percentage of purchased energy lost and the volume of energy distributed to Energuate’s consumers during the periods indicated.

|  | <b>For the Six<br/>Months Ended<br/>June 30,</b> | <b>For the Year Ended December<br/>31,</b> |              |              |
|--|--|--|--------------|--------------|
|  | <b>2017</b>                                      | <b>2016</b>                                | <b>2015</b>  | <b>2014</b>  |
|  | Energy purchased (GWh) .....                     | 1,434                                      | 2,882        | 2,785        |
| Total energy losses (%) <sup>(1)</sup> ..... | 20.0%  | 19.6%                                      | 16.9%        | 16.9%        |
| Energy distributed (GWh):                    |  |  |              |              |
| <i>To regulated customers</i> .....          |  |  |              |              |
| Residential.....                             | 839  | 1,663                                      | 1,612        | 1,499        |
| Commercial.....                              | 126  | 253  | 246          | 234          |
| Industrial .....                             | 18   | 37   | 35           | 27           |
| Other customers .....                        | 115  | 262  | 266          | 251          |
| Total to regulated customers.....            | 1,098  | 2,215                                      | 2,159        | 2,011        |
| <i>To unregulated customers</i> .....        | 25   | 101  | 156          | 173          |
| <b>Total energy distributed</b> .....        | <b>1,123</b>                                     | <b>2,316</b>                               | <b>2,315</b> | <b>2,184</b> |

(1) We experience energy losses in the form of technical and commercial energy losses. For more information, see “— Energy Losses.”

The following table sets forth the number of Energuate’s consumers by category as of the dates indicated.

|  | <b>As of June 30,</b> | <b>As of December 31,</b> |                  |                  |
|--|-----------------------|---------------------------|------------------|------------------|
|  | <b>2017</b>           | <b>2016</b>               | <b>2015</b>      | <b>2014</b>      |
| <b><i>Regulated customers:</i></b>     |                       |                           |                  |                  |
| Residential.....                       | 1,707,872             | 1,674,916                 | 1,630,204        | 1,575,204        |
| Commercial.....                        | 3,991                 | 4,036                     | 4,037            | 3,991            |
| Industrial .....                       | 85                    | 81                        | 79               | 65               |
| Other customers .....                  | 298                   | 298                       | 296              | 295              |
| Total regulated customers.....         | 1,712,246             | 1,679,331                 | 1,634,616        | 1,579,555        |
| Unregulated customers .....            | 108                   | 115                       | 157              | 170              |
| <b>Total number of customers</b> ..... | <b>1,712,354</b>      | <b>1,679,446</b>          | <b>1,634,773</b> | <b>1,579,725</b> |

### ***Distribution Tariffs***

Under the General Electricity Law and the regulations of the CNEE, the tariffs that Energuate charges to its regulated customers are subject to the approval of the CNEE. The prices for energy and capacity charged to unregulated customers are not regulated by the CNEE; however, unregulated customers must pay a toll, equivalent to the applicable VAD charge when supplied by a generator or wholesale energy broker, for delivery through the facilities of a distribution company, as a toll. Energuate charges distribution tariffs for all energy delivered through its distribution system, whether to its customers or the customers of wholesale energy brokers. The tariffs we charge wholesale energy brokers do not include the energy charge described below.

There are seven different tariffs that are applicable to Energuate’s regulated customers. Each of Energuate’s regulated customers agrees to purchase energy and capacity from Energuate at one of these tariff rates. Energuate’s schedule of tariffs includes:

- a *social tariff* available to customers with energy consumption of up to 300 kWh per month. As of December 31, 2016, 96.7% of Energuate’s customers were eligible for the social tariff. Consumption of energy at the social tariff accounted for 52.0% and 50.7% of the energy Energuate sold to its customers in the years ended

December 31, 2016 and 2015, respectively. The Guatemalan government grants a subsidy to customers that purchase 100 kWh or less per month.

- a *regular tariff*, available to all customers that purchase energy at low-voltage, with energy consumption higher than 300 kWh per month and a demand capacity of up to 11 kW. As of December 31, 2016, 3.1% of Energuate’s customers purchased energy at the regular tariff. Consumption of energy at the regular tariff accounted for 19.8% and 18.9% of the energy Energuate sold to its customers in the years ended December 31, 2016 and 2015, respectively.
- a *low-voltage peak tariff* available to customers that purchase energy and capacity at low voltage (less than 1,000 volts), with a demand capacity between 11 kW and 100 kW, for no less than 60% of the month, who are generally customers that have a predictable level of demand, primarily commercial and industrial customers.
- a *low-voltage off-peak tariff* available to customers that purchase energy and capacity at low voltage (less than 1,000 volts), with a demand capacity between 11 kW and 100 kW, for less than 60% of the month, who are generally customers that have a predictable level of demand, primarily commercial and industrial customers.
- a *medium-voltage peak tariff* available to customers that purchase energy and capacity at medium voltage (greater than 1,000 volts and equal to or less than 60,000 volts), with a demand capacity between 11 kW and 100 kW, for no less than 60% of the month, who are generally customers that have a predictable level of demand, primarily commercial and industrial customers.
- a *medium-voltage off-peak tariff* available to customers that purchase energy and capacity at medium voltage (greater than 1,000 volts and equal to or less than 60,000 volts), with a demand capacity between 11 kW and 100 kW, for less than 60% of the month, who are generally customers that have a predictable level of demand, primarily commercial and industrial customers.
- a *tariff available to municipalities* that purchase energy for public lighting. In addition to the applicable tariff, Energuate bills its customers a fee for public lighting on behalf of these municipalities when authorized to do so by the CNEE. The amount owed to Energuate under the public lighting tariff is netted against the amount of these fees collected by it and the surplus, if any, is paid to the governmental entity. Energuate invoices the governmental entity for any deficiency.

The following table sets forth the volume of energy delivered by Energuate to its regulated customers by tariff during the periods indicated.

|  | <b>For the Six<br/>Months Ended<br/>June 30,</b> | <b>For the Year Ended December<br/>31,</b> |              |              |
|--|--|--|--------------|--------------|
|  | <b>2017</b>                                      | <b>2016</b>                                | <b>2015</b>  | <b>2014</b>  |
|  |  | (GWH)                                      |              |              |
| <b>Applicable tariff:</b>                                    |  |  |              |              |
| Social tariff.....   | 607  | 1,205                                      | 1,175        | 1,102        |
| Regular tariff.....  | 232  | 459  | 437          | 398          |
| Low voltage peak tariff.....                                 | 52   | 108  | 100          | 74           |
| Low voltage off-peak tariff.....                             | 74   | 145  | 147          | 160          |
| Medium voltage peak tariff.....                              | 7  | 18   | 14           | 2            |
| Medium voltage off-peak tariff.....                          | 11   | 18   | 20           | 25           |
| Public lighting tariff.....                                  | 115  | 262  | 266          | 250          |
| <b>Total energy distributed to regulated customers .....</b> | <b>1,098</b>                                     | <b>2,215</b>                               | <b>2,159</b> | <b>2,011</b> |

The tariffs charged by Energuate are comprised of:

- an energy charge, updated quarterly and designed to reimburse Energuate for the cost of energy and capacity that it purchases and transmission tolls to the interconnection point with Energuate's grid. The energy charge consists of a base tariff and an energy adjustment surcharge. Under the General Electricity Law and the regulations of the CNEE, the base tariff is adjusted annually each year on May 1 to reflect anticipated changes in the cost of energy and capacity to be purchased by Energuate during the following year. The energy adjustment surcharge is set quarterly to reflect variations in the actual cost of energy and capacity purchased by Energuate against the projected cost; and
- a VAD charge designed to permit a model efficient distribution company to cover its operating expenses, complete its capital expenditure plans and recover its cost of capital operating in the same area and providing the same services as the real distributor.

The VAD charge component of the distribution tariff is revised every five years with semi-annual adjustments for inflation and local currency exchange rates against the U.S. dollar. The VAD charge is set by the CNEE and is a flat fee per kW at each voltage level applicable to each customer. The VAD charge was last set in January 2014 and will expire in January 2019. In setting the VAD charges, the range for permitted theoretical after-inflation return on investment for distribution companies is between 7% and 13%. Currently, the VAD charges approved for Energuate's authorizations contemplate a return of approximately 7%.

### ***Billing and Collection***

Energuate bills its customers on a monthly basis. Most of Energuate's customers (other than public lighting customers and certain customers in conflict zones) have meters installed to record energy usage, and later sends its customers invoices each month based on their total energy and capacity consumption based on meter readings or other metering methods authorized by the CNEE.

Payments are required to be made within 30 days from the issuance of the invoices.

By law, customers can accumulate two invoices without making a payment before their supply of electricity can be interrupted. Overdue bills accrue interest on a monthly basis at an annual rate determined by the CNEE every quarter. As of December 31, 2016, the annual interest rate as determined by the CNEE was 13.1%. Pursuant to applicable law, Energuate cannot suspend the supply of energy to a customer until two consecutive invoices are past due. Customers who fail to pay an invoice will receive a notice in the following month's invoice stating that energy will be disconnected if the overdue payment plus interest is not received within 30 days counted from the date of this notice. Once a customer has an overdue invoice, unpaid invoices are sent to Energuate's internal collections department, and generally, Energuate will cease supplying its services when a customer repeatedly fails to make payments. Customers that wish to be reconnected must pay all outstanding invoices plus interest, and a reconnection fee. The reconnection fee covers Energuate's costs for both disconnection and reconnection.

Energuate records a monthly provision for doubtful accounts based on its past collection experience and management estimates regarding future collections. Amounts are written off when the collections department deems an account to be irrecoverable. During the six months ended June 30, 2017 and the year ended December 31, 2016, Energuate's collection rate (which reflects the amounts collected divided by the total billed amounts) was 95.4% and 95.9%, respectively. For further information on collection risks, see "Risk Factors—Risks Related to our Generating Business— If Energuate is unable to successfully control energy losses and improve collection rates, our results of operations could be adversely affected."

### ***Power Purchase Agreements and Spot Market Purchases***

Energuate purchases the energy that it distributes to its customers and the capacity that its customers demand through PPAs with generation companies, including our subsidiary Puerto Quetzal. Guatemalan distribution companies can only purchase capacity and energy and enter into PPAs through a public bidding process by the CNEE. According to the General Electricity Law, the purchase of energy and capacity by distribution companies is done through an open bidding process, and the terms and conditions of the bid, including the PPAs to be signed, are approved by the CNEE.



Once the distribution companies have obtained approval from the CNEE, the respective distribution company publishes the procedure and sets the day, hour and conditions to file the technical and economic offer. As of June 30, 2017, Energuate was a party to 88 PPAs with 44 generation companies with a weighted average life of 10 years.

Energuate is required by the General Electricity Law to maintain PPAs with generating companies at all times to cover 100% of the maximum expected demand for the current year, as well as the following year. Each year, Energuate estimates and submits to the AMM the expected demand for energy of its customers for the period from May 1 of the following year through April 30 of the subsequent year. This projection of demand is then approved by the AMM and used to establish Energuate’s minimum contracting requirements. If there is a disagreement of more than +5% or -2% between Energuate and the AMM regarding the demand estimation, the CNEE will have 15 business days to determine the estimation of the demand. If the contracted capacity and energy under Energuate’s PPAs are insufficient to meet the demand of its customers, Energuate makes purchases on the spot market, but only if authorized by the CNEE. Additionally, most of Energuate’s PPAs provide that it is able to purchase energy in the spot market if the price in the spot market is more advantageous to Energuate than the PPA price.

The following table sets forth the supplier, the amount of contracted capacity and the expiration date of Energuate’s PPAs entered into with its five largest suppliers of capacity as of June 30, 2017, covering 70% of its collective contracted capacity.

| <u>Supplier</u>                   | <u>Contracted Capacity (MW)</u> | <u>Expiration Date</u>  |
|-----------------------------------|---------------------------------|-------------------------|
| Jaguar Energy Guatemala LLC ..... | 200                             | April 2030              |
| INDE(1).....                      | 111                             | April 2019 – April 2032 |
| Energía del Caribe .....          | 60                              | April 2032              |
| Renace, S.A. ....                 | 55                              | April 2030 – April 2033 |
| Hidro Xacbal, S.A. ....           | 30                              | April 2030 – April 2032 |

(1) In April 2017, four of our PPAs with INDE representing 79 MW of contracted capacity expired by their terms. In May 2017, two of our PPAs with INDE representing 27 MW became effective.

Under most of its PPAs, Energuate pays a capacity charge and an energy charge. Energuate pays a specified amount for each MW of capacity purchased under these PPAs and an energy charge for the kWh of energy actually delivered to Energuate. Most of Energuate’s PPAs also provide that the energy charge is indexed to changes in published quotations for the type of fuel used by the generator. In addition, Energuate is required to pay certain additional costs incurred by the generators to provide energy including connection costs, transmission tolls, additional costs imposed by the CNEE and other similar costs. Energuate has an average of approximately 53 days from the last day of consumption of the month to pay its counterparties under its PPAs. Energuate’s counterparties under its PPAs do not charge interest on late payments of invoices.

### ***Energy Losses***

Energuate experiences energy losses in the form of technical and commercial energy losses. Technical energy losses are those that occur in the ordinary course of Energuate’s distribution of energy or those resulting from the specific characteristics of Energuate’s distribution network, and include losses due to energy dissipation in conductors and magnetic losses in transformers. Commercial energy losses are those resulting from illegal connections, fraud or billing errors. Energuate’s total energy losses (comprising technical and commercial losses) during the six months ended June 30, 2017 and the years ended December 31, 2016, 2015 and 2014 were 20.0%, 19.6%, 16.9% and 16.9% of the total energy we received during each period, respectively. The VAD component of the distribution tariffs charged by Energuate provides for an allowance for losses incurred in the distribution of energy determined by the CNEE. To the extent that Energuate’s energy losses exceed the allowance (currently approximately 15.0% of Energuate’s costs associated with energy losses, which includes both technical and commercial energy losses) contemplated in the current formula of the VAD component of the distribution tariff, Energuate will bear the cost of such losses. For further information on the risks of energy loss, see “Risk Factors—Risks Related to our Generating Business—If Energuate is

unable to successfully control energy losses and improve collection rates, our results of operations could be adversely affected.”

Our management has established a goal to reduce Energuate’s energy losses. We intend to reduce commercial energy losses through increasing targeted inspections and meter replacements, implementing a communication program with local communities and modernizing Energuate’s facilities to reduce tampering, especially in areas where energy theft has been more prevalent, and reduce technical energy losses by investing in the modernization of Energuate’s transmission grid and distribution system. In particular, Energuate intends to inspect around 15 thousand specifically targeted meters each month for evidence of fraud and replace approximately 56 thousand old meters each year. To this end, Energuate invested US\$30 million in capital expenditures in respect of tangible fixed assets in the year ended December 31, 2016, and we expect Energuate’s capital expenditures to increase in the coming years.

### ***Authorizations***

In 1998, the MEM granted authorizations to DEOCSA and DEORSA to use public property (including rivers) and impose easements on private lands, thus enabling Energuate to deliver electricity over its distribution system in its service areas for a period of 50 years. The authorizations allow Energuate to conduct its operations and include the right to use public roads and other public domain spaces and to obtain easements over certain state-owned and private lands in order to construct, maintain and operate its distribution system. These easements remain in place as long as necessary to provide passage for the distribution lines and appropriate access to Energuate’s distribution network. Energuate is required to negotiate with the owners for new easements over private land and must pay the owners of the private land for those easements. If the parties cannot reach an agreement, Energuate can petition the MEM to impose an easement.

In exchange for such authorizations, Energuate agrees to provide distribution services at the tariffs and under the conditions set forth by the CNEE. Energuate’s authorizations are non-exclusive and the MEM has historically granted, and may in the future grant, authorizations to one or more competing distribution companies in Energuate’s service areas.

Energuate is required to construct its facilities and transmission lines in a manner that guarantees the public’s safety. Once constructed, Energuate is required to operate and maintain the facilities in safe working condition. However, pursuant to Guatemalan law, Energuate needs to apply and obtain a construction license to commence any construction project. These licenses are issued by the municipality that has jurisdiction over the place in which the construction is located. The CNEE has promulgated a series of technical rules related to the design and operation of distribution facilities. Energuate’s authorizations require that it complies with the rules promulgated by the CNEE. Energuate’s authorizations also require it to maintain appropriate insurance on its facilities.

Energuate’s obligations under its authorizations are primarily focused on quality of service as described below under “—Service Standards.” In addition, Energuate has the obligation to provide service to all customers requesting such service within areas that are located (1) within 200 meters of Energuate’s distribution lines, or the Mandatory Area, or (2) outside of the Mandatory Area but within Energuate’s service area, if the requesting party constructs a connection to its distribution line.

Energuate’s authorizations can either be terminated (1) upon the expiration of the original term, or (2) by the regulatory authorities as a result of non-compliance with the obligations assumed by Energuate under the terms of its authorizations, in accordance with the procedures set forth in the General Electricity Law. In case of a default under the terms of the authorizations, the MEM may rescind all or a portion of the authorized service areas. Once an authorization is terminated, the General Electricity Law establishes that the rights and assets relating to such authorization will be auctioned publicly as an economic unit, within 180 days. The former concessionaire can participate in the auction process unless the authorization was terminated as a result of poor quality of service. From the value obtained in the auction process, the MEM will deduct the expenses incurred in the auction and debts that the former concessionaire may have and the remaining amount will be transferred to the former concessionaire. The creditors of the former concessionaire may not, for any reason, oppose the auction and, provided that such creditors asserted their claims in legal proceedings, will be paid with amounts obtained from the auction. In case of the termination of an authorization, the former concessionaire must guarantee the continuity of the service pursuant to Article 57 of the General Electricity Law. As a consequence, a former concessionaire may not suspend service until the auction and the transfer of the assets to a

new concessionaire is completed, and will be responsible for the damages and losses caused by the non-fulfillment of its obligation.

### ***Service Standards***

Under its authorizations, Energuate is required to meet specified standards with respect to the quality and delivery of the energy distributed to its customers. The quality standards refer to the energy's voltage levels. A breach may be deemed to have occurred when there are changes in the voltage level. A monetary fine is imposed under Energuate's authorizations for breaches exceeding certain limits, with such fines credited towards the affected consumer's next invoice. The CNEE has published a series of technical rules related to delivery standards that contain restrictions on the maximum number of interruptions and maximum length of interruptions. If interruptions exceed the maximum levels set by the CNEE, Energuate may be fined by the CNEE.

Energuate is also required to survey its customers annually to assess their satisfaction levels. The survey covers:

- perceived service quality, which indicates the percentage of customers who did not perceive variations in the voltage of the energy they received during the year;
- technical services, which indicates the percentage of customers who did not perceive interruptions or blackouts during the year; and
- overall customer service, which indicates the percentage of customers who are satisfied with the overall customer service provided by the distribution company.

If Energuate repeatedly incurs fines imposed by the CNEE, fails to pay fines that have been imposed or otherwise repeatedly provides deficient service, its authorizations may be revoked. If Energuate's authorizations are revoked, the MEM may sell Energuate's distribution assets through a public auction.

Energuate may be subject to other monetary fines and penalties for failure to comply with other terms of its authorization agreements. During the six months ended June 30, 2017 and the year ended December 31, 2016, Energuate paid total fines and penalties US\$642 thousand and US\$265 thousand, respectively. For further information on claims against Energuate relating to its service standards, see “—Legal Proceedings—Claims Relating to Energuate's Technical Service Quality.”

### ***Transmission, Construction and Maintenance Services***

Energuate pays tolls for transmission of energy over the primary and secondary transmission systems. These tolls are subject to the approval of the CNEE and will expire on December 31, 2018. The cost of transmission tolls are included in the energy charge component of Energuate's tariffs, which are then passed through to Energuate's customers as part of the energy component of the distribution tariff.

Energuate has outsourced certain construction, maintenance and billing activities to various third parties. For these purposes, we have entered into 64 agreements with construction and maintenance companies with a total annual cost of US\$39 million, which provide the following services to Energuate:

- 24-hour emergency services, including call center, fault response, building security and personal security services;
- building new connections and installations;
- engineering and design services;
- providing connection and disconnection services; and
- maintaining and repairing installations and equipment, including substations, transformers and node stations.

### ***Competition in the Guatemalan Energy Distribution Market***

The energy distribution market in Guatemala is predominantly served by three companies: our subsidiaries, DEOCSA and DEORSA, and EEGSA. In addition, there are 16 municipal distributors operating in the AMM. EEGSA operates in an urban and suburban service area and holds authorizations covering the departments of Guatemala (which includes the country's capital, Guatemala City), Sacatepéquez and Escuintla until 2048 and the departments of Chimaltenango, Jalapa and Santa Rosa until 2049.

Energuate's authorizations are non-exclusive and the MEM has historically granted, and may in the future grant, authorizations to one or more competing distribution companies in its service area. In addition, Energuate is facing competition from other distributors which hold authorizations to operate in certain departments located in its service area.

### **Generation Businesses Outside Peru**

Our generation businesses outside Peru are comprised of the operations of our subsidiaries in:

- Nicaragua, in which our subsidiary ICPNH, through its four majority-owned subsidiaries, owns and operates two HFO-fueled plants and owns two wind powered plants with an aggregate installed capacity of 185 MW.
- Bolivia, in which our subsidiary COBEE owns and operates 14 run-of-the-river hydroelectric plants and an open-cycle natural gas powered generation plant with an aggregate installed capacity of 228 MW.
- Chile, in which our subsidiary Central Cardones owns and operates an open-cycle diesel turbine with an installed capacity of 153 MW, and our subsidiary Colmito owns and operates an open-cycle diesel and natural gas (dual-fired) plant with an installed capacity of 58 MW.
- El Salvador, in which our subsidiary Nejapa owns and operates an HFO-fueled plant with an installed capacity of 140 MW.
- Panama, in which our subsidiary Kanan owned and operated two barges with HFO generators with an aggregate installed capacity of 92 MW, and in which our associated company Pedregal owns and operates an HFO-fueled plant with an installed capacity of 54 MW. In April 2017, the Kanan power plant experienced a fire and, as a result, its power barges were placed off-line permanently. We expect that our subsidiary Puerto Quetzal will sell one of its two power barges, with an installed capacity of 124 MW, to Kanan and, following modification and maintenance works on this power barge, we currently expect Kanan to resume operations in the first quarter of 2018. For more information regarding the status of the Kanan assets, see “—Panamanian Operations and Associated Company – Kanan and Pedregal.”
- Guatemala, in which our subsidiary Puerto Quetzal owns two barges with HFO generators with an aggregate installed capacity of 179 MW.
- the Dominican Republic, in which our subsidiary CEPP owns and operates two HFO-fueled plants with an aggregate installed capacity of 67 MW.
- Jamaica, in which our subsidiary JPPC owns and operates a plant with two HFO-fueled generation units and a combined-cycle steam turbine with an aggregate installed capacity of 60 MW.

### ***Nicaraguan Operations – ICPNH***

Our operations in Nicaragua are carried out through ICPNH. We own 100% of ICPNH, which we acquired in March 2014 and which was formerly known as AEI Nicaragua. ICPNH owns and operates four power generation plants located in Nicaragua through:

- its indirect 65% equity interest in Corinto;

- its indirect 65% equity interest in Tipitapa Power;
- its indirect 61% equity interest in Amayo I; and
- its indirect 61% equity interest in Amayo II.

Corinto and Tipitapa Power, which have a combined installed capacity of 122 MW, use HFO as fuel. The Corinto and Tipitapa Power plants house fuel storage tanks on site with capacity of approximately 90 thousand barrels and 63 thousand barrels, respectively. Amayo I and Amayo II are wind powered plants with a combined installed capacity of 63 MW. Collectively, these four entities have an installed capacity of 185 MW, representing approximately 15% of the total capacity of the Nicaraguan interconnected system as of December 31, 2016.

During the six months ended June 30, 2017 and the years ended December 31, 2016, 2015 and 2014 (since the date of our acquisition of ICPNH in March 2014), ICPNH generated revenues of US\$49 million, US\$90 million, US\$111 million and US\$125 million, respectively. During the six months ended June 30, 2017 and the year ended December 31, 2016, ICPNH generated 470 GWh and 978 GWh, respectively, representing 21% and 22%, respectively, of the Nicaraguan interconnected system's energy requirements. ICPNH has committed to sell its available energy, as follows:

- Corinto has commitments for 70% of its available energy in 2017 and 2018;
- Tipitapa Power has commitments for 100% of its available energy in 2017 and 2018;
- Amayo I has commitments for 100% of its available energy in every year up to March 2024; and
- Amayo II has commitments for 100% of its available energy in every year up to March 2025.

The following table sets forth certain information for ICPNH's plants for each of the periods presented:

| Plant                 | COD  | As of      | For the Years Ended December 31, |              |              |              |              |              |
|-----------------------|------|------------|----------------------------------|--------------|--------------|--------------|--------------|--------------|
|                       |      | June 30,   | 2016                             |              | 2015         |              | 2014         |              |
|                       |      | 2017       | Gross Energy                     | Availability | Gross Energy | Availability | Gross Energy | Availability |
|                       |      | Installed  | Generated                        | Factor       | Generated    | Factor       | Generated    | Factor       |
|                       |      | Capacity   | (GWh)                            | (%)          | (GWh)        | (%)          | (GWh)        | (%)          |
|                       |      | (MW)       |                                  |              |              |              |              |              |
| Corinto.....          | 1999 | 71         | 368                              | 71           | 476          | 93           | 494          | 93           |
| Tipitapa<br>Power ... | 1999 | 51         | 369                              | 94           | 345          | 92           | 327          | 98           |
| Amayo I....           | 2009 | 40         | 144                              | 95           | 186          | 94           | 174          | 98           |
| Amayo<br>II.....      | 2010 | 23         | 97                               | 98           | 88           | 70           | 104          | 96           |
| <b>Total.....</b>     |      | <b>185</b> | <b>978</b>                       |              | <b>1,095</b> |              | <b>1,099</b> |              |

In December 2014, ICPNH's wind farm complex in Nicaragua sustained damage in connection with a blackout in the SIN, which left one wind turbine collapsed and another two wind turbines with severe damage. These turbines had a combined installed capacity of 6 MW. The contracted operator of Amayo I and Amayo II was required under its operation and maintenance agreement to replace the turbines. The repairs and resultant business interruption related to this event was covered by insurance. In early 2016, the three damaged turbines were replaced and restored to service.

In March 2016, a unit of ICPNH's barge-mounted power plant (Corinto) with an installed capacity of 18 MW sustained damage in connection with a machinery breakdown. The repairs and resultant business interruption related to this event was covered by insurance. The damaged unit was repaired and was restored to service in February 2017.

#### ***Bolivian Operations – COBEE***

We own 100% of COBEE. COBEE is the fourth largest generator of electricity in Bolivia, generating power from ten run-of-the-river hydroelectric plants in the Zongo river valley, four run-of-the-river hydroelectric plants in the

Miguillas river valley, and two open-cycle natural gas powered generation turbines at a plant located in El Alto-Kenke, adjacent to La Paz, Bolivia. We own water rights in connection with our operation of COBEE. COBEE has capacity of 228 MW, representing 12% of the total capacity of Bolivia as of December 31, 2016.

During the six months ended June 30, 2017 and the years ended December 31, 2016, 2015 and 2014, COBEE generated revenues of US\$23 million, US\$40 million, US\$43 million and US\$41 million, respectively. During the six months ended June 30, 2017 and the year ended December 31, 2016, COBEE generated 662 GWh and 889 GWh, respectively, representing 15% and 10%, respectively, of the national interconnected electrical system of Bolivia's energy requirements.

The following table sets forth certain information for each of COBEE's plants for each of the periods presented:

| Plant                              | COD  | Elevation<br>(meters) | As of      | For the Years Ended December 31,   |                               |                                       |                               |                                       |                               |
|------------------------------------|------|-----------------------|------------|------------------------------------|-------------------------------|---------------------------------------|-------------------------------|---------------------------------------|-------------------------------|
|                                    |      |                       | June 30,   | 2016                               |                               | 2015                                  |                               | 2014                                  |                               |
|                                    |      |                       | 2017       | Gross Energy<br>Generated<br>(GWh) | Availability<br>Factor<br>(%) | Gross<br>Energy<br>Generated<br>(GWh) | Availability<br>Factor<br>(%) | Gross<br>Energy<br>Generated<br>(GWh) | Availability<br>Factor<br>(%) |
| <b>Zongo Valley plants</b>         |      |                       |            |                                    |                               |                                       |                               |                                       |                               |
| Zongo.....                         | 1997 | 4,264                 | 11         | 9                                  | 96                            | 10                                    | 98                            | 9                                     | 99                            |
| Tiquimani .....                    | 1997 | 3,889                 | 9          | 7                                  | 100                           | 13                                    | 98                            | 11                                    | 99                            |
| Botijlaca.....                     | 1938 | 3,492                 | 7          | 27                                 | 98                            | 39                                    | 99                            | 34                                    | 97                            |
| Cutichucho.....                    | 1942 | 2,697                 | 23         | 94                                 | 97                            | 128                                   | 95                            | 91                                    | 80                            |
| Santa Rosa.....                    | 2006 | 2,572                 | 18         | 67                                 | 96                            | 86                                    | 97                            | 84                                    | 98                            |
| Sainani(1).....                    | 1956 | 2,210                 | 10         | 54                                 | 96                            | 24                                    | 34                            | 15                                    | 17                            |
| Chururaqui.....                    | 1966 | 1,830                 | 25         | 107                                | 98                            | 139                                   | 96                            | 127                                   | 95                            |
| Harca.....                         | 1969 | 1,480                 | 26         | 125                                | 96                            | 162                                   | 95                            | 156                                   | 95                            |
| Cahua.....                         | 1974 | 1,195                 | 28         | 130                                | 95                            | 163                                   | 94                            | 163                                   | 95                            |
| Huaji.....                         | 1999 | 945                   | 30         | 162                                | 96                            | 180                                   | 92                            | 198                                   | 96                            |
| <b>Miguillas Valley Plants</b>     |      |                       |            |                                    |                               |                                       |                               |                                       |                               |
| Miguillas.....                     | 1931 | 4,140                 | 4          | 7                                  | 99                            | 9                                     | 91                            | 9                                     | 99                            |
| Angostura .....                    | 1936 | 3,827                 | 6          | 17                                 | 94                            | 19                                    | 92                            | 19                                    | 99                            |
| Choquetanga....                    | 1939 | 3,283                 | 6          | 30                                 | 95                            | 37                                    | 95                            | 37                                    | 98                            |
| Carabuco.....                      | 1958 | 2,874                 | 6          | 36                                 | 97                            | 42                                    | 94                            | 43                                    | 97                            |
| <b>El Alto-Kenke Plant(2).....</b> |      |                       |            |                                    |                               |                                       |                               |                                       |                               |
|                                    | 1995 | 4,050                 | 19         | 17                                 | 46                            | 30                                    | 50                            | 90                                    | 93                            |
| <b>Totals .....</b>                |      |                       | <b>228</b> | <b>889</b>                         |                               | <b>1,081</b>                          |                               | <b>1,086</b>                          |                               |

- (1) Plant was temporarily out of service due to damages sustained as a result of landslides in March 2014. The plant, which cost approximately US\$5 million to repair, came back on line in August 2015. The company maintains insurance which covers the loss of revenue as a result of property damage and business interruption for up to 12 months.
- (2) Reflects the effective capacity of El Alto—Kenke, which is comprised of two open-cycle turbines. The turbines have an installed capacity of 29 MW. However, as a result of the high altitude of the turbines (which are located at 4,050 meters above sea level), the installed capacity of these turbines are de-rated, resulting in an effective capacity of 19 MW.

Although the Bolivian government has nationalized entities in its power utility market, as recently as 2012, we are unaware of any steps the Bolivian government may take, or is currently taking, with respect to nationalizations within the Bolivian power utility market, generally, or with respect to COBEE, in particular. For further information on the risks related to the Bolivian government's nationalization of certain generation companies, see "Risk Factors—Risks Related to the Countries in Which We Operate—The Bolivian government has nationalized energy industry assets, and our remaining operations in Bolivia may also be nationalized."

## Chilean Operations – Central Cardones and Colmito

### Central Cardones

We own 87% of Central Cardones; the remaining 13% is held by Central Cardones' former controlling shareholder, South World Consulting S.A., an energy consulting and business development firm. We acquired our interest in Central Cardones in December 2011 to obtain an initial footprint in the Chilean power market.

Central Cardones owns and operates one open-cycle diesel Siemens turbine located in the northern part of the SIC and was the first Chilean power facility to be included in our portfolio. Central Cardones has an installed capacity of 153 MW. Central Cardones' power plant is used primarily for cold reserve capacity as a peaking unit, generally operating only in extraordinary situations. Central Cardones receives revenues from its allocation of available system capacity and does not have any customers.

During the six months ended June 30, 2017 and the years ended December 31, 2016, 2015 and 2014, Central Cardones generated revenues of US\$7 million, US\$13 million, US\$14 million and US\$11 million, respectively.

The following table sets forth certain information for Central Cardones' plant for each of the periods presented:

| COD  | As of<br>June 30,<br>2017     | For the Years Ended December 31,      |                               |                                    |                               |                                    |                               |
|------|-------------------------------|---------------------------------------|-------------------------------|------------------------------------|-------------------------------|------------------------------------|-------------------------------|
|      | Installed<br>Capacity<br>(MW) | 2016                                  |                               | 2015                               |                               | 2014                               |                               |
|      |                               | Gross<br>Energy<br>Generated<br>(GWh) | Availability<br>Factor<br>(%) | Gross Energy<br>Generated<br>(GWh) | Availability<br>Factor<br>(%) | Gross Energy<br>Generated<br>(GWh) | Availability<br>Factor<br>(%) |
| 2009 | 153                           | 1                                     | 98                            | 4                                  | 97                            | —                                  | 97                            |

### Colmito

We own 100% of Colmito. Colmito, which we acquired in October 2013, owns and operates a dual fuel open-cycle Rolls Royce aero derivative turbine that reached COD in August 2008. Although the Colmito plant previously operated with diesel fuel as a backup for the SIC, the plant was connected to a natural gas pipeline in February 2015, and has begun to purchase natural gas on a seasonal basis to generate energy. Colmito's generation facility is located in the central part of the SIC. Colmito has an installed capacity of 58 MW.

During the six months ended June 30, 2017 and the years ended December 31, 2016, 2015 and 2014, Colmito generated revenues of US\$12 million, US\$21 million, US\$28 million and US\$38 million, respectively. During the six months ended June 30, 2017 and the year ended December 31, 2016, Colmito generated 8 GWh and 8 GWh, respectively.

The following table sets forth certain information for Colmito's plant for each of the periods presented:

| COD  | As of<br>June 30,<br>2017     | For the Years Ended December 31,   |                               |                                    |                               |                                    |                               |
|------|-------------------------------|------------------------------------|-------------------------------|------------------------------------|-------------------------------|------------------------------------|-------------------------------|
|      | Installed<br>Capacity<br>(MW) | 2016                               |                               | 2015                               |                               | 2014                               |                               |
|      |                               | Gross Energy<br>Generated<br>(GWh) | Availability<br>Factor<br>(%) | Gross Energy<br>Generated<br>(GWh) | Availability<br>Factor<br>(%) | Gross Energy<br>Generated<br>(GWh) | Availability<br>Factor<br>(%) |
| 2008 | 58                            | 9                                  | 99                            | 27                                 | 99                            | 6                                  | 96                            |

### Salvadorian Operations – Nejapa

We own 100% of Nejapa in El Salvador as a result of our acquisition in January 2015 of Crystal Power's 29% stake in Nejapa for US\$20 million in connection with the settlement of a shareholder dispute with Crystal Power. Prior to this settlement, we owned 71% of Nejapa's outstanding equity.

Nejapa owns and operates 27 diesel generators (located in a single facility) fueled with HFO. Nejapa has a capacity of 140 MW. The Nejapa plant houses fuel storage tanks on site with capacity of approximately 47,000 barrels. In addition, Cenérgica, one of our wholly-owned subsidiaries, maintains a fuel depot and marine terminal and owns three fuel storage tanks with an aggregate capacity of 240,000 barrels in Acajutla, El Salvador.

During the six months ended June 30, 2017 and the years ended December 31, 2016, 2015 and 2014, Nejapa generated revenues of US\$47 million, US\$83 million, US\$100 million and US\$132 million, respectively. During the six months ended June 30, 2017 and the year ended December 31, 2016, Nejapa generated 21 GWh and 387 GWh, respectively.

The following table sets forth certain information for Nejapa's plant for each of the periods presented:

| COD  | As of     | For the Years Ended December 31, |              |              |              |              |              |
|------|-----------|----------------------------------|--------------|--------------|--------------|--------------|--------------|
|      | June 30,  | 2016                             |              | 2015         |              | 2014         |              |
|      | 2017      | Gross Energy                     | Availability | Gross Energy | Availability | Gross Energy | Availability |
|      | Installed | Generated                        | Factor       | Generated    | Factor       | Generated    | Factor       |
|      | Capacity  | (GWh)                            | (%)          | (GWh)        | (%)          | (GWh)        | (%)          |
|      | (MW)      |                                  |              |              |              |              |              |
| 1995 | 140       | 387                              | 97           | 440          | 96           | 376          | 97           |

### ***Panamanian Operations and Associated Company – Kanan and Pedregal***

#### ***Kanan***

We own 100% of Kanan. In October 2014, Kanan was awarded a five-year contract in connection with the Panamanian government's call for emergency bids to attempt to cover electricity shortfalls in Panama in the short-term. Kanan's PPA, with a maximum contractual capacity of 86 MW, became effective in December 2015. To facilitate Kanan's supply of this energy, we transferred (1) a 55 MW barge with HFO-fueled generators from Puerto Quetzal to Kanan in November 2014, and (2) a 37 MW barge with HFO-fueled generators from CEPP to Kanan in November 2014. As a result, Kanan had an aggregate capacity of 92 MW. In April 2016, Kanan reached its COD with a total development cost of US\$87 million.

During the six months ended June 30, 2017 and the year ended December 31, 2016 following the Kanan plant's COD in April 2016, Kanan generated revenues of US\$38 million and US\$67 million, respectively. During the six months ended June 30, 2017 and the year ended December 31, 2016, Kanan generated 24 GWh and 169 GWh, respectively.

In April 2017, the Kanan power plant experienced a fire and, as a result, both power barges were placed off-line permanently. During the six-months ended June 30, 2017, we wrote off US\$48 million, which represents the value of these power barges. We have filed an insurance claim in connection with the fire and are seeking coverage for the costs of the outage, including replacement costs and loss of profits, as appropriate, subject to deductibles. As of June 30, 2017, we had received an advance payment of US\$38.6 million from our reinsurers. We expect that our subsidiary Puerto Quetzal will sell one of its two power barges, with an installed capacity of 124 MW, to Kanan and, following modification and maintenance works on this power barge, we currently expect Kanan to resume operations in the first quarter of 2018.

#### ***Pedregal***

We own 21% of Pedregal; of the remaining 79%, (1) 55% is held by IEH Jamaica (Cayman), a private equity investment firm; (2) 12% is held by Burmeister & Wain Scandinavian Contractor A/S, an operating company of the Mitsui Group; and (3) 11% is held by The Industrialization Fund for Developing Countries, a fund focusing on promoting economic activities in developing countries. We do not consolidate Pedregal's results in our income statement, but account for our investment in Pedregal under the equity method, recording our share of Pedregal's profit as income of associated company.



Pedregal owns and operates three HFO-fueled generation units at a plant located in Pacora, Panama, with an aggregate installed capacity of 54 MW. Pedregal's plant has fuel storage tanks on site with an aggregate storage capacity of 51,402 barrels. Prior to July 2017, we operated Pedregal under a management services agreement with our wholly-owned subsidiary Inkia Panama Management. Under this agreement, Inkia Panama Management had been designated as the administrator responsible for day-to-day management of Pedregal.

During the six months ended June 30, 2017 and the year ended December 31, 2016, Pedregal generated 77 GWh and 264 GWh, respectively.

#### ***Guatemalan Operations – Puerto Quetzal***

We own 100% of Puerto Quetzal, which represents our initial entry into the Guatemalan power generation market. Puerto Quetzal, which we acquired in September 2014, utilized three barges with HFO-fueled generators, representing 234 MW, at the time of its acquisition. In November 2014, Puerto Quetzal transferred one of its three barges, which has a capacity of 55 MW, to our Panamanian subsidiary Kanan. As a result, Puerto Quetzal now operates two barges with an aggregate capacity of 179 MW. Following the April 2017 fire at our Kanan plant and given the current short- to medium-term oversupply in the Guatemalan energy market, we determined that Puerto Quetzal would sell one of its two power barges, with an installed capacity of 124 MW, to Kanan as a result of which Puerto Quetzal's installed capacity will be reduced to 55 MW. The Puerto Quetzal plant houses fuel storage tanks on site with capacity of approximately 200,000 barrels.

During the six months ended June 30, 2017 and the years ended December 31, 2016, 2015 and 2014 (since the date of our acquisition of Puerto Quetzal in September 2014), Puerto Quetzal generated revenues of US\$20 million, US\$55 million, US\$109 million and US\$33 million, respectively. During the six months ended June 30, 2017 and the year ended December 31, 2016, Puerto Quetzal generated 572 GWh and 364 GWh.

The following table sets forth certain information for Puerto Quetzal's plant for each of the periods presented:

| COD  | As of     | For the Years Ended December 31, |              |              |              |              |              |
|------|-----------|----------------------------------|--------------|--------------|--------------|--------------|--------------|
|      | June 30,  | 2016                             |              | 2015         |              | 2014         |              |
|      | 2017      | Gross Energy                     | Availability | Gross Energy | Availability | Gross Energy | Availability |
|      | Installed | Generated                        | Factor       | Generated    | Factor       | Generated    | Factor       |
|      | Capacity  | (GWh)                            | (%)          | (GWh)        | (%)          | (GWh)        | (%)          |
|      | (MW)      |                                  |              |              |              |              |              |
| 1993 | 179       | 364                              | 95           | 673          | 94           | 490          | 97           |

#### ***Dominican Operations – CEPP***

We own 97% of CEPP; the remaining 3% is held by Basic Energy LTD Bahamas. CEPP owns and operates two HFO-fueled plants located in Puerto Plata, Dominican Republic. The CEPP I plant is located on land and consists of three Wartsila V32 diesel generators burning HFO with a combined capacity of 17 MW. The CEPP II plant consists of a 50 MW barge with HFO-fueled generators that is moored at a pier adjacent to the CEPP I plant. The CEPP has fuel storage tanks on-site with an aggregate storage capacity of 56,000 barrels.

During the six months ended June 30, 2017 and the years ended December 31, 2016, 2015 and 2014, CEPP generated revenues of US\$18 million, US\$29 million, US\$39 million and US\$73 million, respectively. During the six months ended June 30, 2017 and the year ended December 31, 2016, CEPP generated 100 GWh and 264 GWh.

The following table sets forth certain information for each of CEPP's plants for the periods presented:

| Plant             | COD  | As of     | For the Years Ended December 31, |              |              |              |              |              |
|-------------------|------|-----------|----------------------------------|--------------|--------------|--------------|--------------|--------------|
|                   |      | June 30,  | 2016                             |              | 2015         |              | 2014         |              |
|                   |      | 2017      | Gross Energy                     | Availability | Gross Energy | Availability | Gross Energy | Availability |
|                   |      | Installed | Generated                        | Factor       | Generated    | Factor       | Generated    | Factor       |
|                   |      | Capacity  | (GWh)                            | (%)          | (GWh)        | (%)          | (GWh)        | (%)          |
|                   |      | (MW)      |                                  |              |              |              |              |              |
| CEPP I.....       | 1990 | 16        | 54                               | 75           | 67           | 74           | 51           | 34           |
| CEPP II.....      | 1994 | 51        | 210                              | 79           | 231          | 83           | 191          | 42           |
| <b>Total.....</b> |      | <b>67</b> | <b>264</b>                       |              | <b>298</b>   |              | <b>242</b>   |              |

In the third quarter of 2013, CEPP purchased a second barge with a capacity of 37 MW for US\$5 million. CEPP completely refurbished this barge at a total cost of US\$16 million, and, in November 2014, transferred this barge to our subsidiary Kanan.

### *Jamaican Operations – JPPC*

We own 100% of JPPC, as a result of our purchase in May 2014 of the 84% of JPPC's outstanding equity interest that we did not own, which increased our equity interest in JPPC from 16% to 100%. JPPC owns and operates a plant located in Kingston, Jamaica consisting of two HFO-fueled generation units and a combined-cycle steam turbine. JPPC has capacity of 60 MW. JPPC's plant has fuel storage tanks on site with an aggregate storage capacity of 50,000 barrels.

During the six months ended June 30, 2017 and the years ended December 31, 2016, 2015 and 2014, JPPC generated revenues of US\$24 million, US\$42 million, US\$45 million and US\$41 million. During the six months ended June 30, 2017 and the year ended December 31, 2016, JPPC generated 199 GWh and 408 GWh.

The following table sets forth certain information for JPPC's plant for each of the periods presented:

| COD  | As of     | For the Years Ended December 31, |              |              |              |              |              |
|------|-----------|----------------------------------|--------------|--------------|--------------|--------------|--------------|
|      | June 30,  | 2016                             |              | 2015         |              | 2014         |              |
|      | 2017      | Gross Energy                     | Availability | Gross Energy | Availability | Gross Energy | Availability |
|      | Installed | Generated                        | Factor       | Generated    | Factor       | Generated    | Factor       |
|      | Capacity  | (GWh)                            | (%)          | (GWh)        | (%)          | (GWh)        | (%)          |
|      | (MW)      |                                  |              |              |              |              |              |
| 1998 | 60        | 408                              | 85           | 445          | 86           | 425          | 85           |

### *Power Purchase Agreements of Our Generation Business Outside Peru*

The customers of our generation businesses outside Peru include governments, local distribution companies, and/or non-regulated customers, depending upon the operating company and the particular country of operation. Our generation companies seek to enter into long-term PPAs with power purchasers. In the year ended December 31, 2016, approximately 77% of our capacity and energy sales outside Peru were made pursuant to long-term PPAs.

In attempting to limit the effects of counterparty risks, each of our generation companies analyzes the creditworthiness and financial strengths of its various counterparties during the PPA negotiations as well as during the life of the agreement. Where the creditworthiness of the power purchaser is deemed to be below standard, various contractual agreements and structures are negotiated (such as letters of credit, liquidity facilities, and government guarantees) to provide the credit support.

Under the terms of most of our generation businesses' PPAs, the power purchaser is contractually obligated to purchase energy, and sometimes capacity and/or ancillary services, from the power generator based upon a base price (denominated either in U.S. dollars or in the local currency) that is adjusted for (1) fluctuations in exchange rates, (2) the U.S. inflation index, (3) a local inflation index, (4) fluctuations in the cost of operating fuel, (5) supply of natural gas, (6) transmission costs and/or (7) spot prices in the case of an interruption of the supply or transportation of natural gas. Many of these PPAs differentiate between peak and off-peak periods. Utilizing PPAs allows our generation companies to lock in gross margins and provides us and our generation companies with earnings stability.

As of December 31, 2016, the weighted average remaining life of the PPAs for our generation businesses outside Peru based on firm capacity was two years. The following table sets forth a summary of the significant PPAs for our generation companies outside Peru as of December 31, 2016:

| Company                 | Principal Customer  | Commencement  | Expiration     | Contracted Capacity |
|-------------------------|---|---------------|----------------|---------------------|
| COBEE(1)                | Minera San Cristóbal  | December 2008 | October 2017   | 43                  |
| Colmito                 | ENAP Refinerías S.A.  | January 2014  | December 2017  | 38                  |
| Corinto                 | Distribuidora de Electricidad del Norte S.A.,<br>Distribuidora de Electricidad del Sur S.A.   | June 1999     | December 2018  | 50                  |
| Tipitapa Power          | Distribuidora de Electricidad del Norte S.A.,<br>Distribuidora de Electricidad del Sur S.A.   | April 1999    | December 2018  | 51                  |
| Amayo I and<br>Amayo II | Distribuidora de Electricidad del Norte S.A.,<br>Distribuidora de Electricidad del Norte S.A. | March 2009    | March 2024     | 40                  |
|                         | Distribuidora de Electricidad del Sur S.A.  | March 2010    | March 2025     | 23                  |
| Puerto Quetzal          | CCEESA  | May 2016      | September 2017 | 12                  |
|                         | MEL   | August 2014   | December 2017  | 15                  |
|                         | CAESS   | August 2014   | December 2017  | 20                  |
|                         | Comegsa   | January 2013  | April 2018     | 20                  |
|                         | EEGSA   | May 2016      | April 2019     | 44                  |
|                         | Ingenio La Unión  | May 2016      | April 2020     | 13                  |
|                         | DEOCSA  | May 2016      | April 2020     | 7                   |
| Nejapa                  | Seven distribution companies  | August 2013   | July 2017      | 39                  |
|                         | Seven distribution companies  | January 2015  | December 2017  | 30                  |
|                         | Seven distribution companies  | August 2013   | January 2018   | 71                  |
| Kanan                   | Empresa de Distribución Eléctrica Chiriqui<br>(EDECHI)  | December 2015 | December 2020  | 7                   |
|                         | Empresa de Distribución Eléctrica Elektra<br>Nor Este S.A. (ENSA)                             | December 2015 | December 2020  | 34                  |
|                         | Empresa de Distribución Eléctrica Metro<br>Oeste S.A. (EDEMET)                                | December 2015 | December 2020  | 45                  |
| JPPC                    | Jamaica Public Services Company   | January 1998  | January 2018   | 60                  |

#### ***Fuel Supply and Suppliers of Our Generation Business Outside Peru***

Our generation facilities outside Peru utilize natural gas, hydroelectric, HFO, diesel, wind or a combination of these energy sources. The price volatility, availability and purchase price of these materials (other than wind and water) depend upon the specific fuel and the market in which the fuel is to be used.

While Nejapa and CEPP purchase the HFO necessary for their operations in the El Salvador and Dominican Republic spot markets, respectively, Corinto, Tipitapa Power, Puerto Quetzal and JPPC purchase the HFO necessary for their operations from several fuel suppliers pursuant to short- to medium-term supply agreements. The supply agreements that our operating companies enter into for HFO and diesel are generally linked to the Platts, McGraw Hill Financial Index.

The sole provider of natural gas in Bolivia is a government-owned company. Therefore, the terms for transmission and delivery of natural gas to COBEE are set by government decree.

#### ***Maintenance and Spare Parts of Our Generation Business Outside Peru***

Our operating subsidiaries outside Peru regularly perform comprehensive maintenance on their facilities, including maintenance to turbines, engines, generators, transformers, the balance of plant and substations, as well as civil works maintenance. Maintenance is typically performed according to a predefined schedule at fixed intervals, based on running hours or otherwise according to manufacturer or engineering specifications. Maintenance is typically performed by our

trained employees pursuant to internal agreements, except for our Amayo I and Amayo II wind farms, which outsource maintenance to third party contractors. In some cases, our operating subsidiaries have entered into long-term service agreements for their maintenance.

On February 1, 2009, Amayo I entered into a Management, Operation and Maintenance Agreement with Amayo O&M Services, S.A., a Nicaraguan corporation with expertise in the management, operation and maintenance of wind energy farms, pursuant to which Amayo I contracted Amayo O&M Services, S.A. to provide day-to-day management services to Amayo I's wind plant. The term of this agreement will renew automatically every five years unless either party delivers a written notice of non-renewal to the other party 60 days prior to the end of the relevant expiration period. The agreement's next renewal is expected to take place in February 2019.

On October 7, 2010, Amayo II entered into an Operation, Maintenance and Administrative Services Management Agreement with ICPNH, pursuant to which Amayo I contracted ICPNH to provide day-to-day management and administrative services to Amayo II's wind plant. The term of this agreement is tied to the expiration of Amayo II's PPAs with Distribuidora de Electricidad del Sur, S.A., dated July 22, 2009, as amended, and Distribuidora de Electricidad del Norte, S.A., dated July 22, 2009, as amended, which currently are scheduled to expire in March 2024 and February 2025, respectively.

Each of our operating subsidiaries outside Peru have arrangements to obtain spare parts, as necessary. Our operating subsidiaries outside Peru generally purchase their spare parts from the OEMs, as well as from other suppliers. In some cases, these operating subsidiaries have entered into long-term supply contracts for spare parts.

### ***Competition with Our Generation Business Outside Peru***

Our major competitors in the Latin American and Caribbean countries outside Peru in which our generation companies operate are generally the large international power utility corporations operating in these countries, some of which may have greater financial resources than our company. Local competitors also exist in each of these countries and account for varying market shares in each of the countries in which we operate. For further details on the competition faced by our non-Peruvian generating assets, see "Risk Factors—Risks Related to our Company—We face risks in connection with our expansion, development and acquisition strategy."

### **Discontinued Operations**

#### ***Edegel***

Prior to September 2014, we held a 21% indirect equity interest in Edegel, the largest generator of electricity in Peru at that time. We owned this interest via Inkia's wholly-owned subsidiary Southern Cone, which had a 39% equity interest in Generandes, an entity that, in turn, had a 54% equity interest in the outstanding shares of Edegel. Empresa Nacional de Electricidad S.A., or Endesa Chile, a subsidiary of Enel SpA, one of the world's largest electricity companies, indirectly owned 29% of Edegel; the remaining shares were held publicly. Endesa Chile also owned 61% of Generandes. In September 2014, we completed the sale of our indirect equity interest in Edegel. As a result, the results of operations of Generandes are reflected as discontinued operations in our financial statements presented in this offering memorandum.

#### ***Surpetroil***

Prior to April 2017, we owned 60% of Surpetroil, which we acquired in March 2014; the remaining 40% was owned by Mr. Yesid Gasca Duran. In April 2017, we sold our shares in Surenergy Holdings S.A.S., which in turn owned our interests in Surpetroil and Surenergy S.A.S. ESP to Mr. Yesid Gasca Duran for US\$1 million.

During the six months ended June 30, 2017 (until the date of our sale of Surpetroil in April 2017) and the years ended December 31, 2016, 2015 and 2014 (since the date of our acquisition of Surpetroil in March 2014), Surpetroil generated revenues of US\$2 million, US\$8 million, US\$8 million and US\$9 million, respectively. During the six months ended June 30, 2017 and the years ended December 31, 2016, 2015 and 2014, Surpetroil generated 21 GWh, 75 GWh, 43 GWh and 48 GWh, respectively.

## Project Under Development – Agua Clara

We are developing a 50 MW wind project in the Dominican Republic, which is expected to reach COD by the first quarter of 2019. We have entered into a PPA with a government entity for a period of 20 years, for which the relevant concession has been granted. In October 2017, our subsidiary, IC Power DR, entered into an EPC contract with the selected EPC contractor, and we are selecting lenders for the project. The total project cost is estimated to be US\$100 million, of which 70% is expected to be debt-financed.

## Potential Projects

We are constantly monitoring and considering development and acquisition opportunities relating to generation or distribution, and we are currently assessing projects in various Latin American countries, such as Chile, Colombia, Panama, Peru, the Dominican Republic, Argentina, Mexico, Nicaragua and Puerto Rico relating to generation or distribution projects or companies. With respect to our potential generation projects, such projects range in size from small-scale power facilities (e.g., less than 40 MW) to large-scale power facilities (e.g., approximately 850 MW) and utilize different fuels and technologies, including natural gas, hydroelectric, wind, coal and solar. In some instances, we have acquired land, secured necessary licenses or rights (including temporary concessions and water rights), commissioned studies, made bids, or initiated similar actions, in connection with our assessment of the viability of the relevant project.

We apply a disciplined approach to evaluating potential development projects. We will not pursue projects or enter into countries at any cost, and are willing to lose competitive bids if the expected returns on a project do not provide the appropriate risk premium. When we decide to pursue a development project, we first seek to secure a revenue stream as early as possible in the development process of our plants by sourcing and entering into long-term PPAs, which provide our development projects with predictable projected margins and cash flows before construction has commenced. Second, we endeavor to construct projects by entering into turnkey EPC agreements that define the total project cost and transfer significant part of the risks of construction delays and cost overruns to our EPC contractors. Finally, we leverage our EPC contracts and PPAs to secure long-term project financing agreements which are generally stand-alone, secured, project-specific and with no or limited recourse. We have not entered into EPC agreements, PPAs or financing agreements in connection with these potential projects.

## Development Offices

In addition to the development offices located in Mexico, Colombia and Argentina, our development office in Miami, Florida considers development and acquisition opportunities and is currently assessing projects in various Latin American countries, including Chile, Colombia, Panama, Peru, the Dominican Republic, Argentina, Mexico, Nicaragua and Puerto Rico, relating to generation or distribution projects or companies.

## Distribution Opportunities

The projects described above only represent opportunities in the generation business. Following the acquisition of Energuate in January 2016, we have dedicated considerable effort in building and consolidating our corporate team for the distribution business, which is based in Chile, as well as the local management of Energuate based in Guatemala. After achieving this consolidation, we believe we are now in a position to continue our growth in the distribution sector in order to provide us with a diversified, uncorrelated and long-term source of income. We are considering several acquisition opportunities.

## Property, Plant and Equipment

The following table provides certain information regarding our power plants that are owned or leased as of June 30, 2017:

| <u>Operating Company</u>                  | <u>Location</u>       | <u>Installed Capacity</u> | <u>Fuel Type</u>             |
|---|-----------------------|---------------------------|------------------------------|
| <i>Kallpa</i><br>Kallpa I, II, III and IV | Chilca district, Peru | 870                       | Natural gas (combined cycle) |

| <b>Operating Company</b>        | <b>Location</b>                  | <b>Installed Capacity</b> | <b>Fuel Type</b>       |
|---------------------------------|----------------------------------|---------------------------|------------------------|
| Las Flores                      | Chilca district, Peru            | 193                       | Natural gas            |
| CDA                             | Huancavelica, Peru               | 545                       | Hydroelectric          |
| <b><i>Kallpa Total</i></b>      |                                  | <b>1,608</b>              |                        |
| <b><i>Samay I</i></b>           | Mollendo, Peru                   | 632                       | Diesel and natural gas |
| <b><i>ICPNH</i></b>             |                                  |                           |                        |
| Corinto                         | Chinandega, Nicaragua            | 71                        | HFO                    |
| Tipitapa Power                  | Managua, Nicaragua               | 51                        | HFO                    |
| Amayo I                         | Rivas, Nicaragua                 | 40                        | Wind                   |
| Amayo II                        | Rivas, Nicaragua                 | 23                        | Wind                   |
| <b><i>ICPNH Total</i></b>       |                                  | <b>185</b>                |                        |
| <b><i>COBEE</i></b>             |                                  |                           |                        |
| <i>Zongo Valley plants:</i>     |                                  |                           |                        |
| Zongo                           | Zongo Valley, Bolivia            | 11                        | Hydroelectric          |
| Tiquimani                       | Zongo Valley, Bolivia            | 9                         | Hydroelectric          |
| Botijlaca                       | Zongo Valley, Bolivia            | 7                         | Hydroelectric          |
| Cutichucho                      | Zongo Valley, Bolivia            | 23                        | Hydroelectric          |
| Santa Rosa                      | Zongo Valley, Bolivia            | 18                        | Hydroelectric          |
| Sainani                         | Zongo Valley, Bolivia            | 10                        | Hydroelectric          |
| Chururaqui                      | Zongo Valley, Bolivia            | 25                        | Hydroelectric          |
| Harca                           | Zongo Valley, Bolivia            | 26                        | Hydroelectric          |
| Cahua                           | Zongo Valley, Bolivia            | 28                        | Hydroelectric          |
| Huaji                           | Zongo Valley, Bolivia            | 30                        | Hydroelectric          |
|                                 |                                  | <b>187</b>                |                        |
| <i>Miguillas Valley plants:</i> |                                  |                           |                        |
| Miguillas                       | Miguillas Valley, Bolivia        | 4                         | Hydroelectric          |
| Angostura                       | Miguillas Valley, Bolivia        | 6                         | Hydroelectric          |
| Choquetanga                     | Miguillas Valley, Bolivia        | 6                         | Hydroelectric          |
| Carabuco                        | Miguillas Valley, Bolivia        | 6                         | Hydroelectric          |
|                                 |                                  | <b>22</b>                 |                        |
| <i>El Alto-Kenko plant</i>      | La Paz, Bolivia                  | 19                        | Natural gas            |
| <b><i>COBEE Total</i></b>       |                                  | <b>228</b>                |                        |
| <b><i>Central Cardones</i></b>  | Copiapo, Chile                   | 153                       | Diesel                 |
| <b><i>Colmito</i></b>           | Concon, Chile                    | 58                        | Natural gas and diesel |
| <b><i>Nejapa</i></b>            | Nejapa, El Salvador              | 40                        | HFO                    |
| <b><i>Kanan(1)</i></b>          | Colon, Panama                    | —                         | HFO                    |
| <b><i>Puerto Quetzal</i></b>    | Escuintla, Guatemala             | 179                       | HFO                    |
| <b><i>CEPP</i></b>              | Puerto Plata, Dominican Republic | 67                        | HFO                    |
| <b><i>JPPC</i></b>              | Kingston, Jamaica                | 60                        | HFO                    |

- (1) In April 2017, the Kanan power plant, which consisted of a 37 MW power barge and a 55 MW power barge, experienced a fire and, as a result, both power barges were placed off-line permanently. We expect that our subsidiary Puerto Quetzal will sell one of its two power barges, with an installed capacity of 124 MW, to Kanan and, following modification and maintenance works on this power barge, we currently expect Kanan to resume operations in the first quarter of 2018.

In addition:

- Cenérgica owns three fuel storage tanks on site with an aggregate capacity of 240,000 barrels and maintains a fuel depot and marine terminal located on a 6.5 hectare site that we lease in Acajutla, El Salvador; and
- we were awarded a tender published by the Chilean government for a lease of land in Northern Chile, which is intended for the construction of a power station with a capacity of at least 350 MW.

We believe that we have satisfactory title to our plants and facilities in accordance with standards generally accepted in the electric power industry.

For further information on Energuate's property, plant and equipment, see “—Guatemalan Distribution Business—Distribution Network.”

We lease our principal executive offices in Lima, Peru and various other office spaces in the markets that we serve. We own all of our production facilities, other than the Las Flores power plant. We lease the Las Flores facility under a capital lease as described in “Management's Discussion and Analysis of Financial Condition and Results of Operations—Material Indebtedness—Long-Term Debt.”

We believe that all of our production facilities are in good operating condition. As of June 30, 2017 and December 31, 2016, the consolidated net book value of our property, plant and equipment was US\$2,942 million and US\$3,002 million, respectively.

## **Insurance**

We carry insurance for our generation plants against material damage and consequent business interruption through comprehensive “all-risks” insurance policies. These all-risk insurance policies provide for total replacement values of US\$3.1 billion for property damage and US\$777 million for business interruption and are renewed annually, with the most recent renewal occurring in January 2017. The material damage insurance for our operations provides insurance coverage for losses due to accidents resulting from fire, explosion and machinery breakdown, among others. This coverage has a maximum indemnification limit of US\$600 million per event (combined material damage and business interruption coverage). These policies have deductibles of up to US\$2 million, depending on the plant. The business interruption coverage under each of these policies provides insurance for losses resulting from interruptions due to any material damage covered by the policy. The losses are covered until the plant production is fully re-established, with maximum indemnity periods ranging from 12 to 30 months. In addition, we maintain insurance, subject to customary deductibles and limitations, related to civil liability insurance, and life insurances for all our officers and employees.

Our Kallpa thermal plant is covered by insurance policies which provide for total replacement value of US\$734 million for property damages per year and US\$229 million for business interruption damages per 18-month period. Our CDA plant is covered by insurance policies which provide for total replacement value of US\$923 million for property damages per year and US\$145 million for business interruption damages per 18-month period. Our Samay I plant is covered by insurance policies which provide for total replacement value of US\$294 million for property damages per year and US\$73 million for business interruption damages per 18-month period. In addition, we have third-party liability insurance policies with an aggregate limit of US\$50 million for the Kallpa thermal plant, the CDA plant and the Samay I plant. We also have terrorism insurance policies with an aggregate limit of US\$350 million for the Kallpa thermal plant, the CDA plant and the Samay I plant.

In July 2016, Samay I, Posco and General Electric (the manufacturer of the Samay I plant's turbines) inspected the Samay I plant's units. Such inspections revealed damage to the shafts in three of the plant's four units. Samay I continued to receive payments under its PPA while the plant was off-line, but such payments were subject to negative adjustments based on the amount of time the plant was unavailable when called for dispatch. Although we are disputing such negative adjustments, in 2016, we recorded negative revenue adjustments of approximately US\$3 million as a result of Samay I's unavailability. By February 2017, all four of the units had been repaired and declared available to the system. The cost of the repairs was initially paid by the EPC contractor. Pursuant to a settlement agreement, Samay I and the EPC contractor each agreed to pay 50% of the cost of the outage, including repair costs and loss of profits, or US\$14 million. In August 2017, we filed a claim with the insurance company for reimbursement of our portion of these costs (subject to deductibles). However, our insurance coverage may not cover such losses or such insurance coverage may not be sufficient to cover the full amount of such losses.

In some cases, we rely on insurance policies in the event that any of our generation plants sustain damages or experience business interruptions as a result of the actions of, or a breach under the relevant agreement by, suppliers, customers or other third parties whose liability obligations are contractually limited. Our insurance coverage is underwritten by some of the largest international reinsurance companies, including Mapfre S.A., Munich Re, Zurich Insurance Group Ltd, Allianz SE and Swiss Re Ltd, among others.

Energuate maintains insurance for loss and damage to property, including damage due to floods, fires and earthquakes and business interruption insurance covering up to US\$14 million. Energuate's transmission grid is not covered by insurance in accordance with the prevailing standards for the industry since we consider the risk to be dispersed. Energuate is also insured against theft of cash and securities for a maximum annual amount of Q2.5 million.

We do not anticipate having any difficulties in renewing any of our insurance policies and believe that our insurance coverage is reasonable in amount and consistent with industry standards applicable to energy generation companies operating in the same markets.

## Employees

As of December 31, 2016, we had a total of 1,987 employees. All of our employees are employed on a full-time basis, and are usually divided into one of the following functions: generation plant operation and maintenance, distribution operations, customer service, administrative support, corporate management, budget, finance and legal, and project management.

The table below sets forth our breakdown of employees by main category of activity and by geographic location on the dates indicated:

|   | <b>As of December 31,</b> |              |              |
|---|---------------------------|--------------|--------------|
|   | <b>2016</b>               | <b>2015</b>  | <b>2014</b>  |
| <b>Number of employees by category of activity:</b>   |                           |              |              |
| Operation and maintenance .....                       | 1,447                     | 844          | 798          |
| Administrative support .....                          | 447                       | 293          | 293          |
| Corporate management, budget, finance and legal ..... | 48                        | 38           | 33           |
| Other, including project management.....              | 45                        | 65           | 50           |
| <b>Total</b> .....                                    | <b>1,987</b>              | <b>1,240</b> | <b>1,174</b> |
| <b>Number of employees by geographic location:</b>    |                           |              |              |
| Peru.....   | 250                       | 230          | 182          |
| Guatemala.....  | 855                       | 93           | 147          |
| Nicaragua.....  | 178                       | 177          | 175          |
| Bolivia .....   | 182                       | 197          | 205          |
| Chile .....   | 45                        | 50           | 43           |
| El Salvador .....                                     | 112                       | 116          | 121          |
| Panama .....  | 95                        | 77           | —            |
| Dominican Republic.....                               | 90                        | 91           | 106          |
| Jamaica .....   | 100                       | 84           | 92           |
| Colombia .....  | 80                        | 125          | 103          |
| <b>Total</b> .....                                    | <b>1,987</b>              | <b>1,240</b> | <b>1,174</b> |

As of December 31, 2016, we did not employ a material number of temporary employees. From time to time, Energuate contracts for the service of temporary employees.

As of December 31, 2016, approximately 11% of the employees of our generation businesses were unionized, representing a significant portion of our employees in Bolivia and Jamaica. As of December 31, 2016, approximately 62% of COBEE's employees were represented by the Sindicato Unico de Trabajadores de Luz y Fuerza COBEE and approximately 27% of JPPC's employees were represented by Union of Technical Administrative and Supervisory Personnel. We negotiate a collective bargaining with each union on an annual basis. In June 2015, COBEE's facilities in Bolivia experienced a brief strike, which did not result in a work stoppage and did not have a material effect on our operations.

As of December 31, 2016, 62% of Energuate's employees were unionized and were members of one of four labor unions, each of which are currently party to collective bargaining agreements with DEOCSA and DEORSA, which



expired in December 2016 and are currently under negotiations to be renewed. These collective bargaining agreements extend automatically a month before the date of expiration if a specified notice is otherwise not provided. However, if a specified notice is provided, the agreements will be renegotiated. The collective bargaining agreements reached by these negotiations usually set out wage scales, working hours, training and health and safety issues, among other things. There are currently no labor conflicts and the relation of DEOCSA and DEORSA with each of the unions is good.

Energuate's commercial and technical field operations are completely outsourced to third party contractors. The scope of these agreements includes technical and commercial activities, such as medium-voltage development, maintenance of the medium and low-voltage line, and customer billing, among others. The commercial field operation agreements were entered into in February and March 2017, and expire in February 2022. Pursuant to the terms of the commercial field operation agreements, we have the option to renew them until 2023. The technical field operations agreements were entered into in 2010 and renewed in April 2017 to expire in April 2018 in consideration of a 2% increase in the fees payable to our vendors. We expect to replace such technical field operations agreements in late 2017 with five-year term contracts following an open-bid process. In addition, we may terminate the commercial field operations agreements by giving 30-day prior notice, and the technical field operations agreements by giving 60-day prior notice. All of these agreements include a guarantee for the performance of the services.

As our operations are subject to various hazards, our management places a high priority on, and closely monitors, the health and safety of our employees. We have installed policies, procedures and training programs to reduce workplace accidents at each of our operating companies.

Additionally, we have a competitive compensation structure for our employees and the managers of each of our operating subsidiaries. Compensation for such managers typically consists of a base salary, as well as a year-end bonus, which is based on the personal performance of the manager and the performance of the relevant operating subsidiary.

### **Shareholders' Agreements**

We hold a majority stake in all of our operating companies, other than Pedregal. Other parties hold minority stakes in certain of our operating subsidiaries, including Kallpa, Samay I, each of the operating subsidiaries of ICPNH, Central Cardones and CEPP. The operations of these companies are subject to shareholders' and/or member agreements. Although the terms of each of these shareholder and member agreements vary, they generally provide, in certain circumstances and subject to certain conditions: (1) each shareholder with the right to elect a specified number of directors and/or appoint specified executive officers; (2) for the distribution of dividends in proportion to each shareholder's equity interest; (3) the minority shareholder with veto rights with respect to significant corporate actions (e.g., mergers, share issuances, the amendment of governing documents, and the entry into PPAs or other contracts in excess of a specified value) and certain approval protocols with respect to the budget of the relevant company; (4) each party with a right of first refusal with respect to any potential sale of equity interests in the relevant company; and (5) specifications of additional equity contributions, if any.

Additionally, we and Energía del Pacífico, the minority shareholder in each of Kallpa and Samay I, have agreed that we will each submit projects related to generation or transmission of energy in Peru to Kallpa and will not develop such projects other than through Kallpa, unless both parties agree to incorporate a new investment vehicle.

### **Legal Proceedings**

In the ordinary course of our business, we are party to various lawsuits filed against us involving labor, employee compensation and personal injury claims, arbitration proceedings, and administrative proceedings initiated by the CNEE for non-compliance with the General Electricity Law. As of June 30, 2017, we had established total provisions relating to these contingencies in the amount of US\$10 million. We do not believe that the resolution of any of these lawsuits or proceedings will have a material adverse effect on our financial condition or results of operations.

Set forth below is a discussion of a significant legal proceeding to which we are a party. As of the date of this offering memorandum, we are not party to any other significant legal proceedings.

### ***Energuate Tax Claims***

In July 2016, the SAT filed a criminal complaint against DEOCSA and DEORSA for back taxes for the years 2011 and 2012, alleging that, under the previous ownership, DEOCSA and DEORSA improperly deducted interest and amortization of goodwill relating to the acquisition of DEOCSA and DEORSA in 2011 by their prior owner in a leveraged buy-out.

Prior to this complaint, in February 2015, the SAT issued a binding tax opinion, or the Tax Opinion, confirming that the method DEOCSA and DEORSA used to calculate the goodwill was acceptable and that interest payments were deductible as long as they complied with certain legal requirements including, primarily, that the proceeds from the underlying debt were used to produce taxable income. Notwithstanding the Tax Opinion, in July 2016, the SAT filed a criminal complaint against DEOCSA and DEORSA, which requested the initiation of a criminal proceeding for tax fraud, and the payment of alleged back taxes, interest and fines in relation to fiscal years 2011 and 2012, on the grounds that the structure of the 2011 acquisition was used solely to generate tax deductions in respect of interest and amortization for goodwill.

In August 2016, the First Instance Criminal Court, Drug Activities and Crimes Against the Environment of Guatemala (*Juzgado Quinto de Primera Instancia Penal, Narcoactividad y Delitos Contra el Ambiente de Guatemala*) ordered DEOCSA and DEORSA to pay an aggregate of US\$17 million in alleged back taxes for fiscal years 2011 and 2012, respectively, plus interest and fines within 60 days following the court order. To recover control of our bank accounts which had been frozen by the court, Energuate made such payments. In addition, in December 2016, following discussions with, and upon the instruction of the SAT, and in order to avoid other potential measures by the SAT, Energuate paid US\$25.7 million to the SAT in full satisfaction of the interest and fines assessed by the SAT in connection with the alleged 2011 and 2012 back taxes.

In light of the SAT's actions, and in order to avoid the initiation of complaints by the SAT concerning fiscal years 2013, 2014 and 2015 and any fines and interest, upon instruction of the SAT, DEOCSA and DEORSA revised their tax returns for these years and voluntarily made the following payments: (1) on August 9, 2016, Energuate made a payment of US\$18 million for the fiscal years 2014 and 2015, and (2) on August 19, 2016, Energuate paid US\$13 million for the fiscal years 2013. In addition, during 2016, Energuate made pre-payments of income taxes of US\$5 million for the first three quarters of fiscal year 2016, and in January 2017 Energuate made an additional prepayment of income taxes of US\$2.8 million for the last quarter of fiscal year 2016. Finally, on May 2017, DEOCSA and DEORSA made an additional payment of US\$2 million corresponding to the first quarter of 2017.

DEOCSA and DEORSA are disputing the SAT's claims and have made all payments subject to a broad reservation of rights, including but not limited to seeking restitution of such payments. We have recognized these payments as a non-current tax asset in our financial statements (recorded on our balance sheet as an income tax receivable). Energuate and its legal advisors are considering all available remedies with respect to this matter.

On March 3, 2017, DEOCSA and DEORSA filed a motion alleging that, assuming that the factual allegations made by the SAT in the July 2016 criminal complaint were true, the alleged facts in such complaint did not constitute a crime under Guatemalan law. On June 8, 2017, the court ruled against DEOCSA and DEORSA. DEOCSA and DEORSA filed an appeal to the ruling, which is pending resolution.

A hearing to deliberate on the calculation of accrued interest and fines that was originally scheduled for December 29, 2016 was rescheduled twice and took place on June 23, 2017. The court ordered the SAT to issue a report with definitive calculations on accrued interests and fines regarding payments made on August 2016. A hearing for evaluating this report took place on July 25, 2017. As such interest and fines have been paid under protest by DEOCSA and DEORSA, the purpose of the hearing was to express disagreement with such payment. A subsequent hearing had been scheduled for October 13, 2017 to determine the amount of interest and fines on the claim. Such hearing has been rescheduled for January 31, 2018. For further information on the risks associated with this tax liability see, "Risk Factors—Risks Related to our Company—We are exposed to material litigation and/or administrative proceedings."

### ***Kallpa—Import Tax Assessments***

Since 2010, SUNAT has issued tax assessments to Kallpa and its then-lenders (as lessors under the Kallpa financial leases) for payment of import taxes allegedly owed by Kallpa and its lenders in connection with the engineering services of the EPC contractors for the Kallpa I, II, III and IV turbines. The assessments were mainly made on the basis that Kallpa and its lenders did not include the value of the engineering services rendered by the contractor of the relevant project in the tax base of the imported equipment for the import taxes. Kallpa disagrees with these tax assessments on the grounds that the engineering services rendered to design and build the power plant are not part of the value of the imported goods but a separate service for which Kallpa paid its corresponding taxes. Kallpa and its lenders disputed the tax assessments before SUNAT and, after SUNAT confirmed the assessments, appealed before the Peruvian Tax Administrative Court, or the Tribunal Fiscal, except for the assessment of the Kallpa IV turbine.

In January 2015, Kallpa and its lenders were notified that the Tribunal Fiscal had rejected their appeal in respect of the Kallpa I assessment. Kallpa and its lenders disagreed with the Tribunal Fiscal’s decision and challenged it before the Peruvian Tax Court. In April 2015, Kallpa and its lenders made the final payment (under protest) in the aggregate amount of US\$12.3 million, which includes the related interest and fines in connection with the tax assessment of Kallpa I. Subsequently, Kallpa has recovered approximately US\$2.3 million in VAT in connection with the final payment US\$12.3 million. Kallpa has reimbursed the lenders for amounts due pursuant to the operation agreement dated July 31, 2008, as amended, by and among Citibank del Perú S.A., Citileasing S.A., Banco de Crédito del Perú S.A.A., Scotiabank Perú S.A.A. and Kallpa. In September 2016, the Superior Court issued a ruling on the Kallpa I assessment declaring Kallpa’s claims to be groundless and Kallpa filed an appeal. On January 25, 2017, Kallpa was served with SUNAT’s reply to Kallpa’s appeal. In June 2017, after an oral hearing held in which Kallpa explained its defense arguments, the appeals court struck down the trial court’s decision and not only ordered the trial judge to issue a new decision but also required the judge to merit the technical support filed by Kallpa. An oral hearing was held in September 2017 to assess the technical support, and the new opinion of the trial court remains pending. The amount paid with respect to the Kallpa I turbine was recorded as a long term receivable and was originally US\$12.3 million, but US\$2.3 million related to value added tax (VAT) has been recovered. Accordingly, as of June 30, 2017, the amount under discussion is US\$10.0 million. The Kallpa I assessment liability (including tax, fines and interest) is nil, as Kallpa has already paid the total amount under discussion. Accordingly, a favorable result of the process would result in a refund of the amounts already paid.

In January 2016, SUNAT issued a ruling in favor of Kallpa, releasing Kallpa from substantially all claims and associated fines related to the Kallpa IV turbine and, on February 12, 2016, Kallpa filed an appeal against the portion of the resolution that refers to the insurance, which is still pending resolution. As of June 30, 2017, the total amount of import taxes claimed by SUNAT against Kallpa in connection with the import of equipment related to the Kallpa II, III and IV projects, equals US\$14.2 million, including penalties, interest and fines.

As of June 30, 2017, the total tax exposure related to these assessments was as follows:

|                   | <b>Stage</b>       | <b>Amount<br/>(S/millions)</b> | <b>Amount<br/>(U.S.\$ millions)</b> |
|-------------------|--------------------|--------------------------------|-------------------------------------|
| Kallpa II.....    | Peruvian Tax Court | 23.0                           | 7.1                                 |
| Kallpa III.....   | Peruvian Tax Court | 22.3                           | 6.8                                 |
| Kallpa IV.....    | SUNAT              | 0.9                            | 0.3                                 |
| <b>Total.....</b> |                    | <b>46.2</b>                    | <b>14.2</b>                         |

Management and Kallpa’s legal advisors are of the opinion that the degree of contingency in this administrative stage is that Kallpa’s appeals should more likely than not be successful; accordingly, no provision was recorded in the financial statements for the assessments related to the Kallpa II, III and IV projects.

### ***SUNAT 2012 Income Tax Audit***

On February 15, 2016, as a result of the 2012 income tax audit, SUNAT issued a preliminary income tax assessment against Kallpa on the basis that certain interest accrued on its debt and some maintenance expenses amounting to approximately US\$7 million should not have been deducted from Kallpa’s 2012 taxable income but rather treated as an

asset. On March 11, 2016, SUNAT issued a final tax assessment for approximately US\$5 million, related to the interest expenses accrued during the construction of the steam turbine (Kallpa IV) as part of the combined-cycle conversion of the plant. On May 16, 2016, Kallpa filed a complaint appeal against SUNAT assessment, which was rejected on February 14, 2017 by SUNAT through a resolution (*Resolución de Intendencia*). On March 7, 2017 Kallpa appealed this resolution at the Tax Court. As of June 30, 2017, Kallpa's potential tax liability relating to this assessment is approximately US\$3.7 million, including interest and fines, for a total potential liability of US\$5.0 million.

### ***CDA—Arbitration with ElectroPerú***

ElectroPerú, the counterparty to one of CDA's PPAs, notified the COES on September 26, 2016 of its intention to initiate an arbitration proceeding to challenge the COES's decision to approve CDA's operational study (*estudio de operatividad*) that allows CDA's connection to the Peruvian grid through the Campo Armiño Substation, owned by ElectroPerú, arguing that the modifications introduced by CDA in its facilities between the approval of its preoperational study and the approval of the mentioned operational study obliged CDA to modify its preoperational study. Although CDA was not named as a party to the arbitration, CDA nonetheless requested its incorporation into the arbitration considering that ElectroPerú seeks the invalidation of the COES's approval of CDA's operational study. As of the date of this offering memorandum, the arbitral tribunal has been installed, but the arbitral proceeding will be suspended until January 20, 2018 pursuant to a mutual agreement reached between the COES and ElectroPerú. We believe that, bearing in mind that ElectroPerú has not demonstrated its standing to challenge the COES's decision to approve the operational study of CDA, ElectroPerú's arbitral claim should be dismissed. In addition, we believe that the interpretation followed by the COES with respect to the relevance of the modifications introduced by CDA with respect to its facilities has strong legal grounds, since the corresponding Peruvian applicable law (COES technical procedure No. 20 and Peruvian Law No. 28832) allows the modification of the facilities between the approval of the pre operational study and the approval of the operational study, to the extent such modifications do not (i) have a material negative impact on the safety of the SEIN; (ii) increase the operating costs of such system; or (iii) reduce the efficiency of the resources of the mentioned system. Moreover, we believe that the fact that the plant has been connected to the Campo Armiño Substation for more than one year without causing any damage to the substation or any other facility with a connection to ElectroPerú is evidence that ElectroPerú's claim has no technical or actual grounds, and, thus, should not succeed. In light of the foregoing, we believe it is most likely that ElectroPerú's claim will not succeed.

### ***Claims Relating to Energuate's Technical Service Quality***

Energuate is obligated to compensate its customers for failures to meet technical service quality requirements set by the CNEE. The CNEE has initiated sanctions processes against Energuate for failures to comply with technical service quality standards amounting to approximately US\$29 million as of June 30, 2017. Although Energuate's management believes that it has meritorious defenses to these claims, there can be no assurance as to the ultimate outcomes of these matters.

### ***Arbitration with the INDE***

On September 29, 2015, Energuate initiated an arbitration proceeding against the INDE in relation to the termination to the administration agreement of the trust related to PER. Energuate requested the arbitral panel to render an award to order the INDE to (1) pay Energuate US\$4 million as compensation for the services provided by it in relation to construction projects within the PER, and (2) the receipt of certain construction projects concluded by Energuate that were not accepted by the INDE when finished. The INDE, when responding to Energuate's request for arbitration, claimed a breach of contract by Energuate and requested a refund of certain advances in the aggregate amount of US\$11 million, plus damages or the completion of the construction projects. In addition, the INDE is demanding the transfer of title of certain documents, such as environmental assessments, rights of way and easements, among others or, in lieu thereof, reimbursement of the amounts paid by the INDE.

The arbitration process is subject to the Arbitration Rules of the United Nations Commission on International Trade Law (UNCITRAL). Once the arbitration panel was formed, Energuate filed its claim on December 19, 2016. INDE submitted its response to Energuate's claim and filed a cross-complaint against Energuate alleging breach of contract due to Energuate's failure to complete performance. On July 28, 2017 Energuate filed a reply to INDE's cross-complaint. A hearing to confirm the formal initiation of the arbitration proceeding was held on October 10, 2017, and a final decision is expected in the second half of 2018.

## REGULATORY OVERVIEW

In Latin America, Central America and the Caribbean, the electricity market allows for sale and delivery of power from power generators (private or government owned) to distribution companies (private or government owned) and to industrial (i.e., non-regulated) consumers. In these countries there is typically structural segregation of power generation companies and transmission and distribution companies. In most of these countries there is a government-owned power grid and transmission services are provided on open access basis, i.e. the transmission company must transmit power through the grid and in exchange, charges a transmission rate set by the supervisory authority or based on a competitive proceeding or regulated tariff. Whereas in these markets private and government-owned entities compete for power generation, its transmission and distribution are conducted subject to exclusive franchises; therefore, the transmission and distribution operations are regulated in markets in which we operate.

In these countries, delivery and sale of power is subject to a regulatory regime (typical of privatized electricity markets) which includes supervision by an independent supervisory entity for the electricity market. For further information on the regulatory risks related our operations, see “Risk Factors—Risks Related to Our Company—Our equipment, facilities, operations and new projects are subject to numerous environmental, health and safety laws and regulations.”

### Regulation of the Peruvian Electricity Sector

In Peru, electricity is generated by companies which primarily operate hydroelectric and natural gas based power stations. The general electricity laws in Peru form the statutory framework governing the electricity market in Peru and cover, among other things:

- generation, transmission, and distribution and trading of electricity;
- operation of the energy market; and
- generation prices, capacity prices and other tariffs.

All entities that generate, transmit, distribute or sell electricity to third parties in Peru operate subject to the general electricity laws within the country. Power generating companies in Peru, such as Kallpa and Samay I, are impacted by, among other things, the regulation applicable to transmission and distribution companies.

Although significant private investment has been made in the electricity market in Peru and independent supervisory entities have been created to supervise and regulate the electricity market, the Republic of Peru has remained in the role of supervisor and regulator. In addition, the Republic of Peru owns multiple power generation and distribution companies in Peru, although their market participation has diminished over time and face significant legal restrictions to engage in new generation units or investments.

### Regulatory Entities

There are multiple entities in charge of regulation, operation and supervision of the electricity market (and related activities to electricity market) in Peru in general, and of our operations in Peru, in particular:

- *MINEM*—The Ministry of Energy and Mines, responsible, among others, for (1) setting national energy policy, (2) proposing and adopting laws and regulations to supervise the energy sector, (3) controlling transmission expansion plans for the SEIN, (4) approving proposed transmission expansion plans by the COES, (5) promoting scientific research and investment in energy, and (6) granting concessions or authorizations, as applicable, to participate in power generation, transmission or distribution activities in Peru.
- *OSINERGMIN*—the Supervisor Body of Investment in Energy and Mining is an independent governmental regulatory agency responsible, among other things, for (1) supervising compliance of different entities with laws and regulations concerning power generation, transmission, distribution and trading, (2) setting transmission (electricity and natural gas) and distribution (electricity and natural gas) tariffs, (3) setting and enforcing price levels in the electricity market in Peru and setting tariffs for customers subject to regulated

tariffs, (4) imposing fines and compensations for violations of the laws and regulations, (5) handling claims made by, against or between consumers and players in the electricity market, in matters under OSINERGMIN supervision, (6) supervising public tenders with regard to PPAs between generation companies and distribution companies for the supply to regulated consumers, (7) granting interconnection mandates to transmission and distribution grid, when involved parties cannot reach an agreement, and (8) supervising operations of the COES.

- Generation tariffs for the sale of energy by generation companies to distribution companies for customers subject to regulated tariffs, or in certain events, for non-regulated clients, are generally determined based on tenders where OSINERGMIN sets a cap price that is not disclosed to participants except when the respective bid is unsuccessful because no party has made an offer below such price cap. In addition, OSINERGMIN annually specifies energy prices, known as the regulated tariff, which is used by market participants only in exceptional situations, as most of the PPAs with distribution companies are based on the results of the tenders. Energy tariffs determined by OSINERGMIN shall not differ by more than 10% of the weighted average energy prices of the referred tender process. OSINERGMIN also determines the annual capacity tariff used in agreements between generation companies and distribution companies, as well as in the spot market.
- *COES*—the Committee for the Economic Operation of the System is an independent private entity composed of qualified participants undertaking activities in the SEIN (i.e., electric power generators, transmission companies, distributors and major non-regulated users) which is responsible, among others, for: (1) planning and co-ordination of the operation of power generation system for all power generation and transmission units, in order to ensure reliable generation at minimum cost, (2) setting spot market prices based on marginal cost, (3) managing the clearing house of the spot market transactions between generation companies (excess and shortage of actual generation vs. demand pursuant to PPAs), (4) allocating firm capacity and firm energy to generation units, (5) submitting proposals to OSINERGMIN for issuing regulatory standards, including technical standards and procedures used as guidelines for carrying out the COES directives, (6) determining on a monthly basis the amounts owed between generators as consideration for energy injected into the grid and for ancillary services, (7) evaluating and approving pre-operative and operative studies for every new generation unit that desires to connect to the system, and (8) proposing to MINEM for its approval expansion plans for the transmission grid.
- *OEFA*—the Agency for Environmental Assessment and Enforcement (*Organismo de Evaluación y Fiscalización Ambiental*) is a specialized technical governmental body, dependent of the Ministry of Environment, responsible for enforcing, overseeing, controlling and sanctioning in environmental matters. As of March 4, 2011, OEFA became the competent authority in verifying compliance by companies operating in the energy sector (electricity and hydrocarbon activities) – among other sectors – with environmental regulations.
- *SENACE*—the National Service for Environmental Certification of Sustainable Investments (*Servicio Nacional de Certificación Ambiental para las Inversiones Sostenibles*) is a specialized technical governmental agency, dependent of the Ministry of Environment, in charge of evaluating and approving detailed Environmental Impact Assessments, their amendments and Technical Reports of Viability (*Informes Técnicos Sustentatorios*), related to projects involving activities, works or services that may cause significant impacts to the environment.
- *Ministry of Culture*— The Peruvian Ministry of Culture was created in 2010 pursuant to Law 29565, and is the main authority in terms of the management and surveillance of property under the scope of the Nation’s Cultural Heritage. The Ministry of Culture is the competent authority responsible for the issuance of the Certificates of Inexistence of Archaeological Remains (*Certificado de Inexistencia de Restos Arqueológicos*, or “CIRA”), prior to the development of investment projects, as well as other permits in order to protect the Nation’s Cultural Heritage.
- *SERFOR*— The National Service for Forest and Wildlife (*Servicio Nacional Forestal y de Fauna Silvestre*, or “SERFOR”) was created by Law 29763, enacted on July 22, 2011. SERFOR is a specialized technical governmental agency, dependent of the Ministry of Agriculture, in charge of regulating forest and wildlife matters and proposing policies, strategies, plans and other instruments to promote the sustainable use of forest

and wildlife resources. SERFOR is the entity in charge of granting permits in order to perform activities such as forest clearing, among others.

### ***Generation Companies***

Since 1992, the Peruvian market has been operating based upon a “marginal generation cost” system. As mentioned before, such system is embedded in the general electricity laws of Peru and is administrated by the COES. In such capacity, the COES has as its main mandate to satisfy all the demand of electricity at any given time with the most efficient generation assets available at such time, taking also into account reliability considerations, independently of contractual arrangements between generators and their clients. For such purpose, the COES determines which generation facilities will be in operation at any given time with the objective of minimizing the overall system energy cost. Generation units are dispatched (i.e., ordered by the COES to inject energy into the system) on a real-time basis; units with lower variable generation costs are dispatched first and other less efficient generation units will be ordered to dispatch until the electricity demand is satisfied.

The variable cost for the most expensive generation unit dispatching in each 15-minute time period determines the short-term marginal cost (spot price) of electricity in said time period. Generally, the variable cost used for dispatch is audited by the COES, based on actual fuel costs, the plant efficiency, and variable maintenance costs. However, as natural gas supply and transportation contracts contain high levels of take-or-pay, the calculation of variable costs for these units is not straightforward.

As a result, generators with power plants utilizing natural gas are allowed to declare the variable cost of their plants twice a year: (i) on the last business day of the first half of November, being valid for the high hydrology season (from December 1 to May 31 of the following year), and ii) on the last business day of the first half of May, being valid for the low hydrology season (from June 1 to November 30). Such declared cost may differ from the actual cost of such plant, but cannot be higher than the total cost (gas supply transportation and distribution) effectively paid by each generation company and this declaration will be the fuel variable cost applicable for dispatch purposes for the next six months, being the declared cost part of the commercial strategy of the corresponding generator.

The spot market price is determined by the COES and is the price at which generation companies sell or buy energy on the spot market during each 15-minute period. All injections and withdrawals of electricity are valued at the spot market price of the 15-minute period when they are made. Any generation companies with excess generation over energy sold pursuant to PPAs in each 15-minute interval, sell their excess energy at spot prices to generation companies with lower generation than their contractual obligations under PPAs for that time period. The COES defines, on a monthly basis, the amounts that are owed by each generator with a net “buyer” position to generators with a net “seller” position. Generators with a net seller position directly invoice and collect from generators with a net buyer position the amounts liquidated by the COES, respectively, not being the COES involved in the payment procedure or providing any form of payment guarantee. As of the date of this offering memorandum, distribution companies and regulated consumers cannot purchase power off the grid at spot prices, but rather must contract agreements with power generation companies or—for smaller consumers—with distribution companies, which means that spot transactions are a zero-sum as between generators. Nevertheless, non-regulated clients and distribution companies with respect to the demand of their non-regulated clients, were provided access to the spot market by new regulation of the Wholesale Electricity Market (the “MME”) only for the part of their demand not contracted with a supplier, which, for non-regulated clients, cannot be higher than 10% of their total maximum demand and, in case of distribution companies, cannot be higher than 10% of the total demand of its non-regulated clients, in both cases with respect to the maximum demand of the last 12 months. The MME will become effective on January 1, 2018.

Power generation companies are also paid capacity fees by the SEIN, based on their firm capacity and other variables. Capacity transactions are subject to Law No. 25844. This law stipulates a methodology for calculating the capacity payments for each generation unit. Firm capacity calculation varies by type of technology, but is principally based upon the unit’s effective capacity and its ability to supply energy reliably and continuously during the peak hours of the dry season, and also taking into consideration the historic availability statistics of the unit. Capacity payments are based primarily upon the unit’s firm capacity and the regulated capacity price, but it is also affected by other variables, such as the expected supply-demand balance, the approved reserve margin, and the merit order of the generation unit.

PPAs are commercial agreements, independent of actual allocation of generation or actual provision of capacity to the system. Generation companies that generate over any 15-minute period insufficient energy to satisfy the supply obligations under their PPAs in any such periods purchase in the spot market the energy required to satisfy such supply obligations, based on COES procedures, from other generation companies with excess generation or availability during any such period. The energy price for those transactions is the spot price (marginal cost), and the capacity price is regulated and defined annually by OSINERGMIN.

Due to short-term constraints in the gas supply and power transmission systems, which were generating distorting price signals in the spot market, the Peruvian government issued Emergency Decree No. 049-2008, extended by Emergency Decree No. 079-2010, Law No. 30115 and Law No. 30513. Pursuant to this decree, which was in force until October 1, 2017, the COES was required to simulate economic dispatch and energy spot prices without accounting for limitations due to shortage in supply and transportation of natural gas and for limitations on the transmission system. The latter scheme caps spot prices at a maximum amount of S/313.5 per MWh. Generation companies with units that were called to dispatch that have a variable cost higher than the spot price determined pursuant to the referenced emergency decree were compensated for the difference between their variable cost and the spot price by transmission surcharges imposed on all end consumers of the SEIN (i.e., regulated and non-regulated customers) and collected by distribution and/or generation companies.

Sales of electricity under PPAs are not regulated unless they involve sales to distribution companies for the supply to regulated customers. The latter PPAs are subject to price caps set by OSINERGMIN prior to the corresponding public bidding process where generators submit their bids. Generation and distribution companies may also enter into contracts resulting from a direct negotiation and not a bidding process, but the price in such PPAs cannot be higher than the regulated tariff approved by OSINERGMIN. As with capacity transactions under PPAs, the financial settlement of energy transactions under PPAs is independent of the actual dispatch of energy by any particular generation unit. Generators accrue receivables from the counterparties to their PPAs based on the contract price in their PPAs and the amount of energy delivered from the SEIN, irrespective of the amount of energy that was produced by the generator counterparty to the PPA. The COES's dispatch of generation units in the SEIN is designed to satisfy the demand of electricity of the SEIN at any given time in the most efficient manner possible and the COES is not under any obligation to dispatch a particular generation unit to fulfill a generator's PPA commitments.

The general electricity laws of Peru require generators with an installed capacity in excess of 500 kW that use renewable energy sources to obtain a definitive generation concession, and generators with an installed capacity in excess of 500 kW that use thermal energy sources to obtain a generation authorization. A concession for electricity generation activity is granted by the Republic of Peru acting through the MINEM and embedded in an agreement between the generator and the MINEM, while an authorization is merely a unilateral permit granted by the MINEM. Authorizations and concessions are granted by the MINEM for an unlimited period of time and their termination, respectively, is subject to the same considerations and requirements under the procedures set forth in the Law No. 25844 and related regulations. However, according to Legislative Decree No. 1221, the concessions granted as a result of an investment promotion process will have a term of up to 30 years.

The definitive concession allows its titleholder to use public lands and infrastructure, and obtain easements imposed by the MINEM (in lieu of easements agreed with the owner of the affected land plots) for the construction and operation of generation plants, substations or transmission lines and distribution networks, as applicable. The definitive concession is granted by a ministerial resolution issued by the MINEM. Also, definitive concessions for generation with renewable energy sources, with an installed capacity equal to or less than 10 MW are granted by resolution of the Energy and Mines Regional Directorate (*Dirección Regional de Energía y Minas*) of the corresponding regional government. In all cases a definitive concession involves the execution of a concession agreement under the form of a public deed. The concession agreement is based on a standard form and is recorded in the public registries.

Under the general electricity laws in Peru, the titleholders of authorizations have most of the rights and benefits of concessionaires, other than the right to make a request to the MINEM to impose definitive easements, and have basically the same obligations as concessionaires.

Definitive concessions and authorizations may be terminated by relinquishment or breach upon the occurrence of certain termination events set forth in Law No. 25844 and upon completion of a procedure regulated by the general electricity laws in Peru. Termination events include: (1) failure to provide evidence of registration of the concession



agreement in the public registry within the term of twenty business days following such registration; (2) non-compliance with the schedule for completion of the project included in the concession agreement, unless otherwise authorized by the MINEM due to force majeure; (3) failure to be available to operate for at least 876 hours during a calendar year, without justified cause; and (4) failure by the concessionaire, after being penalized, to operate the facilities in accordance with the COES' operative regulations, unless otherwise authorized by the MINEM by justified reasons. The termination procedure for breach of the project schedule may be suspended by the concessionaire upon delivery of a new project schedule that is guaranteed with a performance bond, thereby providing a mechanism that in practice substantially reduces the risk of termination for such cause. According to Legislative Decree No. 1221, this guaranteed schedule will be approved only once.

Notwithstanding the above, Law No. 25844 provides that if the Republic of Peru declares the termination of a definitive concession for a reason different from those mentioned above (i.e., termination at will), the concessionaire shall be indemnified at the present value of the net cash flow of future funds generated by the concession's activities, using the discount rate set forth in article 79 of such law (12% on an annual basis). As of the date of this offering memorandum, we believe no concession has been terminated by the Peruvian government invoking its authority to terminate at will.

Termination of a definitive concession is declared by a ministerial resolution issued by the MINEM. In such case, the MINEM shall ensure the continuity of the operation of the generation plant by appointing a temporary administrator of the assets (*intervención*), until the concession is transferred to a new concessionaire. The MINEM shall appoint a consultant to make a valuation of the concession and its assets, elaborate the corresponding bidding rules and organize a tender procedure. The MINEM shall award the definitive concession to the best bid offered. The product of the tender shall be used to pay the costs of the temporary administration, the costs of the tender procedure, and any balance shall be allocated in favor of the former concessionaire. The procedure for termination of an authorization is similar to that of a concession. We believe that no definitive concession or authorization of a project that actually started construction or operation has been terminated, as of the date of this offering memorandum.

### ***Transmission Companies***

Transmission in the SEIN is operated by the individual companies that conform the transmission system and is centrally coordinated by the COES. Expansion plans for the transmission grid are proposed by the COES to the MINEM for final approval; prior to executing the COES expansion plan, the Peruvian government prepares the transmission plan. Transmission companies who wish to participate in construction of the transmission system specified in the expansion plan are required to submit their bid for a tender organized by the Peruvian Agency for the Promotion of Private Investments (*ProInversión*). The transmission company awarded the tender may operate the line over the term of its concession (usually 30 years) and would be eligible to receive tariff payments paid by all the final users in the SEIN, as specified in the tender document and incorporated into its concession contract. The development of any transmission activity requires a definitive concession if the installation of the transmission lines will be within Peruvian state properties or if an easement from the MINEM will be required.

The group of transmission lines created pursuant to such tenders after 2006 are known as "guaranteed transmission lines" and are paid by electricity consumers. Transmission lines not included in plans such as the aforementioned, independently constructed by transmission companies after 2006, are known as "complementary transmission lines"; tariffs for use of these lines are determined by OSINERGMIN and are paid based upon actual use even by generation companies or customers.

Transmission lines created prior to 2006 are categorized into two groups. Transmission lines available for use by all generation companies and for the benefit of end users are categorized as principal transmission lines; transmission lines only used by specific generation or distribution companies and only available to these generation companies are categorized as secondary transmission lines. Principal transmission lines tariffs are set by OSINERGMIN and are paid by all end users, and secondary transmission lines tariffs are also set by OSINERGMIN but are paid based upon actual use even by generation companies or customers.

On July 2, 2016, OSINERGMIN issued Resolution 164-2016-OS/CD, or the Transmission Toll Resolution, which sets forth a new methodology, starting in May 2017 and ending in May 2021, for the calculation of the transmission tolls payable by generation companies to transmission companies for a generator's use of the secondary and complementary

transmission lines within the grid. Pursuant to the current methodology, a generation company must pay a transmission toll for each of the secondary or complementary transmission lines utilized by it; the new methodology set forth in the Transmission Toll Resolution provides that each generation company must pay a transmission toll for each of the secondary and complementary transmission systems within the grid, regardless of whether such generation company uses any particular secondary or complementary transmission system within the grid.

The implementation of the methodology set forth in the Transmission Toll Resolution will nonetheless obligate Kallpa to provide payments to the remaining secondary and complementary transmission lines in the system, notwithstanding Kallpa's usage of other secondary transmission lines. Additionally, although primary transmission tolls paid by Kallpa are typically passed through to Kallpa's customers pursuant to its PPAs, it is unclear whether transmission tolls paid in respect of those secondary and complementary transmission lines that are not utilized by Kallpa for the transmission of their energy (as required by the Transmission Toll Resolution) can be passed through to Kallpa's customers under its PPAs.

The methodology introduced by the Transmission Toll Resolution was applied during the tariff setting process that took place in May 2017.

### ***Distribution Companies***

According to the general electricity laws in Peru, distribution companies are required to provide energy to regulated customers at regulated prices. Distribution companies may also provide energy to customers not subject to regulated prices—pursuant to PPAs competing with generation companies for such non-regulated customers. As of the date of this offering memorandum, the only private distribution companies holding a distribution concession are: Luz del Sur, Enel Distribución Peru, Electro Dunas and Coelvisac. These four companies distributed 63% of all energy distributed by distribution companies in Peru in 2016. The remainder of distribution companies are government-owned entities.

Prior to July 2006, pricing in all contracts between generation companies and distribution companies with respect to sale of electricity to end customers was defined at regulated prices, composed of payment for capacity, energy and transmission, as determined by OSINERGMIN. Distribution companies sell energy on the regulated market at cost plus an additional distribution charge known as VAD. After July 2006, most of the agreements result from tenders in which generation companies bid prices. Bid prices include payment for capacity and energy.

The energy purchased by distribution companies from generation companies at regulated prices pursuant to old PPAs accounted for less than 56% of total purchasing in 2014—and is expected to decrease in coming years.

Since July 2006, pursuant to Law 28832, contracts to sell energy to distribution companies for resale to regulated customers may be made at fixed prices based on public bids of generation companies or at regulated prices set by the OSINERGMIN. After the bidding process is concluded, a distribution company will be entitled to purchase energy from the winning bidder at the bid price for the life of the relevant PPA. The prices obtained through the public bid process are subject to a maximum energy price set by the OSINERGMIN prior to bidding. If all the bids are higher than the price set by the OSINERGMIN, the public bids are disregarded and no PPA will be awarded. The process may be repeated until the prices that are offered are below the cap set by the OSINERGMIN for each process.

Regulated tariffs are annually set by OSINERGMIN through a public procedure conducted by the Adjunct Manager's Office for Tariff Regulation (*Gerencia Adjunta de Regulación Tarifaria*) and are effective from the month of May of each year. During this process, the OSINERGMIN will take into account a proposal delivered by the COES.

The price components of the regulated tariffs are: (1) the regulated price of energy; (2) the capacity price in peak hours; and, (3) the transmission toll, and are calculated considering the following:

- a projection of demand for the next 24 months, considering generation and transmission facilities scheduled to start operations during such period. The projection assumes, as a constant, the cross-border (i.e., Ecuador) supply and demand based on historical data of transactions in the last year;

- an operations program that minimizes the operation and rationing costs for the period taking into account the hydrology, reservoirs, fuel costs and a rate of return (*Tasa de Actualización*) of 12% per year. The evaluation period includes a projection of the next 24 months and the 12 months precedent to March 31 of each year considering historic data;
- a forecast of the short-term marginal costs of the expected operations program, adapted to the hourly blocks (*bloques horarios*) established by OSINERGMIN;
- determination of the basic price of energy (*precio básico de la energía*) for the hourly blocks of the evaluation period, as a weighted average of the marginal costs previously calculated and the electricity demand, updated to March 31 of the corresponding year;
- determination of the most efficient type of generation unit to supply additional power to the system during the hour of maximum peak demand during the year (*demanda máxima anual*) and the annual investment costs, considering a rate of return of 12% on an annual basis;
- the base price of capacity in peak hours (*precio básico de la potencia de punta*) is determined following the procedure established in the general electric laws of Peru, considering as a cap the annual investment costs (which include connection and operation and maintenance costs). An additional margin to the basic price shall be included if the reserve of the system is insufficient;
- calculation of the nodal factors of energy (*factores nodales de energía*) for each bar of the system. The factor shall be equal to 1.00 for the bar where the basic price is set;
- the capacity price in peak hours (*precio de la potencia de punta en barra*) is calculated for each bar of the system, adding to the basic price of capacity in peak hours the unit values of the transmission toll and the connection toll referred to in Article 60 of Law 25844; and
- the bus bar price of energy (*precio de energía en barra*) is calculated for each bar of the system, multiplying the nodal basic price of energy (*precio básico de la energía nodal*) of each hourly block by the respective nodal factor of energy.

The development of electricity distribution activities requires a definitive concession if such activities are dedicated to public service and the demand exceeds 500 kW.

### ***Peruvian Energy Policy 2010-2040***

The Peruvian Energy Policy 2010-2040 was approved by Supreme Decree No. 064-2010-EM. By this document, the Peruvian government set forth the following objectives in order to improve the energy market:

- develop a diversified energy matrix, based on renewable energy resources and efficiency. The government, among other measures, will prioritize the development of efficient hydroelectric projects for electricity generation;
- competitive energy supply. One of the main guidelines is to promote private investment in energy projects. The Peruvian government has a subsidiary role in the economy as mandated by the Peruvian Constitution;
- universal access to energy supply. Among other guidelines, the Peruvian government shall develop plans to ensure the supply of power and hydrocarbons;
- promote a more efficient supply chain and efficient energy use. Comprises promoting the automation of the energy market through technological repowering;
- achieve energy self-sufficiency. For such purpose, the Peruvian government will promote the use of energy resources located in the country;

- develop an energy sector with minimal environmental impact and low carbon in a sustainable development framework. Promote the use of renewable energy and eco-friendly technologies that avoid environmental damage and promote obtaining Certified Emission Reductions by the energy projects developed;
- strengthen the institutional framework of the energy sector. Maintain a legal stability intended to promote development of the sector in the long term. Likewise, simplification and optimization of administrative and institutional structure of the sector will be promoted;
- regional market integration for long-term development. Regional interconnection agreements will permit the development of infrastructure for energy uses; and
- developing the natural gas industry and its use in household activities, transportation, commerce and industry as well as efficient power generation.

## **Regulation of the Guatemalan Electricity Distribution Market**

### *The General Electricity Law and the Liberalization of the Electricity Sector*

The electric energy industry in Guatemala is governed by the General Electricity Law and related regulations. The General Electricity Law was adopted in 1996 to liberalize the energy sector and to promote private investment in the industry. It has experienced no material changes in the past 20 years.

The General Electricity Law authorized the creation of two new institutions to regulate the electricity sector: the CNEE and the AMM. Regulations implementing the General Electricity Law were adopted by the Executive through the MEM in 1997 and 1998, and amended in 2007 and 2008. The CNEE and the AMM were created in 1997 and 1998, respectively, completing the legal framework for the privatized energy sector.

The principles of the General Electricity Law are:

- energy generation should be unregulated and generation companies should not need to obtain special permits or authorizations or comply with government-imposed conditions except for hydroelectric, geothermal and nuclear facilities;
- transmission of energy should also be unregulated, unless companies must use public installations or public land to provide transmission and distribution services; and
- energy prices should be freely determined, except for transmission and distribution services, which are subject to regulation.

The primary goals of the General Electricity Law were:

- to remove governmental influence in pricing decisions, allowing the Guatemalan electric energy industry to operate in an open and competitive environment with energy prices reflecting the lowest cost of production available in the system;
- to regulate transmission tolls and distribution tariffs in order to prevent monopolistic practices;
- to provide the end users with quality energy distribution service and the benefits of prices set in a competitive marketplace; and
- to integrate the Guatemalan electric energy industry into a Central American regional market.

### *Limitations on Activities of Industry Participants*

The General Electricity Law provides that no individual company may engage directly in more than one of the following businesses: generation, transmission, or distribution services. However, the General Electricity Law allows

any company engaging in any such specific business to own stock (either as a controlling shareholder or not) or other interests in companies engaging in any other specific business within the industry. It also allows generators to own transmission lines in certain cases.

#### *Deregulation of Generation*

The General Electricity Law provides that a governmental license is only required to operate transmission and distribution assets, and, in the case of a power plant, only when energy is being generated through government-owned resources (i.e. hydroelectric and geothermal). Otherwise, generation activities are not regulated.

#### *Open Access to Transmission and Distribution Systems*

The General Electricity Law provides that transmission and distribution companies must grant all customers the ability to connect to their transmission and distribution lines in exchange for toll payments, as long as there is available capacity and the security of the connection has been established. Unregulated customers are entitled to choose freely their supplier and to acquire capacity and energy from any source and transmission and distribution companies must allow such energy to flow through their transmission and distribution lines as long as tolls are paid. Distribution and transmission companies are entitled to collect distribution or transmission tolls for the use of their lines. Failure to provide such access by a transmission or distribution company may lead to fines and ultimately the termination of that company's transmission or distribution authorization, and potentially the appointment of a receiver of the transmission or distribution company and the sale of its assets.

#### *Unregulated Customers*

The General Electricity Law provides that no public price regulation may be established relating to PPAs entered into by end users that have power demand greater than 100 kW. The MEM has the authority to lower or remove the threshold power demand that defines customers as "unregulated customers." Unregulated customers are entitled to choose as their supplier the distribution company operating the distribution line to which the unregulated customer is connected, any generator that supplies energy to the Guatemalan National Electricity System or any energy broker.

#### *Regulated Customers and Distribution Authorizations*

The General Electricity Law provides that those companies in the distribution business that have been granted an authorization from the MEM to provide Final Distribution Service (*Servicio de Distribucion Final*) may use public property (including rivers) and acquire mandatory easements on privately owned lands as necessary to carry on their business activities. The General Electricity Law provides that the MEM may authorize a company to use the public domain and impose easements on private lands to distribute or transmit energy. Authorizations for distribution services are granted on a non-exclusive basis for specific geographic areas and have terms of up to 50 years.

The General Electricity Law provides that a distribution company must provide service to all customers requesting energy that are (1) located within the Mandatory Area, or (2) outside the Mandatory Area but within the service area of a distribution company's authorization if the requesting party constructs a connection to the distribution company's system. A distribution company must provide energy to any party located outside of the Mandatory Area of a distribution company's authorization if the requesting party provides its own lines or third party lines to reach the distribution company's system. A distributor must provide these services at prices and quality levels determined by the CNEE and pursuant to the General Electricity Regulation (*Reglamento de la Ley General de Electricidad*).

All tariffs charged by distribution companies to regulated customers are determined and revised by the CNEE pursuant to the General Electricity Law. Although under the current legal framework the tariffs should be determined as a function of certain objective factors, the CNEE may exercise and has exercised discretion during the tariff setting process.

## ***Principal Regulatory Authorities***

### *Ministry of Energy and Mines (MEM)*

The MEM is the Guatemalan government's highest-ranking regulator of the electric energy industry. The MEM is responsible for enforcing the General Electricity Law and the related regulations and for the coordination of policies between the CNEE and the AMM. The MEM also has the authority to grant operating authorizations to distribution, transmission and generation companies.

### *National Electric Energy Commission (CNEE)*

The Guatemalan electric energy industry is regulated by the CNEE, a regulatory agency created pursuant to the General Electricity Law. The CNEE acts as the technical arm of the MEM. The CNEE is comprised of three members who are appointed by the Guatemalan government. The members are nominated by the MEM, the national universities, and the participants of the AMM. The Guatemalan President then chooses one member from each of the lists of candidates submitted by these entities to form a three-director board of the CNEE. Members hold office for five years, however their appointment could be revoked by the President in case of negligence or non-fulfillment of their obligations. The General Electricity Law establishes the following powers and duties for the CNEE:

- Determine transmission and distribution tariffs;
- Enforce the sector's laws and regulations and impose fines and penalties as legally prescribed;
- Supervise compliance by the holders of any kind of authorization to carry on business in the energy sector, protect the rights of end-users, and prevent anti-competitive, abusive and discriminatory activities;
- Conduct arbitration proceedings and exercise powers of review in case of controversy among any parties subject to the General Electricity Law and its regulations;
- Issue technical rules and performance standards for the energy sector and enforce accepted international practices; and
- Issue regulations and rules to secure access to and use of the transmission lines and distribution lines.

### *Wholesale Market Administrator (AMM)*

The Guatemalan wholesale energy and capacity market is managed by the AMM, an independent private entity created pursuant to the General Electricity Law. The AMM coordinates the operation of the generators, international interconnections, and transmission lines that form the Guatemalan National Electricity System. The AMM is responsible for (1) overseeing the safety and operation of the Guatemalan National Electricity System, (2) the economically efficient dispatch of energy and management of energy resources in a manner that seeks to minimize operating costs, including failure costs, within the restrictions imposed by the transmission system, and (3) compliance with service quality requirements.

The AMM is also responsible for scheduling the operation of the system and managing the dispatch of energy on the basis of lowest available marginal cost. The AMM must schedule the dispatch of energy to guarantee coverage of energy requirements at minimum cost within the priorities defining the quality and safety of the service, particularly the requirements of supplementary services such as frequency regulation, tension and reactive control, and reserve, among others. The AMM dispatches energy purchased in the spot market according to the efficiency levels of the generators offering energy.

All policies and rules of the AMM are subject to approval by the CNEE. If a generation company, transmission company, distribution company, energy broker or large user does not operate its facilities in accordance with the regulations established by the AMM, the CNEE has the ability to impose fines and, in the case of serious breaches, may require that a company disconnect from the Guatemalan National Electricity System.

## *Guatemalan Ministry of Environment and Natural Resources*

The Guatemalan Ministry of Environment and Natural Resources (*Ministerio de Ambiente y Recursos Naturales*), or the MARN, is responsible for issuing and enforcing legislation, regulation and policies related with the preservation, protection, sustainability and improvement of the environment and of natural resources. It is also in charge of providing a healthy and ecologically stable environment, preventing pollution and preserving natural heritage. The MARN approves the environmental impact assessments related to energy generation and transmission projects.

### ***Operation of the Guatemalan National Electricity System***

The AMM is responsible for the safety and operation of the Guatemalan National Electricity System, performing economically efficient dispatch, and managing energy resources in a manner that seeks to minimize operating costs, including failure costs, within the restrictions imposed by the transmission system, and service quality requirements.

The AMM must schedule the dispatch of energy to guarantee coverage of energy requirements at minimum cost within the priorities defining the quality and safety of the service, particularly the requirements of supplementary services such as frequency regulation, tension and reactive control, and reserve, among others. The AMM dispatches energy purchased in the spot market according to the efficiency levels of the generators offering energy.

The AMM runs the Guatemalan National Electricity System in real time, arranging any re-dispatches deemed necessary to correct differences between actual and projected power demand to ensure that the Guatemalan National Electricity System runs safely and efficiently. In the event of generation, transmission or distribution failures and emergencies, the AMM is responsible for ensuring that service be reestablished and normal operation of the Guatemalan National Electricity System is achieved.

All participants in the wholesale energy market, including those that are not part of the AMM, are required to abide by the operating and dispatch instructions issued by the AMM. The commercial practices and rules of the AMM create the framework within which the participants are obligated to carry on their business in the wholesale energy market.

All parties connected to the Guatemalan National Electricity System, including large generation facilities, distribution companies, transmission companies, energy brokers and unregulated customers that choose not to participate in the wholesale market, as well as small generators, transmission companies and distribution companies that cannot participate in the wholesale market, are required to submit to the directions of the AMM in all that concerns technical standards for the adequate operation of the Guatemalan National Electricity System.

### ***The Wholesale Energy and Capacity Markets***

The Guatemalan wholesale energy and capacity markets are “open border” markets that allow market participants to purchase energy and capacity from generators and to sell energy and capacity to customers inside and outside Guatemala. Participation in the wholesale energy and capacity market is not mandatory, but all agents must abide by the AMM rulings and instructions, even if they are not AMM participants. The parties that may, but are not required to, participate in the wholesale energy and capacity market include:

- generators with an installed capacity of more than 5 MW;
- distribution companies with 15,000 or more customers;
- transmission companies with a system connected to plants with capacity of more than 10 MW;
- energy brokers buying or selling 5 MW or more, including importers and exporters; and
- unregulated customers.

Purchases and sales of capacity are conducted through the fixed-term wholesale capacity market. Generators may sell generating capacity at negotiated prices through medium- or long-term PPAs with distribution companies, unregulated customers or energy brokers. Distribution companies are required to have PPAs covering at least 100% of

their projected capacity needs for the current year and the following year. Distribution companies may only enter into PPAs through public bids conducted under the supervision of the CNEE.

Generators may sell uncommitted energy in the spot market at prices determined as described below. Other participants in the wholesale energy market may buy energy in the spot market to cover shortages under their PPAs or to sell excess energy, however, distribution companies can only purchase energy with the CNEE approval. The AMM dispatches energy in the spot market based on the marginal variable cost of the generators offering energy, giving priority to energy produced at the lowest marginal cost based on:

- the variable costs (fossil fuel price) of energy offered by thermoelectric generators;
- the future replacement cost (water price) of the reservoirs for energy offered by hydroelectric generators; or
- the opportunity cost for energy offered by generators in other countries through international interconnections.

The prevailing price in the spot market for energy is established on an hourly basis based on the cost of the last dispatched plant needed to cover demand.

Participants in the wholesale market can also trade capacity, permitting generators that are unable to supply their committed capacity to purchase additional capacity and other market participants who have contracted to purchase capacity in excess of their need to sell their excess capacity. Prices in the capacity market are set by the AMM based on the theoretical cost of installing efficient power generation.

### ***Distribution Authorizations***

The General Electricity Law provides that the MEM may authorize a company to use the public domain to distribute or transmit energy. Permits for distribution services are granted on a non-exclusive basis for specific geographic areas and have terms of up to 50 years.

The General Electricity Law provides that a distribution company must provide service to all customers requesting energy that are (1) located within the Mandatory Area, or (2) outside the Mandatory Area but within the service area of a distribution company's authorization if the requesting party constructs a connection to the distribution company's system. A distribution company must provide energy to any party located outside of the Mandatory Area of a distribution company's authorization if the requesting party provides its own lines or third party lines to reach the distribution company's system. A distributor must provide these services at prices and quality levels determined by the CNEE and pursuant to the General Electricity Regulation (*Reglamento de la Ley General de Electricidad*).

Distribution companies can use publicly owned lands and infrastructure in the construction of their distribution lines, cross rivers, remove vegetation, build paths and otherwise use publicly owned spaces for the distribution of energy and receive right-of-ways over state-owned and private lands as necessary to complete their distribution lines. The General Electricity Law provides requirements for such rights-of-way and adjudicatory procedures in cases of complaints by private parties. Distribution companies are required to pay the Guatemalan government for all costs associated with the use of state-owned facilities other than existing infrastructure such as streets, roads and bridges and pay private owners for the use of rights-of-way.

### ***Quality of Service Regulations Applicable to Distribution Companies***

The CNEE establishes minimum levels of quality for energy services. In addition, the CNEE imposes certain obligations on distribution companies related to quality standards, and fines them for failure to comply with such quality standards and other obligations. The CNEE regulates the quality parameters of the supplied energy (tension, frequency and disturbances), establishes parameters for continuity (number and length of interruptions) and minimum standards for customer service. An interruption is defined as any period of time over three minutes during which energy is not available.



The CNEE monitors the number of interruptions, the length of time of each interruption and the total number of customers affected. If a distribution company experiences excessive interruptions, it must indemnify the affected customers.

Each distribution company is required to survey its customers annually to obtain information regarding its compliance with required customer service regulations. The CNEE publishes the results of these surveys. Fines and other sanctions can also be imposed if a distribution company does not comply with the CNEE customer service standards or if there are other service complaints.

If a distribution company does not comply with the CNEE's regulations regarding the quality of the supplied energy and implementation of energy services and quality of service, it can be fined and, ultimately, its authorization can be revoked. In addition, the General Electricity Law provides for the appointment of a receiver and the sale of the distribution company's assets.

### ***Distribution and Transmission Tariffs and Tolls***

#### ***Distribution Tariffs***

Pursuant to the General Electricity Law, distributors charge consumers a price for energy sales based on distribution tariffs, consisting of an energy charge and a VAD charge, which are determined on the basis of legal and regulatory proceedings by the CNEE every five years. The VAD charge component of the distribution tariff covers the operating expenses, capital expenditures, and the cost of capital of a model efficient distribution company operating in the same area and providing the same services and is revised every five years with semi-annual adjustments for inflation and local currency exchange rates against the U.S. dollar. The energy charge component of the distribution tariff is designed to allow a model distribution company to recover the costs of the energy and capacity that it purchases and the costs of transmission of such energy to the connection points of its own grid. The energy charge component consists of a base tariff and an energy adjustment surcharge, which are revised annually and quarterly, respectively.

The process of establishing the distribution tariffs involves several parties, including distribution companies, and takes place over several stages. While the tariffs are intended to be set on the basis of objective criteria, the CNEE can exercise and has exercised discretion. The prices for energy and capacity charged to unregulated customers are not regulated by the CNEE; however, unregulated customers must pay a toll for using the distribution line, equal to the applicable VAD charge.

#### ***Tariffs Applicable to Regulated Customers***

The CNEE adjusts the purchase and transmission costs of distributors and publishes a schedule of tariff rates for regulated customers every three months, which are designed to fully reimburse the distributor for the purchase and transmission costs actually paid during the previous three months. The tariffs applicable to Energuate's customers currently include:

- a social tariff available to customers that consume up to 300 kWh of energy per month;
- a regular tariff, available to all customers that purchase energy at low voltage;
- two additional tariffs available to customers that purchase energy for delivery at low voltages;
- two tariffs available to customers that purchase energy for delivery at medium voltage; and
- a tariff available to municipalities that purchase energy for public lighting.

The social tariff, the regular tariff and the public lighting tariff consist solely of an energy charge and a VAD charge. The two additional low voltage tariffs and two medium voltage tariffs are available for:

- customers that purchase capacity and energy at low- or medium-voltage, with a demand capacity between 11 kW and 100 kW, for no less than 60% of the month; and

- customers that purchase capacity and energy at low- or medium-voltage, with a demand capacity between 11 kW and 100 kW, for less than 60% of the month.

Customers that request these tariffs enter into a contract with the distribution company to purchase a specified amount of capacity. These tariffs consist of a fixed capacity consumption charge for each contracted kW, an energy charge for the energy used by the customer, a capacity consumption charge and a monthly fixed charge for connection to the distribution system. The capacity consumption charge consists of two components: a generation and transmission component and a distribution component. Customers are charged the capacity consumption charge based on the maximum amount of capacity demanded during any billing cycle.

The energy charge and the generation and transmission components of the capacity consumption charge are set and adjusted in the same manner as the energy charge under the social tariff, the regular tariff and the public lighting tariff. The capacity charge and the distribution component of the maximum capacity charge are set and adjusted in the same manner as the VAD charges under the social tariff, the regular tariff and the public lighting tariff.

### *Tariff Adjustments*

The VAD charges for each distribution company are established by the CNEE every five years and are calculated to equal an annuity over 30 years of the VNR of the distribution system of a model efficient distribution company providing the same service in the same area. The VNR of a distribution system is determined by calculating the new replacement value of a distribution network economically adjusted such that it would allow the distribution company to offer the services as if provided by a distribution company operating in the same area. The new replacement value of the distribution system is determined based on a discount rate set by the CNEE, based on studies conducted by independent consultants, within an allowed range provided by law. The calculation of the VAD charges for a distribution company uses as a benchmark the estimated costs of a model efficient distribution company serving a similar distribution area and accounts for the following costs:

- an allowance for energy losses as determined by the CNEE;
- administrative costs; and
- costs of maintaining and operating the distribution systems, including the cost of capital.

The VAD charges that DEOCSA and DEORSA will charge until January 2019 were established in January 2014. New VAD charges applicable to DEOCSA and DEORSA are scheduled to be established in January 2019. The process of establishing the VAD charges requires the distribution company to engage an independent consultant approved by the CNEE to calculate the components of the VAD charges (including the VNR) applicable to the distribution company's system. If the distributor fails to deliver the requested calculations, the CNEE can hire a consultant to calculate the VAD charges applicable to the distribution company's system. Following the submission of the VAD charges calculated by the independent consultants to the CNEE, the CNEE decides whether to approve the VAD charges calculated by the consultants. In the event that the CNEE does not approve the new VAD charges, the dispute is submitted to an expert panel composed of three individuals, one named by the distribution company, one named by the CNEE and one named by mutual agreement.

The expert panel must rule within 60 days. In one instance, the General Electricity Law and its regulations were construed such that the CNEE was not bound to adopt the decision of the expert panel and was free to set the VAD charges at its discretion.

The VAD charges are adjusted semi-annually to reflect the effect of fluctuations in the Guatemalan Quetzal/U.S. dollar exchange rate on the U.S. dollar-denominated components of the VNR calculation and the effects of Guatemalan inflation on the Guatemalan Quetzal-denominated components of the VNR calculation.

The energy charge is designed to allow a distribution company to recover the costs of the energy and capacity that it purchases on behalf of its customers and the costs of transmission of such energy to the connection points of its own grid. The energy charge component of the regulated tariffs consists of a base tariff and an energy adjustment surcharge. Under the General Electricity Law and the regulations of the CNEE, the base tariff is adjusted annually to reflect

anticipated changes in the cost of the energy and capacity to be purchased by the distribution company during the following year. The energy adjustment surcharge is set quarterly to reflect variations in the actual cost of energy and capacity purchased by the distribution company from the projected cost. These mechanisms attempt to achieve neutrality of the costs incurred by the distributor on the customer's behalf, allowing the distribution company to pass through those costs on to their regulated customers.

### *The Social Tariff*

In 2001, the government of Guatemala enacted the Social Tariff Law (*Ley de la Tarifa Social para el Suministro de Energía Eléctrica*) which requires that a special tariff, called the "social tariff," be made available to customers with energy consumption of up to 300 kWh per month. Currently, under regulations adopted by the CNEE, distribution companies solicit bids for PPAs to supply the energy to be delivered to customers eligible for the social tariff. The VAD charge is the same for all types of tariffs. Under the social tariff, energy and capacity are provided at market prices, and the INDE subsidizes the consumption of energy by some or all customers eligible for the social tariff.

Energuate's customers who have energy consumption below 100 kWh receive a subsidy from the Guatemalan government towards the payment of the energy charge of the applicable tariff. Such subsidy is calculated and paid directly by the INDE to the distributors, such as Energuate, on a monthly basis. The subsidy is calculated by the INDE in order that the customers with the following tranches of average energy consumption are charged with the following amounts per kWh:

- as of December 31, 2016, customers that consumed up to 60 kWh per month paid 0.50 *quetzales* per kWh independently from the cost of the tariff established by the CNEE quarterly;
- as of December 31, 2016, customers that consumed between 60 kWh and 88 kWh per month paid 0.75 *quetzales* per kWh independently from the cost of the tariff established by the CNEE quarterly;
- as of December 31, 2016, customers of DEOCSA that consumed between 89 kWh and 100 kWh per month paid 0.99 *quetzales* per kWh independently from the cost of the tariff established by the CNEE quarterly; and
- as of December 31, 2016, customers of DEORSA that consumed between 89 kWh and 100 kWh per month paid 0.977 *quetzales* per kWh independently from the cost of the tariff established by the CNEE quarterly.

For purposes of determining which customers qualify for each of these tranches, and thus, to receive the subsidy, the INDE considers the customer's average energy consumption during the last 12 months. During the six months ended June 30, 2017 and the year ended December 31, 2016, the subsidies that the INDE granted to Energuate's customers represented 5.1% and 6.2% of our revenue, respectively.

### *Transmission Tolls*

The General Electricity Law provides that all parties that connect to the Guatemalan National Electricity System, including all generation companies, transportation companies, distribution companies, energy brokers and unregulated customers, must pay for their connection to and use of the Guatemalan National Electricity System. The secondary transmission tolls for energy can be negotiated by the generation companies, distribution companies or unregulated customers using the Guatemalan National Electricity System. In the absence of a negotiated price, tolls for the use of the secondary transmission lines, substations and distribution installations are set according to regulations issued by the CNEE.

There are separate tolls applicable to the primary transmission system and the secondary transmission system. Both tolls are determined on the basis of the variable transmission revenue of replicating a "model" transmission system, including an estimated VNR of the transmission system. The VNR of a transmission system is the estimated cost of replicating a "model" transmission system including an estimated return on capital.

The tolls for the primary transmission system are determined by the CNEE based on information provided by the owners of the transmission facilities and the AMM. The CNEE revises transmission tolls for the primary transmission system every two years and whenever new generation capacity is connected to the Guatemalan National Electricity

System or a portion of the secondary transmission system is upgraded to become part of the primary transmission system. The primary transmission toll is collected by the AMM.

Transmission tolls for the secondary transmission system are negotiated between the owners of these transmission facilities, including distributors, and the generators and energy brokers that use these transmission facilities. If these parties cannot reach an agreement with respect to transmission tolls, the transmission tolls are established by the CNEE according to applicable regulations. The transmission tolls for distribution facilities should be equal to the VAD charges. However, there have been instances where the transmission tolls were lower than the VAD charges.

Transmission tolls for use of the primary transmission system are paid by generation companies or importers and are included as part of the cost in the tariffs paid by regulated customers. Transmission tolls for use of the secondary transmission system are paid by distribution companies, energy brokers or unregulated customers. Transmission tolls for use of the secondary transmission system paid by distribution companies are included as part of the cost in the tariffs paid by regulated customers, if authorized by the CNEE.

### **Regulation of the Nicaraguan Electricity Sector**

The energy market in Nicaragua is subject to the Nicaraguan Electrical Industry Law and regulations based thereupon, which apply to the energy sector and the wholesale power market. The Electrical Industry Law is subject to supervision by local authorities.

The regulation of the Nicaraguan energy market governs three sectors of the energy market, which are vertically unbundled: generation, transmission and distribution. Units which use renewable resources, such as wind, geothermal and biomass, are dispatched with priority over thermal units. Transmission is administered by a government-owned company and distribution is carried out by a sole private company, which is subject to regulated prices.

The power pricing mechanism in Nicaragua is based on a free market where generation companies compete for dispatch, and the spot price is determined on an hourly basis, based on marginal cost and considering the last unit dispatched in such hour. All power generation companies are required to obtain a license from the Nicaragua's Ministry of Energy and Mines for the right to generate and sell power to the national grid. Generation companies can sell energy to distribution companies or to non-regulated customers.

### **Regulation of the Bolivian Electricity Sector**

The energy market in Bolivia is subject to Bolivia's Electricity Act and regulations based there upon, which apply to the energy sector and the wholesale power market in Bolivia and which is subject to supervision by local authorities. The power pricing system in Bolivia is based on a free market where generation companies compete for dispatch of their generation units, and the spot price is determined based on marginal cost (similar to Peru), with free access to transmission and distribution systems. However, major customers purchase power at regulated tariffs. The price for energy and power generation in this country is based on marginal cost. According to Bolivia's 2009 constitution, all power generation companies in Bolivia are required to obtain a license from the relevant authority for the right to generate and sell power on the national grid. As of the date of this offering memorandum, COBEE operates in accordance with the interim licenses awarded to it. There is no certainty that we will obtain the necessary permanent licenses.

In December 2011, the Bolivian government amended the applicable law to prohibit generation companies from entering into new PPAs. For further information on the risks related to the potential nationalization of our assets in Bolivia, see "Risk Factors—Risks Related to the Countries in Which We Operate—The Bolivian government has nationalized energy industry assets, and our remaining operations in Bolivia may also be nationalized."

### **Regulation of the Chilean Electricity Sector**

The energy market in Chile consists of three sectors: generation, transmission and distribution. Power generation is open to competition, whereas transmission and distribution are conducted by monopolies subject to regulated prices.

The energy market in Chile uses the marginal generation cost method to determine the sequence of dispatch of power stations, thereby ensuring that demand for power is satisfied at the minimum system cost. This method, launched in 1982, is now used in many countries.

Chile has four power systems, of which two of these are its major systems. The largest system is the SIC, with capacity of 15,911 MW, primarily consisting of hydroelectric, coal-based power stations and dual power stations using natural gas (imported as liquid natural gas) or diesel. SIC serves more than 93% of the Chilean population.

The second largest system is the SING, with capacity of 4,183 MW. SING covers a 700 kilometer stretch of Chile's northern coast line. SING serves 6% of Chile's population and is a major power supplier for the country's copper mining industry.

The two other power systems located in the south of Chile are relatively smaller.

Central Cardones and Colmito are part of the SIC power grid. The National Energy Commission (*Comisión Nacional de Energía*) is an independent government regulator which determines distribution tariffs, among other things. Prices used by generation companies to sell power to distribution companies for regulated customers (those customers who consume up to 2 MW) are determined by regulated tenders. Power prices for non-regulated customers are determined by direct negotiations and by tenders, with no intervention by government entities. Tariffs for expansion of the transmission system are determined by international tenders.

### **Regulation of the Salvadorian Electricity Sector**

Through July 2011, the energy market in El Salvador was based on purchase and sale of power by competitive price tenders by generation companies. In August 2011, the energy market in El Salvador was re-structured and is now essentially similar to energy markets in other Latin American countries in which we operate. Currently, generation units are dispatched based on the variable cost thereof, and prices are determined by the variable cost of the most expensive unit operating. Due to this change, local distribution companies have started issuing public tenders for purchase of power.

### **Regulation of the Dominican Electricity Sector**

The regulatory framework of the energy sectors in the Dominican Republic is essentially similar to the one in Peru. Power generation in the Dominican Republic is based on free competition among private and government-owned generation companies, whereas the transmission and distribution grid is controlled by government-owned companies. The main source of revenues for generation companies is direct energy sale to distribution companies and from sale of energy and availability in the spot market.

The large-scale theft of power from the grid is prevalent in the Dominican Republic. Since generation and distribution companies do not pass through the cost associated with such theft to consumers, the government must provide significant subsidies to cover such losses.

## MANAGEMENT

### Directors and Executive Officers

The following table sets forth information regarding our directors as of the date of this offering memorandum.

| Name                         | Member Since      | Age |
|------------------------------|-------------------|-----|
| Javier García Burgos .....   | November 28, 2014 | 47  |
| Alberto Triulzi .....        | November 28, 2014 | 60  |
| Roberto Cornejo .....        | November 28, 2014 | 54  |
| Juan Carlos Camogliano ..... | November 28, 2014 | 53  |
| Francisco Sugrañes .....     | November 28, 2014 | 52  |

The following table sets forth information regarding our executive officers as of the date of this offering memorandum:

| Name                         | Position Held                          | Date of Appointment | Age |
|------------------------------|--|---------------------|-----|
| Javier García Burgos .....   | Chief Executive Officer                | July 2007           | 47  |
| Alberto Triulzi .....        | Chief Financial Officer                | March 2013          | 60  |
| Roberto Cornejo .....        | Chief Operating Officer – Generation   | October 2007        | 54  |
| Cristián Fierro .....        | Chief Operating Officer – Distribution | January 2016        | 50  |
| Juan Carlos Camogliano ..... | Vice President of Business Development | May 2008            | 53  |
| Francisco Sugrañes .....     | Vice President of Production           | August 2009         | 52  |
| Daniel Urbina .....          | General Counsel                        | October 2008        | 48  |

Our business address is the business address of all of our directors and executive officers.

### *Biographies of our Directors and Executive Officers*

*Javier García Burgos.* Mr. García-Burgos has served as our Chief Executive Officer since July 2007, and has served as the Chief Executive Officer of ICP since 2011 and of IC Power since 2015. Simultaneously, Mr. García-Burgos served as the Chief Executive Officer of Inkia from 2007 to date, Chief Executive Officer of Kallpa from 2005 to 2015 and Chief Executive Officer of Southern Cone from 2002 to 2014. Previously, Mr. García-Burgos served as Regional Director for Globeleq in South America from 2002 to 2007, Planning and Control Vice President of Edegel in 2001, Planning and Control Manager of Edegel from 2000 to 2001, Development Manager of Edegel from 1998 to 2000 and in other positions with Edegel beginning in 1996. Mr. García-Burgos has over 20 years of experience in the energy industry, having served as a board member of approximately 20 power companies in 12 countries. Mr. García-Burgos holds a Bachelor's Degree in Aerospace Engineering from San Diego State University and a Master's of Business Administration from Escuela de Administración de Negocios para Graduados (ESAN) in Peru.

*Alberto Triulzi.* Mr. Triulzi has served as our Chief Financial Officer since March 2013 and has served as the Chief Financial Officer of ICP since 2013 and of IC Power since 2015. Previously, Mr. Triulzi served as Chief Executive Officer of Nejapa and Cenérgica from 2008 to 2013, Chief Finance and Administration Officer of EGE Haina from 2001 to 2008, Chief Financial Officer of Edegel from 1995 to 2001, Vice President and Controller of Edesur S.A. from 1992 to 1995, Project Development Manager for Entergy Corporation from 1988 to 1992, and executive consultant for Stone and Webster Management Consultants from 1983 to 1988. Mr. Triulzi also served as a member of the board of directors of Generandes from 2006 to 2014 and as an alternate member of the board of directors of Edegel from 2006 to 2014. Mr. Triulzi also served as a member of the board of directors of Edesur S.A. from 1995 to 1997, Transener S.A. from 1993 to 1996 and Central Térmica Costanera (Buenos Aires) from 1993 to 1995, and as Chairman of Argelec S.A. in 1994. Mr. Triulzi holds a Bachelor's Degree in Economics and a Master's of Business Administration in Finance, both from Loyola University.

*Roberto Cornejo.* Mr. Cornejo has served as our Chief Operating Officer of Generation since October 2007, and has served as the Chief Operating Officer of Generation of ICP since 2011 and of IC Power since 2015. Previously, Mr. Cornejo served as Chief Operating Officer and Commercial Vice President of Inkia from 2007 to 2011, as a Commercial Vice President for Edegel from 2000 to 2007 and as Commercial Manager for Edegel from 1997 to 2000. Mr. Cornejo has over 20 years of experience in the energy industry in Latin America. He holds a Bachelor's Degree in Industrial Engineering from the Pontificia Universidad Católica del Perú and a Master's Degree in Business Administration from the Universidad del Pacífico in Peru.

*Cristián Fierro.* Mr. Fierro has served as our Chief Operating Officer of Distribution since January 2016. Previously, Mr. Fierro served as the Chief Executive Officer of Distribution Business for Latin America— Endesa and Chief Executive Officer of Chilectra from 2010 to 2014, Chief Executive Officer of Ampla from 2007 to 2010, Chief Executive Officer of Coelce (Brazil) from 2003 to 2007 and in other executive positions in Chile and Argentina within the Enersis Group between 1992 and 2007. Mr. Fierro has over 24 years of experience in the energy industry. He holds a Bachelor's Degree in Electrical Engineering from Universidad de Chile and a Master's Degree in Business Administration from Instituto de Altos Estudios-Universidad Austral (IAE) in Argentina.

*Juan Carlos Camogliano.* Mr. Camogliano has served as our Vice President of Business Development since May 2008, and has served as the Chief Investment Officer of ICP since 2011 and Chief Investment Officer of IC Power since 2015. Previously, Mr. Camogliano worked at Suez Energy Peru, a member of the Suez Group (now Engie), as Planning, Project and Business Development Vice President from 2006 to 2007, Planning and Project Vice President from 2004 to 2005, and Commercial Vice President and Chief Financial Officer from 2001 to 2004. He worked in the trading department of Morgan Stanley from 2000 to 2001 and in the commercial and development department of Edegel from 1997 to 2000. Mr. Camogliano has over 17 years of experience in the power industry. He holds a Bachelor's Degree in Mechanical Engineering from the Peruvian Navy School and a Master's of Business Administration from Escuela de Administración de Negocios para Graduados (ESAN) in Peru.

*Francisco Sagrañes.* Mr. Sagrañes has served as our Vice President of Production since August 2009, and has served as the Technical Officer of ICP since 2011 and as Chief Technical Officer of IC Power since 2015. Previously, he was Senior Director of Operations for Ashmore Energy International, or AEI, responsible for operations worldwide and reporting to the Vice President of Operations, from 2004 to 2009. Additionally, Mr. Sagrañes was assigned to different positions during his tenure at AEI such as General Manager of Pantanal Energia Power Plant in Cuiaba, Brazil from 2002 to 2004 and General Manager of Jamaica Private Power Co. in Kingston, Jamaica from 2008 to 2009. Mr. Sagrañes has close to 25 years of experience in the energy industry. He holds a Bachelor's Degree in Civil Engineering and a Master's of Construction Management from Texas A&M University.

*Daniel Urbina.* Mr. Urbina has served as our General Counsel since October 2008, and has served as the General Counsel of ICP for the Americas region since 2011 and General Counsel of IC Power since 2015. Previously, he served as Vice President and Legal Advisor for the Americas region at Standard Chartered Bank (New York) from 2005 to 2008 and was Head of Legal and Compliance for Standard Chartered Bank Peru from 2000 to 2005. Mr. Urbina also served as legal director of the Ministry of the Presidency of Peru from 1999 to 2000. He holds a Law Degree from the Universidad de Lima in Peru and a Master's in Laws Degree from Columbia University. He is admitted to practice in the state of New York and in Lima, Peru.

## **Board Practices**

The members of our board of directors are elected by the general meeting of shareholders for one-year terms. Our board of directors is currently comprised of five members.

Our board of directors conducts meetings whenever considered convenient or necessary, as called by the Secretary of Inkia or by a member of our board of directors. Resolutions of the board of directors are passed by a majority of its members, and in the case of an equality of votes, the motion shall be deemed to have been lost.

As a subsidiary of Kenon, an NYSE-listed company in the United States, Inkia complies with corporate governance policies and procedures required of a subsidiary of a publicly traded company.

**Compensation**

The directors of Inkia are not compensated for serving on the board of directors. In addition to salaries and bonuses, the executive officers of Inkia generally receive an automobile allowance, life insurance and medical insurance. Moreover, the executive officers of Inkia that are expatriates serving in Peru receive housing allowances, allowances for the education of children, and annual paid home leave.

**Code of Ethics and Ethical Guidelines**

Our board of directors has adopted a code of ethics that describes our commitment to, and requirements in connection with, ethical issues relevant to business practices and personal conduct.

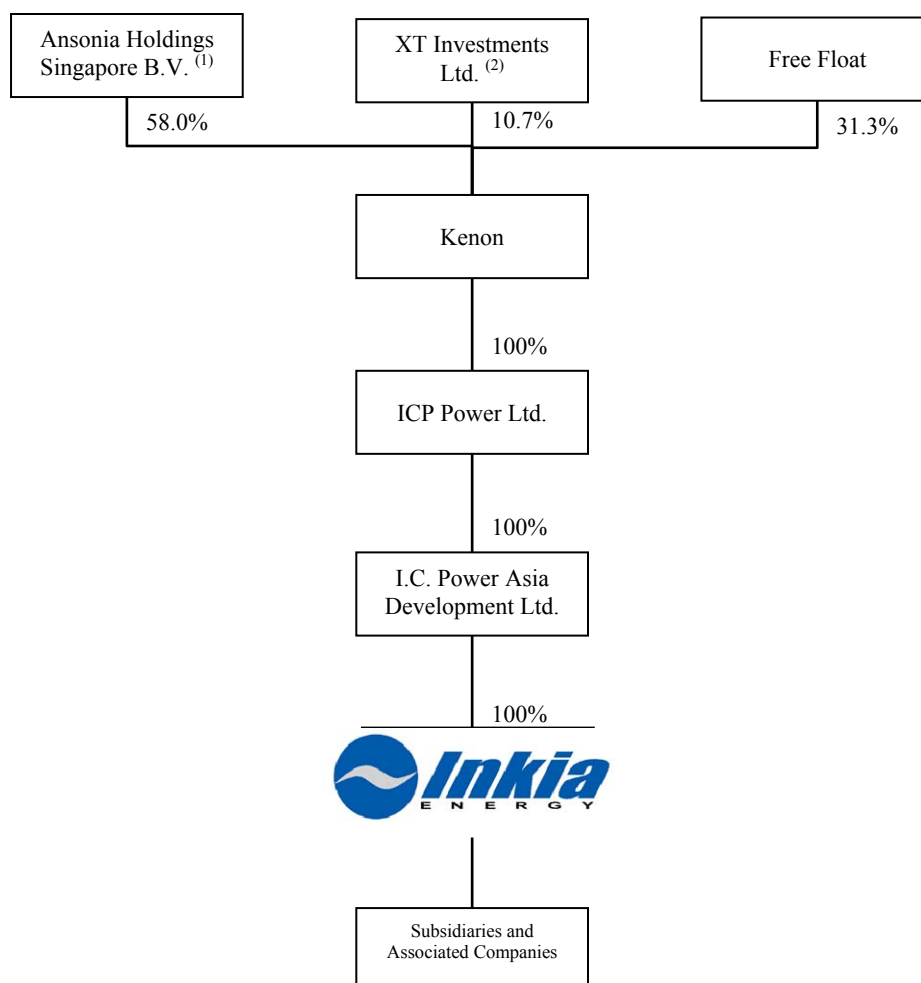


## SOLE SHAREHOLDER

Inkia's sole shareholder is ICP, an Israeli holding company with electricity generation and distribution operations in Latin America, the Caribbean and Israel. ICP is a wholly-owned subsidiary of IC Power, a Singaporean corporation, in turn owned by Kenon, a Singapore company traded on the New York Stock Exchange and the Tel Aviv Stock Exchange. Kenon was formed by IC in 2014 to serve as the holding company of certain interests received by Kenon in connection with IC's January 2015 spin-off of Kenon to IC's shareholders. The companies Kenon owns, in whole or in part, are at various stages of development, ranging from established, cash generating businesses to early stage companies.

In May 2016, ICP pledged all of its shares in Inkia as security for a loan agreement in an aggregate principal amount of US\$100 million, entered into by and among Overseas Investment Peru S.A., as borrower, IC Power and ICP, as guarantors, and Credit Suisse and The Bank of Nova Scotia, as lenders. As of June 30, 2017, the outstanding principal amount under this facility was US\$99 million. This facility will mature on May 9, 2019. A pre-payment event would not occur under the terms of this facility as a result of this offering.

The following diagram sets forth our sole shareholder's simplified corporate structure as of the date of this offering memorandum:



(1) A discretionary trust, in which Mr. Idan Ofer is the prime beneficiary, indirectly holds 100% of Ansonia Holdings Singapore B.V.

(2) XT Investments Ltd. is a direct wholly-owned subsidiary of XT Holdings Ltd., of which each of Orona Investments Ltd. and Lynav Holdings Ltd. is the direct owner of 50% of the outstanding ordinary shares. Orona Investments Ltd.

is indirectly controlled by Mr. Ehud Angel. Lynav Holdings Ltd. is controlled by a discretionary trust in which Mr. Idan Ofer is a prime beneficiary.

## **RELATED PARTY TRANSACTIONS**

We do not have significant transactions with related parties, other than an intercompany balance that we maintain with our parent ICP and its parent IC Power.

As of June 30, 2017, we had outstanding advances to ICP in the amount of US\$63 million and to IC Power in the amount of US\$11 million. The advances to ICP bear interest at the rate of 1.50% per annum and are expected to be collected during 2017.

During the six months ended June 30, 2017 and the years ended December 31, 2016, 2015 and 2014, we recorded interest income from intercompany balances with our controlling entities of US\$390 thousand, US\$676 thousand, US\$575 thousand and US\$622 thousand, respectively.

## DESCRIPTION OF THE NOTES

The Company will issue the Notes under an indenture, to be dated the Issue Date (the “**Indenture**”), between the Company and Citibank, N.A., as trustee (the “**Trustee**”). We summarize below certain provisions of the Indenture, but do not restate the Indenture in its entirety. We urge you to read the Indenture because it, and not this description, defines your rights as Holders of the Notes. You can find the definitions of capitalized terms used in this section under “Certain Definitions.” Copies of the Indenture and specimen notes may be obtained, upon written request, from Inkia, Citibank N.A., as trustee, or any paying agent. When we refer to the Company in this section, we mean Inkia Energy Ltd. and not its Subsidiaries.

The registered holder of a Note (a “**Holder**”) will be treated as the owner of it for all purposes. Only registered Holders will have rights under the Indenture. As described in the section entitled “Book-Entry; Delivery and Form,” the Notes will initially be issued in global form and, except as described in such section, The Depository Trust Company (“**DTC**”), or its nominee will be the only registered Holder of the Notes.

### General

The Notes will:

- be general unsecured obligations of the Company;
- rank equal in right of payment with all other existing and future Senior Indebtedness of the Company;
- rank senior in right of payment to all existing and future Subordinated Indebtedness of the Company, if any;
- be effectively subordinated to all existing and future secured Indebtedness of the Company and any Subsidiary of the Company to the extent of the value of the assets securing such Indebtedness; and
- be structurally subordinated to all existing and future Indebtedness and other liabilities (including trade payables) of the Company’s Subsidiaries.

As of June 30, 2017, as adjusted to give effect to the transactions described under “Capitalization”:

- the Company and its Subsidiaries would have had consolidated total long-term Indebtedness, excluding current portion, of US\$2,437 million;
- the Company would have had consolidated total long-term Senior Indebtedness, excluding current portion, of US\$450 million of which none would have been secured; and
- the Company’s Subsidiaries would have had consolidated total long-term Indebtedness, excluding current portion, of US\$1,987 million.

In connection with or following any sale, assignment, transfer, lease, conveyance or other disposition by the Company of all or substantially all of the Company’s properties and assets to a Qualified Transferee, certain of the Company’s businesses will be permitted to be contributed to one or more Specified Affiliate Holding Companies pursuant to a Permitted Reorganization, which Specified Affiliate Holding Company(ies) will be required to become a co-issuer of the Notes. See “Specified Affiliate Holding Companies.” Following a Permitted Reorganization, references to the Company acting in its capacity as the issuer of the Notes, including (without limitation) in connection with payments of principal and interest (including Additional Amounts, if any), redemptions from time to time of the Notes and payments to be made in connection with a Change of Control Offer or Asset Sale Offer, shall be deemed to refer to the Surviving Entity and each Specified Affiliate Holding Company. See “Summary—Recent Developments—Potential Sale of All of Inkia’s Business.”

### Additional Notes

Subject to the limitations set forth under “—Certain Covenants—Limitation on Incurrence of Additional Indebtedness,” the Company may incur additional Indebtedness. At the Company’s option, this additional Indebtedness may consist of additional notes (“**Additional Notes**”) issued in one or more transactions, which have substantially

identical terms (other than issue price and issue date) as the Notes issued on the Issue Date; *provided*, that such Additional Notes will not bear the same CUSIP number as the Notes, unless such Additional Notes are issued in a “qualified reopening” for U.S. federal income tax purposes or such Additional Notes are part of the same issue as the Notes for U.S. federal income tax purposes. Holders of such Additional Notes would have the right to vote together with Holders of Notes issued on the Issue Date as one class under the Indenture.

### **Principal, Maturity and Interest**

The Company will issue US\$450.0 million in aggregate principal amount of Notes in the offering; the Company may issue an unlimited principal amount of Notes under the Indenture.

The Company will issue the Notes in minimum denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof. The Notes will mature on November 9, 2027 unless earlier redeemed in accordance with the terms of the Notes. See “—Optional Redemption.” The Notes will not be entitled to the benefit of any mandatory sinking fund.

Interest on the Notes will accrue at the rate of 5.875% per annum and will be payable semi-annually in arrears on each May 9 and November 9, commencing on May 9, 2018. Payments will be made to the persons who are registered Holders at the close of business on each May 1 and November 1, respectively, immediately preceding the applicable interest payment date.

Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months. The redemption of Notes with unpaid and accrued interest to the date of redemption will not affect the right of Holders of record on a record date to receive interest due on an interest payment date.

Initially, the Trustee will act as Paying Agent and Registrar for the Notes. The Company may change the Paying Agent and Registrar without notice to Holders. The Company will pay principal, premium, if any, and interest payments on the Notes in global form registered in the name of or held on behalf of DTC or its nominee, as the case may be, as the registered Holder of such global note. Interest on certificated Notes, if any, will be payable to Holders by wire transfer in immediately available funds to that Holder’s account. All other payments on certificated Notes will be made at the office or agency of the Paying Agent and Registrar unless the Company elects to make payments by check mailed to the registered Holders at their registered addresses.

Subject to applicable law, the Trustee and any Paying Agent will pay to the Company upon request any monies held by them for the payment of principal or interest that remains unclaimed for two years. Thereafter, Holders entitled to these monies must seek payment from the Company.

### **Additional Amounts**

All payments made by or on behalf of the Company or a successor thereto (each, a “Payor”) under, or with respect to, the Notes will be made free and clear of and without withholding or deduction for or on account of any present or future tax, duty, levy, impost, assessment or other governmental charge (including penalties, interest and other liabilities related thereto) (collectively, “Taxes”) imposed, levied, collected or assessed by or on behalf of (1) Bermuda or any political subdivision or governmental authority thereof or therein having power to tax, (2) any jurisdiction from or through which payment on the Notes is made on behalf of the Payor, or any political subdivision or governmental authority thereof or therein having the power to tax or (3) any other jurisdiction in which a Payor is organized, resident or deemed to be doing business, or any political or governmental authority thereof or therein having the power to tax (each of clause (1), (2) and (3), a “Relevant Taxing Jurisdiction”), unless the withholding or deduction of such Taxes is then required by law or the interpretation or administration thereof.

If any deduction or withholding for, or on account of, any Taxes of any Relevant Taxing Jurisdiction will at any time be required from any payments made with respect to the Notes, including payments of principal, premium, if any, redemption price or interest, the Payor will pay (together with such payments) such additional amounts (the “Additional Amounts”) as may be necessary in order that the net amounts paid by the Payor or its agent in respect of such payments to each Holder, after such withholding or deduction (including any such deduction or withholding from such Additional Amounts), will not be less than the amounts which would have been paid to each Holder in respect of such payments in the absence of such withholding or deduction; *provided, however*, that no such Additional Amounts will be payable with respect to:

(1) any Taxes that would not have been so imposed but for the existence of any present or former connection between the relevant Holder or beneficial owner (or between a fiduciary, settlor, beneficiary, member, partner or shareholder of, the relevant Holder or beneficial owner, if the relevant Holder or beneficial owner is an estate, nominee, trust, limited liability company, partnership or corporation) and the Relevant Taxing Jurisdiction (other than the receipt of such payment or the acquisition or ownership of such Note or enforcement of rights thereunder);

(2) any estate, inheritance, gift, sales, excise, transfer or personal property tax;

(3) any Taxes which are imposed, payable or due because the Notes are held in definitive registered form (“Definitive Registered Notes”) and are presented (where presentation is required) for payment more than 30 days after the date such payment was due and payable or was provided for, whichever is later, except for Additional Amounts with respect to Taxes that would have been imposed had the Holder presented the Note for payment on the last day of such 30-day period;

(4) any Taxes that are imposed or withheld by reason of the failure of the Holder or beneficial owner of a Note to comply, at our written request, with certification, identification, information, documentation or other reporting requirements concerning the nationality, residence, identity or connection of the Holder or such beneficial owner with the Relevant Taxing Jurisdiction or to make, at our written request, any other claim or filing for exemption to which it is entitled if (a) such compliance, making a claim or filing for exemption is required or imposed by a statute, treaty or regulation or administrative practice of the taxing jurisdiction as a precondition to exemption from all or part of such Taxes, and (b) the Payor has given the Holder or the beneficial owner at least 30 days’ notice that the Holder or beneficial owner will be required to provide such certification, identification, documentation or other reporting requirement;

(5) any withholding or deduction imposed on or in respect of Section 1471 through 1474 of the (“FATCA”), any current or future regulations or official interpretations thereof, any intergovernmental agreement between the United States and another jurisdiction facilitating the implementation of FATCA, the laws of any Relevant Taxing Jurisdiction implementing FATCA or any such intergovernmental agreement, any agreement between either Borrower and the United States or any authority thereof entered into for FATCA purposes, and any agreements entered into pursuant to Section 1471(b)(1) of the Code; or

(6) any combination of the above.

Also, such Additional Amounts will not be payable with respect to any payment of principal of (or premium, if any, on) or interest on such Note to any Holder who is a fiduciary or partnership or any person other than the sole beneficial owner of such payment, to the extent that a beneficiary or settlor with respect to such fiduciary, a member of such a partnership or the beneficial owner of such payment would not have been entitled to the Additional Amounts had such beneficiary, settlor, member or beneficial owner held such Note directly.

The Payor will (1) make any required withholding or deduction and (2) remit the full amount deducted or withheld to the applicable taxing authority in the Relevant Taxing Jurisdiction in accordance with applicable law. The Payor will provide to the Trustee certified copies of tax receipts or, if such tax receipts are not reasonably available, such other documentation evidencing the payment of any Taxes so deducted or withheld from each Relevant Taxing Jurisdiction imposing such Taxes. The Payor will attach to such documentation a certificate stating (x) that the amount of withholding Taxes evidenced by the certified copy was paid in connection with payments in respect of the principal amount of Notes then outstanding and (y) the amount of such withholding Taxes paid per dollar principal amount of the Notes.

If the Payor will be obligated to pay Additional Amounts with respect to any payment under or with respect to the Notes, the Payor will deliver to the Trustee, at least three business days prior to the relevant payment date, an Officers’ Certificate stating the fact that such Additional Amounts will be payable, the amounts so payable and will set forth such other information necessary to enable the Trustee to pay such Additional Amounts to Holders of Notes on the payment date. Each such Officers’ Certificate shall be relied upon by the Trustee without further enquiry until receipt of a further Officers’ Certificate addressing such matters.

The Payor will pay any stamp, issue, registration, documentary, value added, excise, property or other similar taxes and other duties (including interest and penalties) which are levied by Bermuda, any political subdivision or

governmental authority thereof or therein, in respect of the creation, issue, offering, execution or performance of the Notes, the Indenture or any documentation with respect thereto, the receipt of any payments with respect to the Notes or the enforcement of the Notes (including following the occurrence and during the continuance of any Default) and the Company will agree to indemnify each of the Trustee, the Paying Agents and the Holders of the Notes for any such amounts paid by the Trustee, the Paying Agents or such Holders.

The foregoing obligations will survive any termination, defeasance or discharge of the Indenture and will apply mutatis mutandis to any jurisdiction in which any successor Person to a Payor is organized or any political subdivision or taxing authority or agency thereof or therein.

Whenever in the Indenture or in this description there is mentioned, in any context, (1) the payment of principal, premium, if any, or interest, (2) redemption prices or purchase prices in connection with the redemption or purchase of Notes or (3) any other amount payable under or with respect to any Note, such mention shall be deemed to include mention of the payment of Additional Amounts to the extent that, in such context, deducted or withholding Taxes are, were or would be payable in respect thereof.

### **Optional Redemption**

*Optional Redemption.* Prior to November 9, 2022, the Company will have the right, at its option, to redeem any of the Notes, in whole or in part, at any time and from time to time at a redemption price equal to the greater of (1) 101% of the principal amount of such Notes and (2) the present value to be calculated by an Independent Investment Banker at such redemption date of (i) the redemption price of such Notes at November 9, 2022 (such redemption price being set forth in the table below) plus (ii) all required interest payments thereon through November 9, 2022 on such Notes (excluding accrued but unpaid interest to the redemption date), in each case, discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate plus 50 basis points, plus in each case any accrued and unpaid interest on the principal amount of such Notes to, but excluding, the date of redemption.

“Treasury Rate” means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield to maturity or interpolated maturity (on a day count basis) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

“Comparable Treasury Issue” means the United States Treasury security or securities selected by an Independent Investment Banker as having an actual or interpolated maturity comparable to the remaining term of the Notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a comparable maturity to the remaining term of such Notes.

“Independent Investment Banker” means one of the Reference Treasury Dealers appointed by the Company.

“Comparable Treasury Price” means, with respect to any redemption date, (1) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotation or (2) if the Company obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

“Reference Treasury Dealers” mean Citigroup Global Markets Inc., Credit Suisse Securities (USA) LLC and Scotia Capital (USA) Inc. or their affiliates which are primary United States government securities dealers and not less than one other leading primary United States government securities dealer in New York City reasonably designated by the Company; *provided, however*, that if any of the foregoing shall cease to be a primary United States government securities dealer in New York City (a “Primary Treasury Dealer”), the Company will substitute therefor another Primary Treasury Dealer.

“Reference Treasury Dealer Quotation” means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Company, of the bid and asked price for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Company by such Reference Treasury Dealer at 3:30 p.m. New York time on the third business day preceding such redemption date.

At any time, or from time to time, after November 9, 2022, the Company may redeem the Notes, at its option, in whole or in part, at the following redemption prices, expressed as percentages of the principal amount on the redemption date, plus any accrued and unpaid interest to, but excluding, the redemption date (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date), if redeemed during the twelve-month period commencing on November 9 of any year set forth below:

| <u>Year</u>              | <u>Percentage</u> |
|--------------------------|-------------------|
| 2022.....                | 102.938%          |
| 2023.....                | 101.958%          |
| 2024.....                | 100.979%          |
| 2025 and thereafter..... | 100.000%          |

*Optional Redemption upon Equity Event.* In addition, at any time, or from time to time, on or prior to November 9, 2020, the Company may, at its option, use the net cash proceeds of one or more Equity Events to redeem in the aggregate up to 35% of the aggregate principal amount of the Notes originally issued (calculated after giving effect to the original issuance of Additional Notes, if any) at a redemption price equal to 105.875% of the principal amount thereof, plus accrued and unpaid interest to, but excluding, the date of redemption (subject to the right of the Holders of record on the relevant record date to receive interest due on the relevant interest payment date); *provided, however*, that at least 65% of the original aggregate principal amount of the Notes (calculated after giving effect to the issuance of Additional Notes, if any) must remain outstanding immediately after giving effect to each such redemption (excluding any Notes held by the Company or any of its Subsidiaries). Notice of any such redemption must be given not more than 120 days after the date of the closing of the relevant Equity Event.

“*Equity Event*” means a public or private offering of Qualified Stock of the Company.

*Optional Redemption for Changes in Withholding Taxes.* If, as a result of the enactment of any laws, or any amendment to, or change in, the laws (or any rules or regulations thereunder) or treaties of any Relevant Taxing Jurisdiction, or any amendment to or change in an official interpretation or application of such laws, rules or regulations, which enactment, amendment to or change of such laws, treaties, rules or regulations becomes effective on or after the date on which the Notes are issued (or, in the case of any jurisdiction that becomes a Relevant Taxing Jurisdiction after the date on which the Notes are issued, after the date such jurisdiction becomes a Relevant Taxing Jurisdiction), a Payor would be obligated, after taking all reasonable measures to avoid this requirement, to pay Additional Amounts (it being understood that changing the jurisdiction of incorporation of the Company shall not be a reasonable measure), then, at the Payor’s option, all, but not less than all, of the Notes may be redeemed at any time on giving not less than 30 nor more than 60 days’ notice, at a redemption price equal to 100% of the outstanding principal amount, plus accrued and unpaid interest and any Additional Amounts due thereon up to, but excluding, the date of redemption; *provided, however*, that (1) no notice of redemption for tax reasons may be given earlier than 90 days prior to the earliest date on which the Payor would be obligated to pay these Additional Amounts if a payment on the Notes were then due, and (2) at the time such notice of redemption is given such obligation to pay such Additional Amounts remains in effect.

Prior to the publication of any notice of redemption pursuant to this provision, the Payor will deliver to the Trustee:

- a certificate signed by one of our duly authorized representatives stating that the Payor is entitled to effect the redemption and setting forth a statement of facts showing that the conditions precedent to our right to redeem have occurred; and
- an Opinion of Counsel of the Relevant Taxing Jurisdiction of recognized standing to the effect that no later than the next succeeding date on which interest is to be paid, the Payor has or will become obligated to pay such Additional Amounts as a result of such enactment, change or amendment.

*Optional Redemption Procedures.* In the event that less than all of the Notes are to be redeemed at any time, selection of Notes for redemption will be made (i) in compliance with the requirements of the principal national securities exchange, if any, on which Notes are listed and any applicable depository procedures, (ii) by lot or such other similar method in accordance with the applicable procedures of DTC (if the Notes are global notes), or (iii) if there are no such requirements of such exchange or the Notes are not then listed on a national securities exchange or DTC, on a *pro rata* basis or by such other method the Trustee deems fair and reasonable. No Notes of a principal amount of



US\$200,000 or less may be redeemed in part and Notes of a principal amount in excess of US\$200,000 may be redeemed in part in multiples of US\$1,000 only.

Notice of any optional redemption will be mailed by first-class mail, postage prepaid, at least 30, but not more than 60 days, before the redemption date to each Holder of Notes to be redeemed at its registered address. If Notes are to be redeemed in part only, the notice of redemption will state the portion of the principal amount thereof to be redeemed. A new Note in a principal amount equal to the unredeemed portion thereof (if any) will be issued in the name of the Holder thereof upon cancellation of the original Note (or appropriate adjustments to the amount and beneficial interests in a Global Note will be made, as appropriate).

The Company will pay the redemption price for any Note together with accrued and unpaid interest thereon to, but excluding, the date of redemption. On and after the redemption date, interest will cease to accrue on Notes or portions thereof called for redemption as long as the Company has deposited with the Paying Agent funds in satisfaction of the applicable redemption price pursuant to the Indenture.

### **Change of Control**

Upon the occurrence of a Change of Control that results in a Ratings Event, each Holder will have the right to require that the Company purchase all or a portion (in integral multiples of US\$1,000; *provided*, that the remaining principal amount of such Holder's Note will not be less than US\$200,000) of the Holder's Notes at a purchase price equal to 101% of the principal amount thereof, plus accrued and unpaid interest thereon to, but excluding, the date of purchase (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date) (the "Change of Control Payment").

Within 30 days following the date upon which a Change of Control that results in a Ratings Event occurred, the Company must send, by first-class mail, a notice to each Holder, with a copy to the Trustee, offering to purchase the Notes as described above (a "Change of Control Offer"). The Change of Control Offer shall state, among other things, the purchase date, which must be no earlier than 30 days nor later than 60 days from the date the notice is mailed, except as may be required by law (the "Change of Control Payment Date").

If only a portion of a Note is purchased pursuant to a Change of Control Offer, a new Note in a principal amount equal to the portion thereof not purchased will be issued in the name of the Holder thereof upon cancellation of the original Note (or appropriate adjustments to the amount and beneficial interests in a Global Note will be made, as appropriate); *provided*, that the remaining principal amount of such Holder's Note will not be less than US\$200,000 and will be in integral multiples of US\$1,000 in excess thereof.

The Company is only required to make a Change of Control Offer in the event that a Change of Control results in a Ratings Event. Consequently, if a Change of Control were to occur which does not result in a Ratings Event, the Company would not be required to offer to repurchase the Notes. In addition, the Company will not be required to make a Change of Control Offer if (1) a third party makes the Change of Control Offer in a manner, at the times and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by the Company and purchases all Notes validly tendered and not withdrawn under such Change of Control Offer, or (2) notice of redemption for all outstanding Notes has been given pursuant to the Indenture as described above under the caption "—Optional Redemption," unless and until there is a default in payment of the applicable redemption price.

Notwithstanding anything to the contrary contained herein, a Change of Control Offer may be made in advance of a Change of Control, conditioned upon the consummation of such Change of Control and/or a Ratings Event, if a definitive agreement is in place for the Change of Control at the time the Change of Control Offer is made.

Other existing and future Indebtedness of the Company and its Subsidiaries may contain prohibitions on the occurrence of events that would constitute a Change of Control or require that such Indebtedness be repurchased upon a Change of Control. Moreover, the exercise by the Holders of their right to require the Company to repurchase the Notes upon a Change of Control that results in a Ratings Event could cause a default under such Indebtedness even if the Change of Control itself does not.

If a Change of Control that results in a Ratings Event occurs, the Company may not have available funds sufficient to make the Change of Control Payment for all the Notes that might be delivered by Holders seeking to accept a Change

of Control Offer. In the event the Company is required to purchase outstanding Notes pursuant to a Change of Control Offer, the Company expects that it would seek third-party financing to the extent it does not have available funds to meet its purchase obligations. However, the Company may not be able to obtain necessary financing.

Holders will not be entitled to require the Company to purchase their Notes in the event of a takeover, recapitalization, leveraged buyout or similar transaction which is not a Change of Control.

In the event that Holders of not less than 90% of the aggregate principal amount of the outstanding Notes accept a Change of Control Offer and the Company (or a third party making the Change of Control Offer as provided above) purchases all of the Notes held by such Holders, the Company will have the right, upon not less than 10 nor more than 60 days' notice, given not more than 30 days following the purchase pursuant to the Change of Control Offer described above, to redeem all of the Notes that remain outstanding following such purchase at a redemption price equal to the Change of Control Payment plus, to the extent not included in the Change of Control Payment, accrued and unpaid interest on the Notes that remain outstanding, to, but not including, the date of redemption (subject to the right of Holders of record on the relevant record date to receive interest due on an interest payment date that is on or prior to the date of redemption).

The Company will comply with the requirements of Rule 14e-1 under the Exchange Act and any other applicable securities laws and regulations in connection with the purchase of Notes in connection with a Change of Control Offer. To the extent that the provisions of any securities laws or regulations conflict with the "Change of Control" provisions of the Indenture, the Company will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Indenture by doing so. If it would be unlawful in any jurisdiction to make a Change of Control Offer, the Company will not be obligated to make such offer in such jurisdiction and will not be deemed to have breached its obligations under the Indenture by doing so.

The obligation of the Company to make a Change of Control Offer may be waived or modified at any time prior to the occurrence of such Change of Control with the written consent of Holders of a majority in principal amount of the Notes.

## **Certain Covenants**

### ***Limitation on Incurrence of Additional Indebtedness***

(1) The Company will not, and will not permit any of the Restricted Subsidiaries to, directly or indirectly, incur any Indebtedness, except that the Company and any Restricted Subsidiary may incur Indebtedness if immediately after giving pro forma effect to the Incurrence thereof and the application of the proceeds therefrom:

- with respect to Indebtedness Incurred by the Company or any Intermediate Holding Company, the Company's Unconsolidated Interest Coverage Ratio is equal to or greater than 2.0 to 1.0; and
- with respect to Indebtedness Incurred by a Restricted Subsidiary (other than an Intermediate Holding Company),

(a) the Company's Unconsolidated Interest Coverage Ratio is equal to or greater than 2.0 to 1.0; and

(b) the Company's Consolidated Net Leverage Ratio is equal to or less than (i) 5.5 to 1.0, if such Indebtedness is incurred on or prior to December 31, 2019; (ii) 5.0 to 1.0, if such Indebtedness is incurred after December 31, 2019 and on or prior to December 31, 2020; (iii) 4.75 to 1.0, if such Indebtedness is incurred after December 31, 2020 and on or prior to December 31, 2021; and (iv) 4.5 to 1.0, if such Indebtedness is incurred thereafter.

The foregoing restrictions on the Incurrence of Indebtedness shall not be applicable with respect to Project Finance Subsidiaries.

(2) Notwithstanding clause (1) above, the Company and the Restricted Subsidiaries, as applicable, may incur the following Indebtedness ("Permitted Indebtedness"):

- (a) Indebtedness in respect of the Notes and guarantees thereof, excluding Additional Notes and guarantees thereof;
- (b) Indebtedness of the Company and the Restricted Subsidiaries outstanding on the Issue Date;
- (c) Guarantees by any Restricted Subsidiary of Indebtedness of the Company or any Restricted Subsidiary (other than a Project Finance Subsidiary) permitted under the Indenture; provided, that if any such Guarantee is of Subordinated Indebtedness, then the Guarantee of the Company or the Specified Affiliate Holding Company, as applicable, of such Subordinated Indebtedness shall be subordinated to the Notes;
- (d) Hedging Obligations entered into by the Company and the Restricted Subsidiaries not for speculative purposes;
- (e) intercompany Indebtedness between the Company and any Restricted Subsidiary (other than a Project Finance Subsidiary) or between any Restricted Subsidiaries (other than a Project Finance Subsidiary); provided that:
- (1) such Indebtedness must be (i) unsecured and (ii) if the Company is the Obligor and the obligee is a Restricted Subsidiary, expressly subordinated to the prior payment in full of all obligations under the Notes and the Indenture; and
  - (2) in the event that at any time any such Indebtedness ceases to be held by the Company or a Restricted Subsidiary, such Indebtedness shall be deemed to be Incurred by the Company or the applicable Restricted Subsidiary, as the case may be, and not permitted by this clause (e) at the time such event occurs;
- (f) Indebtedness of the Company or any of the Restricted Subsidiaries arising from the honoring by a bank or other financial institution of a check, draft or similar instrument drawn against insufficient funds in the ordinary course of business; provided, that such Indebtedness is extinguished within five business days of Incurrence;
- (g) Indebtedness of the Company or any of the Restricted Subsidiaries in respect of performance bonds, bankers' acceptances, workers' compensation claims, bid, surety or appeal bonds, payment obligations in connection with, insurance premiums or similar obligations, security deposits and bank overdrafts (and letters of credit in connection with, in lieu of or in respect of each of the foregoing);
- (h) Refinancing Indebtedness in respect of:
- (1) Indebtedness Incurred pursuant to clause (1) above; or
  - (2) Indebtedness Incurred pursuant to clause (a), (b), (h) and (m) hereof;
- (i) Indebtedness represented by existing or undrawn amounts as of the Issue Date, under any Existing Committed Financing permitted to be Incurred under such Existing Committed Financing;
- (j) Indebtedness arising from agreements providing for indemnification, adjustment of purchase price or similar obligations, or Guarantees or letters of credit, surety bonds or performance bonds securing any obligations of the Company or any Restricted Subsidiary pursuant to such agreements, in any case Incurred in connection with the disposition of any business, assets or Subsidiary (other than Guarantees of Indebtedness Incurred by any Person acquiring all or any portion of such business, assets or Subsidiary for the purpose of financing such acquisition), so long as the amount does not exceed the gross proceeds (including non-cash proceeds) actually received by the Company or any Restricted Subsidiary thereof in connection with such disposition;
- (k) Indebtedness constituting reimbursement obligations in respect of trade or performance letters of credit entered into in the ordinary course of business;

(l) Indebtedness Incurred by the Company or any Restricted Subsidiary in the ordinary course of business to finance working capital; provided, that the aggregate amount of all such Indebtedness in respect of the Restricted Subsidiaries shall not exceed the greater of (i) US\$200.0 million and (ii) 5.0% of the Company's Consolidated Total Assets;

(m) Indebtedness consisting of debt securities of, or financing Incurred by, Compañía de Electricidad de Puerto Plata S.A. and/or Nejapa Power Company S.A. in an aggregate principal amount not to exceed US\$60.0 million;

(n) Indebtedness in the form of equity contribution commitments to a Project Finance Subsidiary;

(o) performance or other similar Guarantees by the Company or any Restricted Subsidiary (including any contingent liabilities all calculated in accordance with IFRS) supporting the obligations of a Project Finance Subsidiary under construction management agreements, construction agreements, fuel supply agreements, operation and maintenance agreements, fuel handling agreements and other similar agreements relating to the business of such Project Finance Subsidiary (and letters of credit in connection with, in lieu of or in respect of each of the foregoing);

(p) Indebtedness to the extent that the net proceeds thereof are promptly deposited to defease or to satisfy and discharge the Notes in accordance with the Indenture; and

(q) in addition to Indebtedness referred to in clauses (a) through (p) above, Indebtedness of the Company or any Restricted Subsidiary in an aggregate principal amount not to exceed the greater of (i) US\$200.0 million and (ii) 5.0% of the Company's Consolidated Total Assets.

(3) The Company will not Incur any Indebtedness that is contractually subordinate in right of payment to any other Indebtedness, unless such Indebtedness is expressly subordinate in right of payment to the Notes to the same extent and on the same terms as such Indebtedness is subordinate to such other Indebtedness; *provided, however*, that no Indebtedness will be deemed to be contractually subordinated in right of payment to any other Indebtedness solely by virtue of being unsecured or by virtue of being secured on a first or junior Lien basis.

(4) For purposes of determining compliance with, and the outstanding principal amount of, any particular Indebtedness Incurred pursuant to and in compliance with this covenant:

(a) the outstanding principal amount of any item of Indebtedness will be counted only once (without duplication for guarantees or otherwise);

(b) in the event that an item of Indebtedness meets the criteria of more than one of the categories of Permitted Indebtedness described in clauses (2)(a) through (2)(q) above, or is entitled to be incurred pursuant to clause (1) above, the Company may, in its sole discretion, divide and classify (or at any time reclassify) such item of Indebtedness in any manner that complies with this covenant without giving pro forma effect to the Indebtedness (or any portion thereof) Incurred pursuant to clause (2) above when calculating the amount of Indebtedness (or any portion thereof) that may be Incurred pursuant to clause (1) above;

(c) The amount of Indebtedness Incurred by a Person on the Incurrence date thereof shall equal the amount recognized as a liability on the balance sheet of such Person in accordance with IFRS and the amount of Indebtedness issued at a price that is less than the principal amount thereof will be equal to the amount of liability in respect thereof determined in accordance with IFRS. Accrual of interest, the accretion or amortization of original issue discount, the payment of regularly scheduled interest in the form of additional Indebtedness of the same instrument or the payment of regularly scheduled dividends on Disqualified Capital Stock in the form of additional Disqualified Capital Stock with the same terms will not be deemed to be an Incurrence of Indebtedness for purposes of this covenant; and

(d) with respect to any U.S. dollar-denominated restriction on the incurrence of Indebtedness, the U.S. dollar- equivalent principal amount of Indebtedness denominated in a foreign currency shall be calculated based on the relevant currency exchange rate in effect on the date such Indebtedness was incurred, in the case of term Indebtedness, or first committed, in the case of revolving credit Indebtedness; provided, that if such

Indebtedness is incurred to Refinance other Indebtedness denominated in a foreign currency, and such Refinancing would cause the applicable U.S. dollar-denominated restriction to be exceeded if calculated at the relevant currency exchange rate in effect on the date of such Refinancing, such U.S. dollar-denominated restriction shall be deemed not to have been exceeded so long as the principal amount of such Refinancing Indebtedness does not exceed the principal amount of such Indebtedness being Refinanced. Notwithstanding any other provision of this covenant, the maximum amount of Indebtedness that the Company may incur pursuant to this covenant shall not be deemed to be exceeded solely as a result of fluctuations in the exchange rate of currencies. The principal amount of any Indebtedness incurred to Refinance other Indebtedness, if incurred in a different currency from the Indebtedness being Refinanced, shall be calculated based on the currency exchange rate applicable to the currencies in which such Refinancing Indebtedness is denominated that is in effect on the date of such Refinancing.

***Limitation on Restricted Payments.***

The Company will not, and will not permit any of the Restricted Subsidiaries to, directly or indirectly, take any of the following actions (each, a “Restricted Payment”):

- (a) declare or pay any dividend or make any distribution or return of capital on or in respect of shares of Capital Stock of the Company or any Restricted Subsidiary to holders of such Capital Stock, other than:
- dividends or distributions payable in Qualified Capital Stock of the Company;
  - dividends, distributions or returns of capital payable to the Company and/or a Restricted Subsidiary (other than a Project Finance Subsidiary, except to the extent that the dividend, distribution or return of capital is made by a Project Finance Subsidiary to another Project Finance Subsidiary); or
  - dividends, distributions or returns of capital made on a *pro rata* basis to the Company and the Restricted Subsidiaries (other than a Project Finance Subsidiary, except to the extent that the dividend, distribution or return on of capital is made by a Project Finance Subsidiary to another Project Finance Subsidiary), on the one hand, and the other holders of Capital Stock of such Restricted Subsidiary, on the other hand (or on a less than *pro rata* basis to any minority holder);
- (b) purchase, redeem or otherwise acquire or retire for value any Capital Stock of the Company or a Specified Affiliate Holding Company except for Capital Stock held by the Company or a Restricted Subsidiary (other than a Project Finance Subsidiary, except to the extent that the purchase, redemption, acquisition or retirement is made by a Project Finance Subsidiary from another Project Finance Subsidiary);
- (c) make any principal payment on, purchase, defease, redeem, prepay, decrease or otherwise acquire or retire for value, or make any scheduled repayment or scheduled sinking fund payment of, as the case may be, any Subordinated Indebtedness except (i) a payment of interest, (ii) a repayment, redemption, repurchase, defeasance or acquisition or retirement in anticipation of satisfying a sinking fund obligation, principal installment or final maturity, in each case, due within one year of the date of such repurchase, defeasance or acquisition or retirement and (iii) Subordinated Indebtedness permitted to be Incurred under clause (e) of the definition of “Permitted Indebtedness”;
- (d) make any Restricted Investment; or
- (e) pay any interest, principal or other amount on any intercompany loan provided by Kenon, a Qualified Transferee or any of their respective Affiliates (other than the Company or any Restricted Subsidiary);

if immediately after giving effect thereto:

- (1) a Default or an Event of Default shall have occurred and be continuing;
- (2) the Company is not able to Incur at least US\$1.00 of additional Indebtedness pursuant to clause (1)(a) of “—Certain Covenants—Limitation on Incurrence of Additional Indebtedness”;

(3) the aggregate amount (the amount expended for these purposes, if other than in cash, being the Fair Market Value of the relevant property) of the proposed Restricted Payment and all other Restricted Payments made subsequent to the Issue Date up to the date thereof shall exceed the sum of:

(A) 100% of cumulative Consolidated Net Income of the Company (or, if Consolidated Net Income shall be a deficit, minus 100% of such deficit) accrued on a cumulative basis during the period, treated as one accounting period, beginning on January 1, 2011 to June 30, 2017; plus

(B) the difference between (x) 100% of dividends or distributions paid to the Company by its Subsidiaries *plus* 100% of dividends or distributions paid to each Specified Affiliate Holding Company by its Subsidiaries, in each case, for the period, taken as one accounting period, beginning on July 1, 2017 to the end of the most recent fiscal quarter for which financial statements of the Company have been provided to the Trustee pursuant to the Indenture *minus* (y) an amount equal to 150% of the Unconsolidated Interest Expense for such period *minus* (z) an amount equal to 100% of the Company's and each Specified Affiliate Holding Company's Unconsolidated Expenses for such period; plus

(C) 100% of the aggregate net cash proceeds and the Fair Market Value of property other than cash received by the Company from any Person from any:

- (i) contribution to the equity capital of the Company not representing an interest in Disqualified Capital Stock and, (ii) issuance and sale of Qualified Capital Stock of the Company subsequent to January 1, 2011; or
- issuance and sale subsequent to January 1, 2011 (and, in the case of Indebtedness of a Restricted Subsidiary, at such time as it was a Restricted Subsidiary) of any Indebtedness included in clauses (1), (2), (3), (4) and (9) of the definition thereof of the Company or any Restricted Subsidiary (other than a Project Finance Subsidiary) that has been converted into or exchanged for Qualified Capital Stock of the Company;

excluding, in each case, any net cash proceeds:

(x) received from a Restricted Subsidiary of the Company; or

(y) applied in accordance with clause (2) or (3) of the second paragraph of this covenant below;

plus

(D) to the extent that any Restricted Investment is sold for cash or otherwise liquidated or repaid for cash or Designated as a Restricted Subsidiary, the cash proceeds with respect to such Restricted Investment (less the cost of disposition, if any) in the case of any sale, liquidation or repayment and the Fair Market Value of the Company's Restricted Investments as of the date of Designation in the case of any Designation; provided, that if such Restricted Investment was made prior to the Issue Date, such amount shall not be included in determining if the Company can make a Restricted Payment provided for in clauses (a), (b) and (c) of the first paragraph of this covenant; plus

(E) to the extent that:

- any Unrestricted Subsidiary of the Company Designated as such on or after the Issue Date is redesignated as a Restricted Subsidiary and not as a Project Finance Subsidiary, the Fair Market Value of the Company's Investment in such Subsidiary as of the date of such redesignation; and
- any Project Finance Subsidiary of the Company Designated as such on or after the Issue Date has such Designation revoked and such Project Finance Subsidiary remains a Restricted Subsidiary after the Issue Date, the Fair Market Value of the Company's Investment in such Subsidiary as of the date of such revocation; plus

(F) to the extent that the Company or a Restricted Subsidiary terminates all or any part of any commitment to make an Investment that was previously accounted for as a Restricted Payment under clause (7) of the next succeeding paragraph, the amount of the terminated commitment; plus

(G) to the extent not included above under this clause, 100% of any dividends, distributions or cash received by the Company or any of the Restricted Subsidiaries from an Unrestricted Subsidiary, Project Finance Subsidiary or any Person in which the Company or a Restricted Subsidiary owns a minority interest.

As of the Issue Date, the Company and the Restricted Subsidiaries will have \$187.0 million of Restricted Payments capacity pursuant to clause (3)(A) of the prior paragraph.

Notwithstanding the preceding paragraph, this covenant does not prohibit:

(1) the payment of any dividend or other distribution or redemption within 60 days after the date of declaration of such dividend or call for redemption if such payment would have been permitted on the date of declaration or call for redemption pursuant to the preceding paragraph;

(2) any Restricted Payment either (i) in exchange for Qualified Capital Stock of the Company or (ii) through the application of the net cash proceeds received by the Company from (x) a substantially concurrent sale of Qualified Capital Stock of the Company or (y) a contribution to the Capital Stock of the Company not representing an interest in Disqualified Capital Stock, in each case, not received from a Restricted Subsidiary of the Company; *provided* that the value of any such Qualified Capital Stock issued in exchange for such acquired Capital Stock and any such net cash proceeds will be excluded from clause (3)(B) of the first paragraph of this covenant (and were not included therein at any time);

(3) the voluntary prepayment, purchase, defeasance, redemption or other acquisition or retirement for value of any Subordinated Indebtedness solely in exchange for, or through the application of net cash proceeds of a substantially concurrent sale, other than to a Restricted Subsidiary of the Company, of:

(x) Qualified Capital Stock of the Company; or

(y) Refinancing Indebtedness for such Subordinated Indebtedness;

*provided*, that the value of any Qualified Capital Stock issued in exchange for Subordinated Indebtedness and any net cash proceeds referred to above shall be excluded from clause (3)(B) of the first paragraph of this covenant (and were not included therein at any time);

(4) repurchases of Capital Stock deemed to occur upon exercise of stock options, warrants or other similar rights if such Capital Stock represents a portion of the exercise price of such options, warrants or other similar rights or nominal cash payments in lieu of issuances of fractional shares;

(5) the payment of other dividends, distributions or other amounts to fund the repurchase, redemption or other acquisition or retirement for value of any of the Company's Capital Stock or any Capital Stock of any of the Restricted Subsidiaries held by any then-existing or former director, officer, employee, independent contractor or consultant of the Company, its direct or indirect parent or any of the Restricted Subsidiaries or their respective assigns, estates or heirs; *provided, however*, that the price paid for all repurchased, redeemed, acquired or retired Capital Stock, other than as a result of death or disability, does not exceed US\$15.0 million in the aggregate in any fiscal year (with unused amounts in any fiscal year being carried over to succeeding fiscal years subject to a maximum of US\$25.0 million in any fiscal year); *provided, further*, that the amounts in any fiscal year may be increased by an amount not to exceed: (A) the cash proceeds received by the Company from the sale of Capital Stock of the Company to any present or former employees, directors, officers or consultants (or their respective permitted transferees) of the Company or any of the Restricted Subsidiaries following the Issue Date; plus (B) the cash proceeds of "key man" life insurance policies received by the Company or any of the Restricted Subsidiaries since the Issue Date;

(6) the payment at any time of all or any part of a Restricted Investment, if at the time of the entering into the commitment to make the Restricted Investment, the making of such Restricted Investment would have been permitted under any provision of the Indenture; *provided*, that at the time of entering into such commitment to make the Restricted Investment (i) the entire amount of such commitment was permitted to be made as a Restricted Payment under the Indenture as if the entire amount was made on the date of such commitment and (ii) the entire amount of such commitment is included in the calculation required under clause (3) of the first paragraph above;

(7) repurchases of Subordinated Indebtedness at a purchase price not greater than (a) 101% of the principal amount or accreted value, as applicable, of such Subordinated Indebtedness and accrued and unpaid interest thereon in the event of a Change of Control or (b) 100% of the principal amount or accreted value, as applicable, of such Subordinated Indebtedness and accrued and unpaid interest thereon in the event of an Asset Sale, in connection with any change of control offer or asset sale offer required by the terms of such Subordinated Indebtedness, but only if: (i) in the case of a Change of Control, the Company has first complied with and fully satisfied its obligations under the covenant described above under the caption “—Change of Control”; or (ii) in the case of an Asset Sale, the Company has first complied with and fully satisfied its obligations under the covenant described above under the caption “—Limitation on Asset Sales”;

(8) Restricted Payments in an amount which, when taken together with all Restricted Payments made pursuant to this clause (8), does not exceed US\$50.0 million (or the equivalent in other currencies); and

(9) any Permitted Reorganization.

In determining the aggregate amount of Restricted Payments made subsequent to the Issue Date, only amounts expended pursuant to clauses (1) (without duplication for the declaration of the relevant dividend), (5) and (6) (without duplication of the original commitment) above shall be included in the calculation required by clause (3) of the first paragraph above and amounts expended pursuant to clauses (2), (3), (4), (7) and (8) above shall not be included in such calculation.

The amount of any Restricted Payments not in cash will be the Fair Market Value on the date of such Restricted Payment of the property, assets or securities proposed to be paid, transferred or issued by the Company or the relevant Restricted Subsidiary, as the case may be, pursuant to such Restricted Payment.

***Limitation on Asset Sales.***

The Company will not, and will not permit any of the Restricted Subsidiaries to, consummate an Asset Sale unless:

(a) the Company or a Restricted Subsidiary, as the case may be, receives consideration at the time of the Asset Sale at least equal to the Fair Market Value of the assets sold or otherwise disposed of; and

(b) at least 75% of the consideration received for the assets sold by the Company or the Restricted Subsidiary, as the case may be, in the Asset Sale shall be in the form of (1) cash or Cash Equivalents, (2) assets (other than current assets as determined in accordance with IFRS or Capital Stock) to be used by the Company or any Restricted Subsidiary in a Permitted Business, (3) Capital Stock in a Person engaged primarily in a Permitted Business that will become a Restricted Subsidiary as a result of such Asset Sale, (4) Indebtedness assumed pursuant to a customary novation agreement or (5) a combination of any of the foregoing.

The Company and one or more Restricted Subsidiaries, as the case may be, may apply within 30 months of any Asset Sale an amount equal to the product of the Net Cash Proceeds from any such Asset Sale to:

(a) repay any Senior Indebtedness of the Company or a Restricted Subsidiary (other than a Project Finance Subsidiary unless the Asset Sale was made by a Project Finance Subsidiary) for borrowed money (including any such Indebtedness represented by bonds, notes, debentures or other similar instruments) or constituting a Capitalized Lease Obligation, including, without limitation, by making an offer (in accordance with the procedures set forth below for an Asset Sale Offer) to all Holders of Notes to repurchase their Notes, in each case at a purchase price equal to 100% of the principal amount of the Notes to be purchased, plus accrued and unpaid interest to, but excluding, the date of purchase; or



(b) purchase or enter into a binding contract to purchase (or within such 30 month period, the Board of Directors shall have made a good faith determination to purchase; provided, that the Company or one or more Restricted Subsidiaries shall have purchased or entered into a binding contract to purchase within 365 days of such good faith determination to purchase):

(1) assets (other than current assets as determined in accordance with IFRS or Capital Stock) to be used by the Company or any Restricted Subsidiary (other than a Project Finance Subsidiary unless the Asset Sale was made by a Project Finance Subsidiary) in a Permitted Business; or

(2) Capital Stock of a Person engaged in a Permitted Business that will become, upon purchase, a Restricted Subsidiary (other than a Project Finance Subsidiary unless the Asset Sale was made by a Project Finance Subsidiary);

from a Person other than the Company and the Restricted Subsidiaries; or

(c) to make Capital Expenditures;

provided that the Net Cash Proceeds resulting from an Asset Sale of the Capital Stock, property or assets of a Specified Affiliate Holding Company shall either, in the Company's discretion, (x) be held in escrow for the benefit of the Holders of Notes pursuant to an escrow arrangement that is customary in the international capital markets for transactions of such type or (y) be transferred (pursuant to an equity contribution or intercompany loan constituting Subordinated Indebtedness) to the Surviving Entity, in each case, until an amount equal to the product of the Net Cash Proceeds resulting from such Asset Sale shall have been applied in accordance with the terms of this covenant.

Notwithstanding the foregoing, if an Asset Sale is the result of an involuntary expropriation, nationalization, taking or similar action by or on behalf of any Governmental Authority, such Asset Sale need not comply with clauses (a) and (b) of the first paragraph of this covenant. In addition, the proceeds of any such Asset Sale shall not be deemed to have been received (and the 30 month period in which to apply any Net Cash Proceeds shall not begin to run) until the proceeds to be paid by or on behalf of the Governmental Authority have been paid in cash to the Company or the Restricted Subsidiary making such Asset Sale and if any litigation, arbitration or other action is brought contesting the validity of or any other matter relating to any such expropriation, nationalization, taking or other similar action, including the amount of the compensation to be paid in respect thereof, until such litigation, arbitration or other action is finally settled or a final judgment or award has been entered and any such judgment or award has been collected in full.

For the purpose of this covenant, any securities, notes or other obligations received by the Company or any such Restricted Subsidiary from such transferee will be deemed to be cash to the extent, and in the amount, that they are converted by the Company or such Restricted Subsidiary into cash or Cash Equivalents within 90 days of the receipt thereof (subject to ordinary settlement periods).

To the extent there are any remaining Net Cash Proceeds that have not been applied as described in clause (a) and (b) of the third preceding paragraph 30 months after the Asset Sale, the Company will make an offer to purchase Notes (an "Asset Sale Offer"), at a purchase price equal to 100% of the principal amount of the Notes to be purchased, plus accrued and unpaid interest to, but excluding, the date of purchase (the "Asset Sale Offer Amount"). The Company will purchase pursuant to an Asset Sale Offer from all tendering Holders on a *pro rata* basis, and, at the Company's option, on a *pro rata* basis with the Holders of any other Senior Indebtedness with similar provisions requiring the Company to offer to purchase the other Senior Indebtedness with the proceeds of Asset Sales, that principal amount (or accreted value in the case of Indebtedness issued with original issue discount) of Notes and the other Senior Indebtedness to be purchased equal to such remaining Net Cash Proceeds. The Company may satisfy its obligations under this covenant with respect to the remaining Net Cash Proceeds of an Asset Sale by making an Asset Sale Offer prior to the expiration of the relevant 30 month period.

Notwithstanding the foregoing, the Company may defer an Asset Sale Offer until there is an aggregate amount of remaining Net Cash Proceeds from one or more Asset Sales equal to or in excess of US\$50.0 million (or the equivalent in other currencies). At that time, the entire amount of remaining Net Cash Proceeds, and not just the amount in excess of US\$50.0 million (or the equivalent in other currencies), will be applied as required pursuant to this covenant.

Each notice of an Asset Sale Offer will be provided to the Holders within 30 days following such 30th month (except as permitted pursuant to clause (a) of the fifth preceding paragraph), with a copy to the Trustee, offering to purchase the Notes as described above. Each notice of an Asset Sale Offer will state, among other things, the purchase date, which must be no earlier than 30 days nor later than 60 days from the date the notice is mailed, other than as may be required by law (the “Asset Sale Offer Payment Date”). Upon receiving notice of an Asset Sale Offer, Holders may elect to tender their Notes in whole or in part in integral multiples of US\$1,000 in exchange for cash; provided that the principal amount of such tendering Holder’s Note shall not be less than US\$200,000.

To the extent Holders of Notes and holders of other Senior Indebtedness, if any, which are the subject of an Asset Sale Offer properly tender and do not withdraw Notes or the other Senior Indebtedness in an aggregate amount exceeding the amount of remaining Net Cash Proceeds, the Company will purchase the Notes and the other Senior Indebtedness on a *pro rata* basis (based on amounts tendered) as set forth above. If only a portion of a Note is purchased pursuant to an Asset Sale Offer, a new Note in a principal amount equal to the portion thereof not purchased will be issued in the name of the Holder thereof upon cancellation of the original Note (or appropriate adjustments to the amount and beneficial interests in a Global Note will be made, as appropriate).

The Company will comply with the requirements of Rule 14e-1 under the Exchange Act and any other applicable securities laws in connection with the purchase of Notes pursuant to an Asset Sale Offer. To the extent that the provisions of any applicable securities laws or regulations conflict with the “Asset Sale” provisions of the Indenture, the Company will comply with these laws and regulations and will not be deemed to have breached its obligations under the “Asset Sale” provisions of the Indenture by doing so. If it would be unlawful in any jurisdiction to make an Asset Sale Offer, the Company will not be obligated to make such offer in such jurisdiction and will not be deemed to have breached its obligations under the Indenture by doing so.

Upon completion of an Asset Sale Offer, the amount of remaining Net Cash Proceeds will be reset at zero. Accordingly, to the extent that the aggregate amount of Notes and other Indebtedness tendered pursuant to an Asset Sale Offer is less than the aggregate amount of remaining Net Cash Proceeds, the Company may use any remaining Net Cash Proceeds in any manner not otherwise prohibited by the Indenture.

***Limitation on Designation of Unrestricted Subsidiaries and Project Finance Subsidiaries.***

The Company may designate after the Issue Date any Subsidiary of the Company or any Subsidiary of (x) a Subsidiary of the Company or (y) a Specified Affiliate Holding Company (or any Subsidiary thereof) as an “Unrestricted Subsidiary” or a “Project Finance Subsidiary” under the Indenture (a “Designation”) only if:

- (1) no Event of Default shall have occurred and be continuing at the time of, and no Default or Event of Default shall have occurred and be continuing after giving effect to, such Designation and any transactions between the Company or any of the Restricted Subsidiaries and such Unrestricted Subsidiary or Project Finance Subsidiary, as applicable, are in compliance with “—Certain Covenants—Limitation on Transactions with Affiliates;” and
- (2) the Company would be permitted to make an Investment at the time of Designation (assuming the effectiveness of such Designation and treating such Designation as an Investment at the time of Designation) as a Restricted Payment pursuant to the first paragraph or clause (8) of the second paragraph of “—Limitation on Restricted Payments” or, in the case of a Designation of a Project Finance Subsidiary only, clause (15) of the definition of “Permitted Investment” in an amount (the “Designation Amount”) equal to the amount of the Company’s Investment in such Subsidiary on such date (as determined in accordance with the second paragraph of the definition of “Investment”).

Neither the Company nor any Restricted Subsidiary will at any time provide credit support for, subject any of its property or assets (other than the Capital Stock of any Unrestricted Subsidiary or Project Finance Subsidiary) to the satisfaction of, or Guarantee, any Indebtedness of any Unrestricted Subsidiary or Project Finance Subsidiary (including any undertaking, agreement or instrument evidencing such Indebtedness) or be directly or indirectly liable for any Indebtedness of any Unrestricted Subsidiary or Project Finance Subsidiary unless such credit support or Indebtedness was permitted to be Incurred as Indebtedness under the covenant “—Limitations on Incurrence of Additional Indebtedness.”

The Company may revoke any Designation of a Subsidiary as an Unrestricted Subsidiary or Project Finance Subsidiary (a “Revocation”) only if:

- (1) no Event of Default shall have occurred and be continuing at the time of, and no Default or Event of Default shall have occurred and be continuing, after giving effect to such Revocation; and
- (2) all Indebtedness of such Unrestricted Subsidiary or Project Finance Subsidiary, as applicable, outstanding immediately following such Revocation would, if Incurred at such time, be permitted to be Incurred pursuant to the Indenture.

The Designation of a Subsidiary as an Unrestricted Subsidiary or Project Finance Subsidiary, as applicable, shall be deemed to include the Designation of all of the Subsidiaries of such Subsidiary. All Designations and Revocations must be evidenced by resolutions of the Board of Directors of the Company (and the Specified Affiliate Holding Company, if applicable), delivered to the Trustee certifying compliance with the preceding provisions.

***Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries.***

(a) Except as provided in paragraph (b) below, the Company will not, and will not permit any of the Restricted Subsidiaries to, directly or indirectly, create or otherwise cause or permit to exist or become effective any encumbrance or restriction on the ability of any Restricted Subsidiary to:

- (1) pay dividends or make any other distributions on its Capital Stock to the Company or any other Restricted Subsidiary or pay any Indebtedness owed to the Company or any other Restricted Subsidiary;
- (2) make loans or advances to the Company or any other Restricted Subsidiary (it being understood that the subordination of loans or advances made to the Company or any Restricted Subsidiary to other Indebtedness Incurred by the Company or any Restricted Subsidiary shall not be deemed a restriction on the ability to make loans or advances); or
- (3) transfer any of its property or assets to the Company or any other Restricted Subsidiary.

(b) Paragraph (a) above will not apply to encumbrances or restrictions existing under or by reason of:

- (1) applicable law, rule, regulation or order (including, without limitation, (i) by any national stock exchange on which any Restricted Subsidiary has its Capital Stock listed and (ii) pursuant to any fiduciary obligations imposed by law);
- (2) the Indenture or the Notes;
- (3) the terms of any Indebtedness or other agreement existing on the Issue Date and any extensions, renewals, replacements, amendments or refinancings thereof; provided, that such extension, renewal, replacement, amendment or refinancing is not, taken as a whole, materially more restrictive with respect to such encumbrances or restrictions than those in existence on the Issue Date;
- (4) customary non-assignment provisions in contracts, agreements, leases, permits and licenses;
- (5) restrictions with respect to a Restricted Subsidiary of the Company imposed pursuant to a binding agreement which has been entered into for the sale or disposition of all or substantially all of the Capital Stock or assets of such Restricted Subsidiary; provided, that such restrictions apply solely to the Capital Stock or assets of such Restricted Subsidiary being sold;
- (6) customary restrictions imposed on the transfer of copyrighted or patented materials;
- (7) Purchase Money Indebtedness and Capitalized Lease Obligations for assets acquired in the ordinary course of business and pursuant to the covenant described under “—Limitation on Incurrence of Additional Indebtedness” that impose encumbrances and restrictions only on the assets so acquired or subject to lease;

(8) customary provisions in a joint venture or other similar agreement with respect to a Restricted Subsidiary that was entered into in the ordinary course of business;

(9) any agreement governing Acquired Indebtedness, which encumbrance or restriction is not applicable to any Person, or the properties or assets of any Person, other than the Person or the properties or assets of the Person so acquired;

(10) restrictions on the transfer of assets subject to any Holding Company Permitted Lien or Restricted Subsidiary Permitted Lien;

(11) restrictions on cash or other deposits or net worth imposed by customers under contracts or other arrangements entered into or agreed to in the ordinary course of business;

(12) the terms of any Indebtedness of any Project Finance Subsidiary;

(13) with respect to any agreement governing Indebtedness of any Restricted Subsidiary that is permitted to be Incurred by the covenant described under the heading “—Limitation on Incurrence of Additional Indebtedness” and any extensions, renewals, replacements, amendments or refinancings thereof; provided that (i) the encumbrance or restriction is not materially disadvantageous to the holders of the notes than is customary in comparable financings and (ii) the Company determines that on the date of the Incurrence of such Indebtedness, that such encumbrance or restriction would not be expected to materially impair the Company’s ability to make principal or interest payments on the Notes; provided, further, that such extension, renewal, replacement, amendment or refinancing is not, taken as a whole, materially more restrictive with respect to such encumbrances or restrictions than those in existence in such agreement being extended, renewed, amended or refinanced;

(14) Refinancing Indebtedness; provided, that the restrictions contained in the agreements governing such Refinancing Indebtedness are not materially more restrictive, taken as a whole, than those contained in the agreements governing the Indebtedness being Refinanced; and

(15) any Permitted Reorganization.

### ***Limitation on Liens.***

The Company covenants and agrees that:

(a) it will not, and will not permit any Intermediate Holding Company to, Incur any Liens to secure any Indebtedness (except for Holding Company Permitted Liens) against or upon any of their properties or assets whether owned on the Issue Date or acquired after the Issue Date, or any proceeds therefrom; and

(b) it will not permit any Restricted Subsidiary (other than any Project Finance Subsidiary) to Incur any Liens to secure any Indebtedness (except for Restricted Subsidiary Permitted Liens) against or upon any of their properties or assets (other than any Capital Stock of a Project Finance Subsidiary) whether owned on the Issue Date or acquired after the Issue Date, or any proceeds therefrom, *unless* contemporaneously therewith effective provision is made to secure the Notes and all other amounts due under the Indenture in each case, equally and ratably with such Indebtedness or other obligation (or, in the event that such Indebtedness is subordinated in right of payment to the Notes, as the case may be, prior to such Indebtedness or other obligation) with a Lien on the same properties and assets securing such Indebtedness or other obligation for so long as such Indebtedness or other obligation is secured by such Lien.

### ***Limitation on Merger, Consolidation and Sale of Assets.***

The Company will not, in a single transaction or series of related transactions, consolidate or merge with or into any Person (whether or not the Company is the surviving or continuing Person), or sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of the Company’s properties and assets (determined on a consolidated basis for the Company and the Restricted Subsidiaries), to any Person unless:

(a) either:

(1) the Company shall be the surviving or continuing corporation; or

(2) the Person (if other than the Company) formed by such consolidation or into which the Company is merged or the Person which acquires by sale, assignment, transfer, lease, conveyance or other disposition the properties and assets of the Company and of the Company's Restricted Subsidiaries substantially as an entirety (the "Surviving Entity"):

(A) shall be organized and validly existing under the laws of (i) Bermuda, (ii) the Cayman Islands, (iii) the United States of America, any State thereof or the District of Columbia, (iv) Peru or (v) any country which is a member country of the Organization for Economic Co-Operation and Development; and

(B) shall expressly assume, by supplemental indenture (in form and substance reasonably satisfactory to the Trustee), executed and delivered to the Trustee, the due and punctual payment of the principal of, and premium, if any, and interest on all of the Notes and the performance and observance of every covenant of the Notes and the Indenture on the part of the Company to be performed or observed;

(b) immediately after giving effect to such transaction and the assumption contemplated by clause (a)(2)(B) above (including giving effect on a pro forma basis to any Indebtedness, including any Acquired Indebtedness, Incurred or anticipated to be Incurred in connection with or in respect of such transaction), the Company or such Surviving Entity, as the case may be, (i) will be able to Incur at least US\$1.00 of additional Indebtedness pursuant to clauses (1)(a) or (1)(b) of "—Certain Covenants—Limitation on Incurrence of Additional Indebtedness" or (ii) would have (x) an Unconsolidated Interest Coverage Ratio that is equal to or greater than the Company's Unconsolidated Interest Coverage Ratio immediately prior to such transaction or (y) a Consolidated Net Leverage Ratio that is equal to or less than the Company's Consolidated Net Leverage Ratio immediately prior to such transaction;

(c) immediately after giving effect to such transaction and the assumption contemplated by clause (a)(2)(B) above (including, without limitation, giving effect on a pro forma basis to any Indebtedness, including any Acquired Indebtedness, Incurred or anticipated to be Incurred and any Lien granted in connection with or in respect of the transaction), no Default or Event of Default shall have occurred or be continuing; and

(d) the Company or the Surviving Entity has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that the consolidation, merger, sale, assignment, transfer, lease, conveyance or other disposition and, if required in connection with such transaction, the supplemental indenture, comply with the applicable provisions of the Indenture and that all conditions precedent in the Indenture relating to the transaction have been satisfied.

The provisions of this covenant above will not apply to any consolidation or merger, or any sale, assignment, transfer, lease, conveyance or other disposition of properties and assets, of any Restricted Subsidiary (other than a Project Finance Subsidiary) to the Company, or any merger of the Company into a wholly owned Subsidiary (other than a Project Finance Subsidiary) of the Company created for the purpose of holding the Capital Stock of the Company so long as the Indebtedness of the Company and the Restricted Subsidiaries taken as a whole is not increased thereby.

Upon any consolidation, combination or merger or any transfer of all or substantially all of the properties and assets of the Company and the Restricted Subsidiaries in accordance with this covenant, in which the Company is not the continuing Person, the Surviving Entity formed by such consolidation or into which the Company is merged or to which such conveyance, lease or transfer is made will succeed to, and be substituted for, and may exercise every right and power of, the Company under the Indenture and the Notes with the same effect as if such Surviving Entity had been named as such. Upon such substitution, unless the successor is one or more of the Company's Restricted Subsidiaries, the Company will be released from its obligations under the Indenture. For the avoidance of doubt, compliance with this covenant will not affect the obligations of the Company (including a Surviving Entity, if applicable) under "—Change of Control," if applicable.

The consummation of a Permitted Reorganization in connection with or following any sale, assignment, transfer, lease, conveyance or other disposition by the Company of all or substantially all of the Company's properties and assets

to a Qualified Transferee and its Affiliates shall not be deemed to be a sale, assignment, transfer, lease, conveyance or other disposition of all or substantially all of the Company's properties and assets. Following consummation of the transactions referred to in the preceding sentence, the Person acquiring the economic value of substantially all of the Company's property and assets that are not transferred to one or more Specified Affiliate Holding Companies pursuant to the Permitted Reorganization shall be deemed to be the Surviving Entity for purposes of clause (a)(2) above. For purposes of this covenant, the transfer, assignment, conveyance or other disposition of voting rights or similar rights in respect of corporate governance shall not be deemed to be a sale, assignment, transfer, lease, conveyance or other disposition of all or substantially all of the Company's properties and assets.

***Limitation on Transactions with Affiliates.***

(1) The Company will not, and will not permit any of the Restricted Subsidiaries to, directly or indirectly, enter into any transaction or series of related transactions (including, without limitation, the purchase, sale, lease or exchange of any property or the rendering of any service) involving aggregate consideration in excess of US\$10.0 million (or equivalent in other currencies) with, or for the benefit of, any of its Affiliates (each, an "Affiliate Transaction"), unless:

(a) the terms of such Affiliate Transaction are no less favorable in all material respects to the Company or the applicable Restricted Subsidiary than those that could reasonably be expected to be obtained in a comparable transaction at such time on an arm's-length basis from a Person that is not an Affiliate of the Company;

(b) in the event that such Affiliate Transaction involves aggregate payments, or transfers of property or services with a Fair Market Value, in excess of US\$20.0 million (or the equivalent in other currencies), the terms of such Affiliate Transaction will be approved by a majority of the members of the Board of Directors of the Company (including a majority of the disinterested members thereof, but only to the extent there are disinterested members with respect to such Affiliate Transaction), the approval to be evidenced by a Board Resolution stating that the Board of Directors has determined that such transaction complies with the preceding provisions; and

(c) In the event that such Affiliate Transaction involves aggregate payments, or transfers of property or services with a Fair Market Value, in excess of US\$50.0 million (or the equivalent in other currencies), the Company will, prior to the consummation thereof, obtain a favorable opinion as to the fairness of such Affiliate Transaction to the Company and the relevant Restricted Subsidiary (if any) from a financial point of view from an Independent Financial Advisor.

(2) Paragraph (1) above will not apply to:

(a) Affiliate Transactions with or among the Company and any Restricted Subsidiary or between or among Restricted Subsidiaries (other than a Project Finance Subsidiary) and Affiliate Transactions between or among a Project Finance Subsidiary and any other Project Finance Subsidiary;

(b) reasonable fees and compensation paid to, and any indemnity provided on behalf of (and entering into related agreements with), officers, directors, employees, consultants or agents of the Company or any Restricted Subsidiary;

(c) any issuance or sale of Capital Stock of the Company;

(d) Affiliate Transactions undertaken pursuant to (i) any contractual obligations or rights in existence on the Issue Date, (ii) any contractual obligation of any Restricted Subsidiary or any Person that is merged into the Company or any Restricted Subsidiary on the date such Person becomes a Restricted Subsidiary or is merged into the Company or any Restricted Subsidiary and (iii) any amendment or replacement agreement to the obligations and rights described in clauses (i) and (ii), so long as such amendment or replacement agreement is not more disadvantageous to the Holders in any material respect, taken as a whole, than the original agreement;

(e) (i) transactions with customers, clients, distributors, suppliers or purchasers or sellers of goods or services, in each case in the ordinary course of business and on market terms, or (ii) transactions with joint

ventures or other similar arrangements entered into in the ordinary course of business, on market terms and consistent with past practice or industry norms;

(f) the provision of administrative services to any joint venture, Unrestricted Subsidiary or Project Finance Subsidiary on substantially the same terms provided to or by Restricted Subsidiaries or other transactions to such entities on terms consistent with generally accepted transfer pricing guidelines;

(g) any Restricted Payments made in compliance with “—Limitation on Restricted Payments” and Permitted Investments permitted under the Indenture;

(h) loans and advances to officers, directors and employees of the Company or any Restricted Subsidiary for travel, moving and other relocation expenses, in each case made in the ordinary course of business and not exceeding US\$2.0 million outstanding at any one time; and

(i) any Permitted Reorganization.

### ***Conduct of Business.***

The Company and the Restricted Subsidiaries will not engage in any business other than a Permitted Business.

### ***Reports to Holders.***

So long as any Notes remain outstanding:

(1) The Company will provide the Trustee with annual consolidated financial statements audited by an internationally recognized firm of independent public accountants within 180 days after the end of the Company’s fiscal year, and, commencing with the first full quarter after the Issue Date, unaudited quarterly financial statements (including a balance sheet, income statement and cash flow statement for the fiscal quarter and year-to-date period then ended and the corresponding fiscal quarter and year-to-date period from the prior year, except that the comparison of the balance sheet will be as of the end of the previous fiscal year) within 90 days of the end of each of the first three fiscal quarters of each fiscal year. Such annual and quarterly financial statements will be prepared in accordance with IFRS and be accompanied by a “management discussion and analysis” of the results of operations and liquidity and capital resources of the Company and its Subsidiaries (including any Specified Affiliate Holding Companies and their Subsidiaries) on a consolidated basis for the periods presented in a level of detail comparable to the management discussion and analysis of the results of operations and liquidity and capital resources of the Company and its Subsidiaries contained in the offering memorandum. All of the foregoing documents will be in English;

(2) the Company will provide the Trustee copies (including English translations of documents prepared in another language) of all public filings made with any securities exchange or securities regulatory agency or authority within thirty (30) business days of such filing; and

(3) the Company will make available, upon request, to any Holder and any prospective purchaser of Notes the information required pursuant to Rule 144A(d)(4) under the Securities Act.

Delivery of reports, information and documents to the Trustee is for informational purposes only and its receipt of such reports shall not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Company’s or any other Person’s compliance with any of its covenants under the Indenture or the Notes (as to which the Trustee is entitled to rely exclusively on Officers’ Certificates).

Following a Permitted Reorganization, the Company will deliver to the Trustee annual audited financial statements and quarterly unaudited financial statements that collectively present the Company (together with its consolidated Subsidiaries) and any Specified Affiliate Holding Companies (together with their respective consolidated Subsidiaries); provided that (x) such financial statements will otherwise comply with the terms of clause (1) of the second preceding paragraph (and the delivery of such financial statements shall satisfy the Company’s obligations pursuant to such clause) and (y) all references in the Indenture to consolidated financial statements, consolidated financial and accounting information, and consolidated financial metrics and ratios, as applicable, shall be deemed to refer to such financial statements, financial and accounting information, and financial metrics and ratios.

## **Covenant Suspension**

If on any date following the Issue Date (a) the Notes have an Investment Grade Rating from any two Rating Agencies, and (b) no Default or Event of Default has occurred and is continuing (the occurrence of the events described in the foregoing clauses (a) and (b) being collectively referred to as a “Covenant Suspension Event”), the Company and the Restricted Subsidiaries will not be subject to the following covenants (collectively, the “Suspended Covenants”):

- (1) “—Certain Covenants—Limitation on Incurrence of Additional Indebtedness”;
- (2) “—Certain Covenants—Limitation on Restricted Payments”;
- (3) “—Certain Covenants—Limitation on Asset Sales”;
- (4) “—Certain Covenants—Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries”;
- (5) clause (b) of the first paragraph of “—Certain Covenants—Limitation on Merger, Consolidation and Sale of Assets”; and
- (6) “Certain Covenants—Limitation on Transactions with Affiliates” other than any transaction with any affiliated shareholder of the Company or Affiliate thereof other than the Company or any Subsidiary thereof (including any Specified Affiliate Holding Company or any Subsidiary thereof).

In the event that the Company and the Restricted Subsidiaries are not subject to the Suspended Covenants for any period of time as a result of the foregoing, and on any subsequent date (the “Reversion Date”), the Notes cease to have an Investment Grade Rating from any two Rating Agencies, then the Company and the Restricted Subsidiaries will thereafter again be subject to the Suspended Covenants. The period of time between the occurrence of a Covenant Suspension Event and the Reversion Date is referred to as the “Suspension Period.” Notwithstanding that the Suspended Covenants may be reinstated, no Default or Event of Default will be deemed to have occurred as a result of a failure to comply with any of the Suspended Covenants during the Suspension Period (or upon termination of the Suspension Period or after that time based solely on events that occurred during the Suspension Period).

On the Reversion Date, all Indebtedness incurred during the Suspension Period will be classified to have been incurred pursuant to paragraph (1) of “—Certain Covenants—Limitation on Incurrence of Additional Indebtedness” or one of the clauses set forth in paragraphs (a) through (r) of paragraph (2) of “—Certain Covenants—Limitation on Incurrence of Additional Indebtedness” (to the extent such Indebtedness would be permitted to be incurred thereunder as of the Reversion Date and after giving effect to the Indebtedness incurred prior to the Suspension Period and outstanding on the Reversion Date). To the extent such Indebtedness would not be permitted to be incurred pursuant to “—Certain Covenants—Limitation on Incurrence of Additional Indebtedness,” such Indebtedness will be deemed to have been outstanding on the Issue Date, so that it is classified as permitted under clause (d) of paragraph (2) of “—Certain Covenants—Limitation on Incurrence of Additional Indebtedness.”

We cannot assure you that the Notes will achieve or maintain Investment Grade Ratings.

## **Specified Affiliate Holding Companies**

In connection with any Permitted Reorganization, the Company and the Qualified Transferee shall cause each Specified Affiliate Holding Company to, within 30 days of the date of such Permitted Reorganization (1) execute and deliver to the Trustee a supplemental indenture substantially in the form attached to the Indenture pursuant to which such Specified Affiliate Holding Company will become a co-issuer of the Notes and (2) deliver to the Trustee an opinion of counsel that such supplemental indenture above has been duly authorized, executed and delivered and constitutes a legally valid and binding and enforceable obligation (subject to customary qualifications and exceptions).

The obligations of each Specified Affiliate Holding Company as a co-issuer of the Notes will be released:

- (1) in connection with any sale or other disposition of all or substantially all of the assets of that Specified Affiliate Holding Company (including by way of merger or consolidation) to a Person that is not (either before or



after giving effect to such transaction) the Company or a Restricted Subsidiary of the Company, if the sale or other disposition does not violate the provisions set forth under the caption “—Limitation on Asset Sales;”

(2) in connection with any sale or other disposition of all of the Capital Stock of that Specified Affiliate Holding Company to a Person that is not (either before or after giving effect to such transaction) the Company or a Restricted Subsidiary of the Company, if the sale or other disposition does not violate the provisions set forth under the caption “—Limitation on Asset Sales;”

(3) upon the liquidation or dissolution of that Specified Affiliate Holding Company; provided that no Default or Event of Default shall occur as a result thereof or has occurred and is continuing; or

(4) upon legal defeasance or satisfaction and discharge of the Indenture as provided below under the captions “—Legal Defeasance and Covenant Defeasance” and “—Satisfaction and Discharge.”

### **Events of Default**

The following are “Events of Default”:

(1) default in the payment when due of the principal of or premium, if any, on any Notes, including the failure to make a required payment to purchase Notes tendered pursuant to an optional redemption, Change of Control Offer or an Asset Sale Offer;

(2) default for 30 days or more in the payment when due of interest or Additional Amounts on any Notes;

(3) the failure to perform or comply with any of the provisions described under “—Certain Covenants—Limitation on Merger, Consolidation and Sale of Assets”;

(4) the failure by the Company or any Restricted Subsidiary to comply with any other covenant or agreement contained in the Indenture or in the Notes for 60 days or more after written notice to the Company from the Trustee or the Holders of at least 25% in aggregate principal amount of the outstanding Notes;

(5) default by the Company or any Restricted Subsidiary which shall not have been cured or waived under any Indebtedness (other than any Bolivian Indebtedness) which:

(a) is caused by a failure to pay principal of or premium, if any, or interest on such Indebtedness after the expiration of any applicable grace period provided in such Indebtedness on the date of such default; or

(b) results in the acceleration of such Indebtedness prior to its Stated Maturity;

and the principal or accreted amount of Indebtedness covered by (a) or (b) at the relevant time exceeds US\$70.0 million individually or in the aggregate (or the equivalent in other currencies) or more; provided that this clause (5) shall not apply to the Indebtedness of any Project Finance Subsidiary except to the extent that such Indebtedness also constitutes Indebtedness of the Company or any Restricted Subsidiary (other than a Project Finance Subsidiary) at the time of such default;

(6) failure by the Company or any of the Restricted Subsidiaries to pay one or more final, non-appealable judgments against any of them, aggregating US\$70.0 million (or the equivalent in other currencies) or more (excluding therefrom any amount reasonably expected to be covered by insurance), which judgment(s) are not paid, discharged or stayed for a period of 60 days or more; provided that this clause (6) shall not apply to judgments against any Project Finance Subsidiary except to the extent that such judgment also constitutes a judgment against the Company or any Restricted Subsidiary (other than a Project Finance Subsidiary); and

(7) certain events of bankruptcy described in the Indenture affecting the Company, any Specified Affiliate Holding Company or any of their respective Restricted Subsidiaries that are Significant Subsidiaries or group of Restricted Subsidiaries that, taken together, would constitute a Significant Subsidiary.

If an Event of Default (other than an Event of Default specified in clause 7 above with respect to the Company or any Specified Affiliate Holding Company) shall occur and be continuing and has not been cured or waived, the Trustee

or the Holders of at least 25% in principal amount of outstanding Notes may declare the unpaid principal of (and premium, if any) and accrued and unpaid interest on all the Notes to be immediately due and payable by notice in writing to the Company and the Trustee specifying the Event of Default and that it is a “notice of acceleration.” If an Event of Default specified in clause 7 above occurs with respect to the Company or any Specified Affiliate Holding Company, then the unpaid principal of (and premium, if any) and accrued and unpaid interest on all the Notes will become immediately due and payable without any declaration or other act on the part of the Trustee or any Holder.

At any time after a declaration of acceleration with respect to the Notes as described in the preceding paragraph, the Holders of a majority in principal amount of the Notes may rescind and cancel such declaration and its consequences by written notice to the Company, if:

- (1) the rescission would not conflict with any judgment or decree; and
- (2) all existing Events of Default have been cured or waived, except nonpayment of principal or interest that has become due solely because of the acceleration.

No rescission will affect any subsequent Default or impair any rights relating thereto.

The Holders of a majority in principal amount of the Notes may waive any existing Default or Event of Default under the Indenture, and its consequences, except a default in the payment of the principal of, premium, if any, or interest on any Notes.

Subject to the provisions of the Indenture relating to the duties of the Trustee, the Trustee is under no obligation to exercise any of its rights or powers under the Indenture at the request, order or direction of any of the Holders, unless such Holders have offered to the Trustee indemnity satisfactory to it. Subject to all provisions of the Indenture and applicable law, the Holders of a majority in aggregate principal amount of the then outstanding Notes have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee.

No Holder of any Notes will have any right to institute any proceeding with respect to the Indenture or for any remedy thereunder, unless:

- (1) such Holder gives to the Trustee written notice of a continuing Event of Default;
- (2) Holders of at least 25% in principal amount of the then outstanding Notes make a written request to pursue the remedy;
- (3) such Holders of the Notes provide to the Trustee indemnity satisfactory to it against any cost, liability or expense;
- (4) the Trustee does not comply within 60 days after receipt of such notice and offer of indemnity; and
- (5) during such 60-day period the Holders of a majority in aggregate principal amount of the outstanding Notes do not give the Trustee a written direction which, in the opinion of the Trustee, is inconsistent with the request.

*provided*, that a Holder of a Note may institute suit for enforcement of payment of the principal of and premium, if any, or interest on such Note on or after the respective due dates expressed in such Note.

The Company is required, upon becoming aware of any Default or Event of Default, to deliver to the Trustee as promptly as practicable (and in any event within five business days) written notice of any event that would constitute a Default or Event of Default, their status and what action the Company is taking or proposes to take in respect thereof. In the absence of any such notice of Default or Event of Default from the Company and any description of Default or Event of Default in such Officers’ Certificate, the Trustee shall not be deemed to have notice or be charged with knowledge of any Default or Event of Default. In addition, the Company is required to deliver to the Trustee, within 135 days after the end of each fiscal year, an Officers’ Certificate indicating whether the signers thereof know of any Default or Event of Default that occurred during the previous fiscal year. The Indenture will provide that if a Default or Event of Default occurs, is continuing and is actually known to the Trustee, the Trustee must mail to each Holder notice of the Default or Event of Default within 90 days after the occurrence thereof. Except in the case of a Default or Event of Default in the

payment of principal of, premium, if any, or interest on any Note, the Trustee may withhold notice if and so long as a committee of its trust officers in good faith determines that withholding notice is in the interests of the Holders.

### **Legal Defeasance and Covenant Defeasance**

The Company may, at its option and at any time, elect to have its obligations discharged with respect to the outstanding Notes (“Legal Defeasance”). Such Legal Defeasance means that the Company will be deemed to have paid and discharged the entire Indebtedness represented by the outstanding Notes on the 91st day after the deposit specified in clause (1) of the second following paragraph, except for:

- (1) the rights of Holders to receive payments in respect of the principal of, premium, if any, and interest (including Additional Amounts) on the Notes when such payments are due;
- (2) the Company’s obligations with respect to the Notes concerning issuing temporary Notes, registration of Notes, mutilated, destroyed, lost or stolen Notes and the maintenance of an office or agency for payments;
- (3) the rights, powers, trust, duties and immunities of the Trustee, the paying agent, the registrar, the transfer agent and the Singapore listing agent and the Company’s obligations in connection therewith; and
- (4) the Legal Defeasance provisions of the Indenture.

In addition, the Company may, at its option and at any time, elect to have its obligations released with respect to certain covenants (including its obligation to make Change of Control Offers and Asset Sale Offers) that are described in the Indenture (“Covenant Defeasance”) and thereafter any omission to comply with such obligations will not constitute a Default or Event of Default with respect to the Notes. In the event Covenant Defeasance occurs, certain events (not including non-payment, bankruptcy, receivership, reorganization and insolvency events) described under “Events of Default” will no longer constitute an Event of Default with respect to the Notes.

In order to exercise either Legal Defeasance or Covenant Defeasance:

- (1) the Company must irrevocably deposit with the Trustee, in trust, for the benefit of the Holders cash in U.S. dollars, certain direct non-callable obligations of, or guaranteed by, the United States, or a combination thereof, in such amounts as will be sufficient without reinvestment, in the opinion of a nationally recognized firm of independent public accountants or investment bank, to pay the principal of, premium, if any, and interest (including Additional Amounts) on the Notes on the stated date for payment thereof or on the applicable redemption date, as the case may be;
- (2) in the case of Legal Defeasance, the Company must deliver to the Trustee an Opinion of Counsel from counsel in the United States reasonably acceptable to the Trustee and independent of the Company confirming that:
  - (a) the Company has received from, or there has been published by, the U.S. Internal Revenue Service a ruling; or
  - (b) since the Issue Date, there has been a change in the applicable U.S. federal income tax law,in either case to the effect that, and based thereon such Opinion of Counsel shall state that, the Holders will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such Legal Defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred;
- (3) in the case of Covenant Defeasance, the Company must deliver to the Trustee an Opinion of Counsel in the United States reasonably acceptable to the Trustee to the effect that the Holders will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such Covenant Defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred;

(4) no Default or Event of Default shall have occurred and be continuing on the date of the deposit pursuant to clause (1) of this paragraph (except any Default or Event of Default resulting from the failure to comply with “—

Certain Covenants—Limitation on Incurrence of Additional Indebtedness” as a result of the borrowing of the funds required to effect such deposit);

(5) such Legal Defeasance or Covenant Defeasance shall not result in a breach or violation of, or constitute a Default under the Indenture or any other material agreement or instrument to which the Company or any of its Subsidiaries is a party or by which the Company or any of its Subsidiaries is bound;

(6) the Company shall not have made the deposit with the intent of preferring the Holders over any other creditors of the Company or any Subsidiary of the Company or with the intent of defeating, hindering, delaying or defrauding any other creditors of the Company or others; and

(7) the Company has delivered to the Trustee an Officers’ Certificate and an Opinion of Counsel from counsel in the United States, each stating that all conditions precedent provided for or relating to the Legal Defeasance or the Covenant Defeasance have been complied with.

### **Satisfaction and Discharge**

The Indenture (other than those provisions which by their express terms survive) will be discharged and will cease to be of further effect as to all outstanding Notes when:

(1) either:

(a) all the Notes that have been authenticated and delivered (except lost, stolen or destroyed Notes which have been replaced or paid and Notes for whose payment money has thereto for been deposited in trust or segregated and held in trust by the Company and thereafter repaid to the Company or discharged from such trust) have been delivered to the Trustee for cancellation; or

(b) (i) all Notes not theretofore delivered to the Trustee for cancellation have become due and payable or will become due and payable at the stated date for payment thereof within one year or will be called for redemption within one year or (ii) all Notes that have not been delivered to the Trustee for cancellation have become due and payable by reason of the mailing of a notice of redemption or otherwise, and, in each case, the Company has irrevocably deposited or caused to be deposited with the Trustee funds or certain direct, non-callable obligations of, or guaranteed by, the United States sufficient without reinvestment to pay and discharge the entire Indebtedness on the Notes not thereto for delivered to the Trustee for cancellation, for principal of, premium, if any, and interest on the Notes to the date of deposit, together with irrevocable instructions from the Company directing the Trustee to apply such funds to the payment;

(2) the Company or any of the Restricted Subsidiaries have paid or caused to be paid all other sums payable under the Indenture by it; and

(3) the Company has delivered to the Trustee an Officers’ Certificate and Opinion of Counsel stating that all conditions precedent under the Indenture relating to the satisfaction and discharge of the Indenture have been complied with.

### **Modification of the Indenture**

From time to time, the Company and the Trustee, without the consent of the Holders, may amend the Indenture or the Notes for certain specified purposes, including:

(1) to cure any ambiguity, defect or inconsistency;

(2) to provide for uncertificated notes in addition to or in place of certificated notes;

(3) to comply with the covenant described under the caption “Certain Covenants—Limitation on Merger, Consolidation and Sale of Assets”;

(4) to make any change that would provide any additional rights or benefits to Holders or that does not adversely affect in any respect the legal rights under the Indenture of any Holder;

- (5) to evidence and provide for the acceptance of an appointment by a successor trustee;
- (6) to conform the text of the Indenture and the Notes to any provision of this “Description of the Notes”;
- (7) to provide for the issuance of Additional Notes in accordance with the limitations set forth in the Indenture as of the date of the Indenture; or
- (8) to add a Specified Affiliate Holding Company as a co-issuer in connection with a Permitted Reorganization.

In connection with executing such amendment, the Trustee will be entitled to rely on such evidence as it deems appropriate, including solely on an Opinion of Counsel and Officers’ Certificate. Other modifications and amendments of the Indenture or the Notes may be made with the consent of the Holders of a majority in principal amount of the then outstanding Notes (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, the Notes) issued under the Indenture, and any existing default or compliance with any provision of the Indenture or the Notes outstanding thereunder may be waived with the consent of the Holders of a majority in principal amount of the then outstanding Notes (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, the Notes); *provided* that, without the consent of each Holder affected thereby, no amendment or waiver may (with respect to any Notes held by a non-consenting Holder):

- (1) reduce the amount of Notes whose Holders must consent to an amendment, supplement or waiver;
- (2) reduce the rate of or change or have the effect of changing the time for payment of interest, including defaulted interest, on any Notes;
- (3) reduce the principal of or change or have the effect of changing the fixed maturity of any Notes, or change the date on which any Notes may be subject to redemption, or reduce the redemption price therefor (other than provisions relating to the number of days of notice to be given in the event of a redemption);
- (4) waive a Default or Event of Default in the payment of principal of, premium, if any, or interest on the Notes (except a rescission of acceleration of the Notes by the Holders of at least a majority in aggregate principal amount of the then outstanding Notes with respect to a nonpayment default and a waiver of the payment default that resulted from such acceleration);
- (5) make any Notes payable in a currency or place of payment other than that stated in the Notes;
- (6) make any change in provisions of the Indenture entitling each Holder to receive payment of principal of, premium, if any, and interest on such Note on or after the due date thereof or to bring suit to enforce such payment;
- (7) make any change in the provisions of the Indenture described under “Additional Amounts” that adversely affects the rights of any Holder; and
- (8) make any change to the provisions of the Indenture or the Notes that adversely affect the ranking of the Notes; provided that a change to the covenant “Limitation on Liens” shall not affect the ranking of the Notes.

The consent of the Holders is not necessary under the Indenture to approve the particular form of any proposed amendment, supplement or waiver. It is sufficient if such consent approves the substance of the proposed amendment, supplement or waiver. After an amendment, supplement or waiver under the Indenture becomes effective, the Company will be required to give notice to the Holders as provided under “—Notices” briefly describing such amendment, supplement or waiver. The failure to give such notice to all Holders, or any defect therein, will not impair or affect the validity of such amendment, supplement or waiver.

## **Notices**

Notices to Holders of Notes will be mailed to them at their registered addresses.

For so long as any Notes are listed on the Singapore Stock Exchange and in accordance with the rules and regulations of the Singapore Stock Exchange, the Company will publish all notices to Holders in a newspaper with general circulation in Singapore, which is expected to be the Business Times, Singapore Edition.

Notices will be deemed to have been given on the date of mailing or of publication as aforesaid or, if published on different dates, on the date of the first such publication.

Any redemption of notes (including in connection with an Equity Event) or notice thereof may, at the Company's discretion, be subject to the satisfaction (or, waiver by the Company in its sole discretion) of one or more conditions precedent, which may include consummation of any related Equity Event or the occurrence of a Change of Control. If such redemption or notice is subject to satisfaction of one or more conditions precedent, such notice may state that, in the Company's discretion, the redemption date may be delayed until such time as any or all such conditions shall be satisfied (or waived by the Company in its sole discretion), or such redemption may not occur and such notice may be rescinded in the event that any or all such conditions shall not have been (or, in the Company's sole determination, may not be) satisfied (or waived by the Company in its sole discretion) by the redemption date, or by the redemption date so delayed.

### **Governing Law; Jurisdiction**

The Indenture and the Notes will be governed by, and construed in accordance with, the law of the State of New York but without giving effect to applicable principles of conflicts of law to the extent that the application of the law of another jurisdiction would be required thereby. The Company consents to the non-exclusive jurisdiction of the Federal and State courts located in the City of New York, Borough of Manhattan and have appointed an agent for service of process with respect to any actions brought in these courts arising out of or based on the Indenture or the Notes.

### **The Trustee**

Except during the continuance of an Event of Default, the Trustee will perform only such duties as are specifically set forth in the Indenture. During the existence of an Event of Default, the Trustee will exercise such rights and powers vested in it by the Indenture, and use the same degree of care and skill in its exercise as a prudent person would exercise or use under the circumstances in the conduct of his own affairs.

### **No Personal Liability**

No past, present or future incorporator, director, officer, employee, shareholder or controlling person of the Company, as such, will have any liability for any obligations of the Company under the Notes or the Indenture or for any claims based on, in respect of or by reason of such obligations. By accepting a Note, each Holder waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Notes. The waiver may not be effective to waive liabilities under the U.S. federal securities laws or under Bermuda corporate law, and it is the view of the SEC that such a waiver may be contrary to public policy.

### **Currency Indemnity**

The Company will pay all sums payable under the Indenture or the Notes solely in U.S. Dollars. Any amount that you receive or recover in a currency other than U.S. Dollars in respect of any sum expressed to be due to you from the Company will only constitute a discharge to us to the extent of the U.S. Dollar amount which you are able to purchase with the amount received or recovered in that other currency on the date of the receipt or recovery or, if it is not practicable to make the purchase on that date, on the first date on which you are able to do so. If the U.S. Dollar amount is less than the U.S. Dollar amount expressed to be due to you under any Note, the Company will indemnify you against any loss you sustain as a result. In any event, the Company will indemnify you against the cost of making any purchase of U.S. Dollars. For the purposes of this paragraph, it will be sufficient for you to certify in a satisfactory manner that you would have suffered a loss had an actual purchase of U.S. Dollars been made with the amount received in that other currency on the date of receipt or recovery or, if it was not practicable to make the purchase on that date, on the first date on which you were able to do so. In addition, you will also be required to certify in a satisfactory manner the need for a change of the purchase date.

The indemnities described above:

- constitute a separate and independent obligation from the other obligations of the Company;
- will give rise to a separate and independent cause of action;
- will apply irrespective of any indulgence granted by any Holder; and
- will continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note.

### **Certain Definitions**

Set forth below is a summary of certain of the defined terms used in the Indenture. Reference is made to the Indenture for the definitions of all such terms.

“*Acquired Indebtedness*” means Indebtedness of a Person or any of its Subsidiaries existing at the time such Person becomes a Restricted Subsidiary or at the time it merges or consolidates with the Company or any of the Restricted Subsidiaries or is assumed in connection with the acquisition of assets from such Person. Such Indebtedness will be deemed to have been Incurred at the time such Person becomes a Restricted Subsidiary or at the time it merges or consolidates with the Company or a Restricted Subsidiary or at the time such Indebtedness is assumed in connection with the acquisition of assets from such Person.

“*Additional Amounts*” has the meaning set forth under “—Additional Amounts” above.

“*Additional Notes*” has the meaning set forth under “—Additional Notes” above.

“*Affiliate*” means, with respect to any specified Person, any other Person who directly or indirectly through one or more intermediaries controls, or is controlled by, or is under common control with, such specified Person. The term “control” means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise. For purposes of this definition, the terms “controlling,” “controlled by” and “under common control with” have correlative meanings.

“*Asset Acquisition*” means:

- (a) an Investment by the Company or any Restricted Subsidiary in any other Person pursuant to which such Person will become a Restricted Subsidiary, or will be merged with or into the Company or any Restricted Subsidiary; or
- (b) the acquisition by the Company or any Restricted Subsidiary of the assets of any Person (other than a Subsidiary of the Company) which constitute all or substantially all of the assets of such Person or comprises any division or line of business of such Person or any other properties or assets of such Person other than in the ordinary course of business; or
- (c) any Revocation with respect to an Unrestricted Subsidiary or Project Finance Subsidiary;

provided that any transactions undertaken with respect to any Permitted Reorganization shall not be deemed an Asset Acquisition.

“*Asset Sale*” means any direct or indirect sale, disposition, issuance, conveyance, transfer, lease (other than operating leases entered into in the ordinary course of business), assignment or other transfer (other than a Lien or Sale and Leaseback Transaction incurred in accordance with the Indenture) (each, a “disposition”), by the Company or any Restricted Subsidiary of:

- (a) any Capital Stock of any Restricted Subsidiary, which, for the avoidance of doubt shall include the Capital Stock of any Specified Affiliate Holding Company; or
- (b) any property or assets (other than cash, Cash Equivalents or Capital Stock) of the Company or any Restricted Subsidiary not in the ordinary course of business.

Notwithstanding the preceding, the following items will not be deemed to be Asset Sales:

- (1) the disposition of all or substantially all of the assets of the Company and the Restricted Subsidiaries as permitted under “—Certain Covenants—Limitation on Merger, Consolidation and Sale of Assets” or any disposition which constitutes a Change of Control;
- (2) any Asset Swap; *provided that*:
  - (A) for any Asset Swap involving assets with a Fair Market Value in excess of US\$60.0 million (or the equivalent in other currencies), the terms of such Asset Swap will be approved by a majority of the members of the Board of Directors of the Company (including, if applicable, a majority of the disinterested members) and evidenced by a Board Resolution; and
  - (B) for any Asset Swap involving assets with a Fair Market Value in excess of US\$100.0 million (or the equivalent in other currencies), the Company will, prior to the consummation thereof, obtain a favorable opinion as to the fairness of such Asset Swap to the Company and the relevant Restricted Subsidiary (if any) from a financial point of view from an Independent Financial Advisor.
- (3) any transaction or series of related transactions involving assets with a Fair Market Value not in excess of US\$20.0 million;
- (4) the sale, lease, sublease, license, sublicense, consignment, conveyance or other disposition of real property, capital assets or equipment, inventory, indefeasible right of uses, accounts receivable or other assets in the ordinary course of business;
- (5) the making of a Restricted Payment permitted under “—Certain Covenants—Limitation on Restricted Payments” and any Permitted Investment;
- (6) a disposition to the Company or a Restricted Subsidiary (other than a Project Finance Subsidiary), including a Person that is or will become a Restricted Subsidiary (other than a Project Finance Subsidiary) immediately after the disposition;
- (7) a disposition to a Project Finance Subsidiary by another Project Finance Subsidiary, including a Person that is or will become a Project Finance Subsidiary immediately after the disposition;
- (8) a disposition of the Capital Stock of an Unrestricted Subsidiary;
- (9) the sale or disposition of cash or Cash Equivalents;
- (10) dispositions of receivables and related assets or interests in connection with the compromise, settlement or collection thereof in the ordinary course of business or in bankruptcy or similar proceedings and exclusive of factoring or similar arrangements;
- (11) any issuance of Disqualified Stock otherwise permitted under “—Certain Covenants—Limitation on Incurrence of Additional Indebtedness”;
- (12) the settlement, compromise, release, dismissal or abandonment of any action or claims against any Person; and
- (13) any Permitted Reorganization.

“*Asset Sale Offer*” has the meaning set forth under “—Certain Covenants—Limitation on Asset Sales.”

“*Asset Sale Transaction*” means any Asset Sale and, whether or not constituting an Asset Sale, (1) any sale or other disposition of Capital Stock, (2) any Designation with respect to an Unrestricted Subsidiary or Project Finance Subsidiary and (3) any sale or other disposition of property or assets excluded from the definition of Asset Sale by clause (5) of that definition; provided that any transactions undertaken with respect to any Permitted Reorganization shall not be deemed an Asset Sale Transaction.



“*Asset Swap*” means any sale or other transfer of any assets of the Company or the Restricted Subsidiaries; provided that (i) within 30 months of such sale or transfer, the Company or the Restricted Subsidiaries has exchanged such assets for, or used the proceeds from such sale or transfer of such assets to purchase, (x) assets (other than current assets as determined in accordance with IFRS or Capital Stock) to be used by the Company or any Restricted Subsidiary (other than a Project Finance Subsidiary unless such sale or transfer was made by a Project Finance Subsidiary) in a Permitted Business or (y) Capital Stock of a Person engaged in a Permitted Business that will become, upon purchase, a Restricted Subsidiary (other than a Project Finance Subsidiary unless the sale or transfer was made by a Project Finance Subsidiary) and (ii) any Net Cash Proceeds from such sale or other transfer that are not applied as described in the preceding clause (i) within the time period described therein shall be applied in accordance with the covenant described under “—Certain Covenants—Limitation on Asset Sales.”

“*Beneficial Owner*” has the meaning assigned to such term in Rule 13d-3 and Rule 13d-5 under the Exchange Act. The terms “*Beneficially Owns*” and “*Beneficially Owned*” have a corresponding meaning.

“*Board of Directors*” means, as to any Person, the board of directors, management committee or similar governing body of such Person or any duly authorized committee thereof; provided that, if such Person has a dual board structure, the term “Board of Directors” shall refer to the board body responsible for the oversight of the business operations of such Person unless the members of such body may be replaced by action taken by the other board body (a “senior board”), in which case the term “Board of Directors” shall refer to the senior board.

“*Board Resolution*” means, with respect to any Person, a copy of a resolution certified by the Secretary or an Assistant Secretary of such Person to have been duly adopted by the Board of Directors of such Person and to be in full force and effect on the date of such certification, and delivered to the Trustee.

“*Bolivian Indebtedness*” means any Indebtedness issued by a Subsidiary (including any Specified Affiliate Holding Company) whose primary operations are located in Bolivia.

“*Capital Expenditures*” means, for any Person, the aggregate amount of all expenditures of such Person for fixed or capital assets made during such period which, in accordance with IFRS, would be classified as capital expenditures.

“*Capital Stock*” means:

- (1) with respect to any Person that is a corporation, any and all shares, interests, participations or other equivalents (however designated and whether or not voting) of corporate stock, including each class of Common Stock and Preferred Stock of such Person;
- (2) with respect to any Person that is not a corporation, any and all partnership or other equity or ownership interests of such Person; and
- (3) any warrants, rights or options to purchase or acquire any of the instruments or interests referred to in clause (1) or (2) above, but excluding Indebtedness convertible into equity.

“*Capitalized Lease Obligations*” means, as to any Person, the obligations of such Person under a lease that are required to be classified and accounted for as capital lease obligations under IFRS, including any Refinancing of such obligations that does not increase the aggregate principal amount thereof as of the date of Refinancing. For purposes of this definition, the amount of such obligations at any date will be the capitalized amount of such obligations at such date, determined in accordance with IFRS.

“*Cash Equivalents*” means, at any time, any of the following:

- (1) United States dollars or money in other currencies received in the ordinary course of business;
- (2) direct obligations of, or unconditionally guaranteed by any country or a state thereof (or any agency or political subdivision thereof, to the extent such obligations are supported by the full faith and credit of the government of such country or a state thereof), maturing not more than one year after such time of purchase, that is rated A2 or higher by Moody’s or A or higher by S&P;

(3) commercial paper maturing no more than one year from the date of purchase thereof and, at the time of acquisition, having an Investment Grade Rating from Moody's and S&P;

(4) demand deposits, certificates of deposit, time deposits or bankers' acceptances maturing within one year from the date of acquisition thereof issued by (a) any bank organized under the laws of the United States of America or any state thereof or the District of Columbia, (b) any member State of the European Union, (c) any U.S. branch of a non-U.S. bank having at the date of acquisition thereof combined capital and surplus of not less than US\$250.0 million, (d) with respect to Cash Equivalents made by any Person whose principal place of business is in a jurisdiction other than the United States or such member state of the European Union, a bank operating in such other jurisdiction that either (A) has a long-term local currency rating of A2 or higher from Moody's, A or higher from S&P or A or higher from Fitch, or (B) is ranked (by any applicable governmental regulatory authority or by any reputable, non-governmental ranking organization) as one of the top three banks in such jurisdiction (ranked by total assets), or (e) any bank to the extent the Company or any of its Subsidiaries (including any Specified Affiliate Holding Company or any of their Subsidiaries) maintains any deposits with such bank in the ordinary course of business, so long as no such deposit is outstanding for longer than 14 days;

(5) repurchase obligations with a term of not more than seven days for underlying securities of the types described in clause (1) above entered into with any bank meeting the qualifications specified in clause (3) above; and

(6) investments in money market funds which invest substantially all of their assets in securities of the types described in clauses (1) through (4) above.

*"Change of Control"* means the occurrence of one or more of the following events:

(1) prior to the first underwritten Public Equity Event, the Permitted Holders or a Qualified Transferee cease to be the Beneficial Owners (except that the Permitted Holders or a Qualified Transferee shall be deemed to have Beneficial Ownership of all shares that they have the right to acquire, whether such right is exercisable immediately or only after the passage of time), directly or indirectly, of a majority of the total voting power of the Voting Stock of the Company (including a Surviving Entity, if applicable);

(2) at the time of or subsequent to the first underwritten Public Equity Event, the Company becomes aware of (by way of a report or any other filing pursuant to Section 13(d) of the Exchange Act, proxy, vote, written notice or otherwise) the acquisition by any person or group (within the meaning of Section 13(d)(3) or Section 14(d)(2) of the Exchange Act, or any successor provision), including any group acting for the purpose of acquiring, holding or disposing of securities (within the meaning of Rule 13d-5(b)(1) under the Exchange Act), other than one or more Permitted Holders or Qualified Transferees, in a single transaction or in a related series of transactions, by way of merger, consolidation or other business combination or purchase of Beneficial Ownership of 35% or more of the total voting power of the Voting Stock of the Company and the Permitted Holders or a Qualified Transferee shall own, directly or indirectly, less than such Person or group of the total voting power of the Voting Stock of the Company;

(3) the approval by the holders of Capital Stock of the Company of any plan or proposal for the liquidation or dissolution of the Company, whether or not otherwise in compliance with the provisions of the Indenture; or

(4) the Company (including a Surviving Entity, if applicable), directly or indirectly, ceases to be the Beneficial Owner of more than a majority of the economic value of the outstanding Capital Stock of Kallpa;

provided that none of the sale, assignment, transfer, lease, conveyance or other disposition of the Capital Stock of any Specified Affiliate Holding Company shall be deemed to be a "Change of Control."

*"Change of Control Payment"* has the meaning set forth under "*—Change of Control.*"

*"Change of Control Payment Date"* has the meaning set forth under "*—Change of Control.*"

*"Code"* means U.S. Internal Revenue Code of 1986, as amended.

“*Common Stock*” of any Person means any and all shares, interests or other participations in, and other equivalents (however designated and whether voting or non-voting) of such Person’s common equity interests, whether outstanding on the Issue Date or issued after the Issue Date, and includes, without limitation, all series and classes of such common equity interests.

“*Comparable Treasury Issue*” has the meaning set forth under “Optional Redemption.”

“*Comparable Treasury Price*” has the meaning set forth under “Optional Redemption.”

“*Consolidated EBITDA*” means, for any period:

- (1) consolidated revenue; *minus*
- (2) consolidated cost of sales; *minus*
- (3) consolidated administrative expenses; *plus*
- (4) consolidated other non-operating income, net; *plus*
- (5) non-cash or non-recurring losses or expenses included in any of the foregoing; *plus*
- (6) any dividends, distributions or cash received by the Company or any of the Restricted Subsidiaries from an Unrestricted Subsidiary or any Person in which the Company owns a minority interest;

as each such item is reported on the most recent consolidated financial statements delivered by the Company to the Trustee and prepared in accordance with IFRS.

“*Consolidated Net Leverage Ratio*” means, with respect to any Person as of any date of determination, the ratio of the aggregate amount of Consolidated Total Net Indebtedness for such Person as of such date to Consolidated EBITDA for such Person for the four most recent full fiscal quarters for which financial statements are available ending prior to the date of such determination.

For purposes of this definition, Consolidated Total Net Indebtedness and Consolidated EBITDA will be calculated after giving effect on a *pro forma* basis in good faith for the period of such calculation for the following:

- (1) the Incurrence, repayment or redemption of any Indebtedness (including Acquired Indebtedness) of such Person or any of its Subsidiaries (Restricted Subsidiaries (other than any Project Finance Subsidiary) in the case of the Company), and the application of the proceeds thereof, including the Incurrence of any Indebtedness (including Acquired Indebtedness), and the application of the proceeds thereof, giving rise to the need to make such determination, occurring during such period or at any time subsequent to the last day of such period and prior to or on such date of determination, to the extent, in the case of an Incurrence, such Indebtedness is outstanding on the date of determination, as if such Incurrence, and the application of the proceeds thereof, repayment or redemption occurred on the first day of such period; and
- (2) any Asset Sale Transaction or Asset Acquisition by such Person or any of its Subsidiaries (Restricted Subsidiaries (other than any Project Finance Subsidiary) in the case of the Company), including any Asset Sale or Asset Acquisition giving rise to the need to make such determination, occurring during the such period or at any time subsequent to the last day of such period and prior to or on such date of determination, as if such Asset Sale Transaction or Asset Acquisition occurred on the first day of such period.

For purposes of making such *pro forma* computation, the amount of Indebtedness under any revolving credit facility will be computed based on:

- (a) the average daily balance of such Indebtedness during such period; or
- (b) if such facility was created after the end of such period, the average daily balance of such Indebtedness during the period from the date of creation of such facility to the date of such calculation,

in each case giving *pro forma* effect to any borrowings related to any transaction referred to in clause (2) above.

“*Consolidated Net Income*” means, with respect to any Person for any period, the aggregate net income (or loss) of such Person and its Subsidiaries (including any Specified Affiliate Holding Company and its Subsidiaries) for such period on a consolidated basis, determined in accordance with IFRS; provided, that there shall be excluded therefrom to the extent reflected in such aggregate net income (loss):

(1) the net income (or loss) of any Person that is (i) not a Restricted Subsidiary, (ii) accounted for by the equity method of accounting or (iii) a Project Finance Subsidiary, except, in each case, to the extent of the amount of dividends or similar distributions paid in cash to the specified Person or a Restricted Subsidiary of the Person (other than a Project Finance Subsidiary);

(2) any non-cash charges or expense (other than depreciation, depletion or amortization) and non-cash gains; and

(3) the cumulative effect of changes in accounting principles.

“*Consolidated Total Assets*” means the aggregate amount of total assets of the Company and the Restricted Subsidiaries, all determined on a consolidated basis in accordance with IFRS, based (i) on the Company’s most recent annual or quarterly balance sheet which are available, (ii) in accordance with IFRS and (iii) on a *pro forma* basis to give effect to any acquisition or disposition of companies, divisions, lines of businesses or operations by the Company and the Restricted Subsidiaries subsequent to such date and on or prior to the date of determination.

“*Consolidated Total Net Indebtedness*” means, with respect to any Person as of any date of determination, an amount equal to the aggregate amount (without duplication) of all Indebtedness of such Person and its Subsidiaries (Restricted Subsidiaries (other than any Project Finance Subsidiary) in the case of the Company) outstanding at such time less the sum of (without duplication) consolidated cash and Cash Equivalents and consolidated marketable securities recorded as current assets (including the net proceeds from the issuance of the Notes so long as such proceeds are invested in cash and Cash Equivalents and/or consolidated marketable securities recorded as current assets), except for any Capital Stock in any Person, in all cases determined in accordance with IFRS and as set forth in the most recent consolidated balance sheet of the Company and the Restricted Subsidiaries (excluding any Project Finance Subsidiaries).

“*Covenant Defeasance*” has the meaning set forth under “—Legal Defeasance and Covenant Defeasance.”

“*Covenant Suspension Event*” has the meaning set forth under “Covenant Suspension.”

“*Currency Agreement*” means, in respect of any Person, any foreign exchange contract, currency swap agreement or other similar agreement as to which such Person is a party designed to hedge foreign currency risk of such Person.

“*Default*” means an event or condition the occurrence of which is, or with the lapse of time or the giving of notice or both would be, an Event of Default.

“*Designation*” and “*Designation Amount*” have the meanings set forth under “—Certain Covenants—Limitation on Designation of Unrestricted Subsidiaries and Project Finance Subsidiaries” above.

“*Designated Jurisdiction*” means any country or territory to the extent that such country or territory itself is the subject of Sanctions that broadly prohibit dealings with that country or territory (as of the Issue Date, the Designated Jurisdictions are Cuba, Crimea, Iran, North Korea, Sudan and Syria).

“*Disqualified Capital Stock*” means that portion of any Capital Stock which, by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable at the option of the holder thereof), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or is redeemable at the sole option of the holder thereof, in any case, on or prior to the 91st day after the final maturity date of the Notes.

“*Equity Event*” has the meaning set forth under “Redemption.”

“*EU Country*” means any member state of the European Union.

“*Event of Default*” has the meaning set forth under “Events of Default.”

“*Exchange Act*” means the Securities Exchange Act of 1934, as amended, or any successor statute or statutes thereto.

“*Existing Committed Financing*” means, each of:

(1) US\$10,000,000 short-term Credit Facility, dated June 29, 2017, between Banco Industrial, S.A. and Distribuidora de Electricidad de Occidente, S.A.;

(2) US\$10,000,000 short-term Credit Facility, dated June 29, 2017, between Banco Industrial, S.A. and Distribuidora de Electricidad de Oriente, S.A.;

(3) US\$20,000,000 committed short-term Credit Facility, between Banco Industrial, S.A. and Distribuidora de Electricidad de Occidente, S.A.;

(4) US\$20,000,000 committed short-term Credit Facility, between Banco Industrial, S.A. and Distribuidora de Electricidad de Oriente, S.A.;

(5) US\$6,000,000 short-term Credit Facility, dated December 30, 2015, between Scotiabank (Panamá) S.A. and Kanan Overseas I. Inc;

(6) US\$20,000,000 short-term Credit Facility between Banco Itau Bba S.A. and Inkia Energy Ltd.;

(7) US\$25,000,000 short-term Credit Facility between JP Morgan Chase Bank National Association and Inkia Energy Ltd.;

(8) US\$13,809,000 short-term Credit Facility between Scotiabank Peru S.A.A. and Inkia Energy Ltd.;

(9) US\$22,500,000 short-term Credit Facility between Deutsche Bank AG New York Branch and Inkia Energy Ltd.;

(10) US\$30,000,000 short-term Credit Facility between Banco Santander Peru S.A. and Inkia Energy Ltd.;

(11) US\$25,000,000 short-term Credit Facility between Bank of America, National Association and Inkia Energy Ltd.;

(12) US\$50,000,000 short-term Credit Facility between Banco de Crédito del Perú S.A. and Kallpa Generación S.A.;

(13) US\$12,500,000 short-term Credit Facility (for the issuance of Letters of Credit) between Banco de Crédito del Perú S.A. and Kallpa Generación S.A.;

(14) US\$30,000,000 short-term Credit Facility (for the issuance of Letters of Credit related to payments fulfillment) between Banco de Crédito del Perú S.A. and Kallpa Generación S.A.;

(15) US\$71,500,000 short-term Credit Facility between Scotiabank Peru S.A.A. and Kallpa Generación S.A.;

(16) US\$40,000,000 short-term Credit Facility (for the issuance of Promissory Notes) between Banco Internacional del Perú S.A.A. and Kallpa Generación S.A.;

(17) US\$20,000,000 short-term Credit Facility (for the issuance of Letters of Credit) between Banco Internacional del Perú S.A.A. and Kallpa Generación S.A.;

(18) US\$1,000,000 short-term Credit Facility (for the issuance of Forward derivatives) between Banco Internacional del Perú S.A.A. and Kallpa Generación S.A.;

(19) US\$35,000,000 short-term Credit Facility (for the issuance of Promissory Notes) between Banco Internacional del Perú S.A.A. and Samay I S.A.;

- (20) US\$7,000,000 short-term Credit Facility (for the issuance of Promissory Notes) between Banco Internacional del Perú S.A.A. and Samay I S.A.;
- (21) US\$5,000,000 short-term Credit Facility, dated August 10, 2017, between Banco Industrial, S.A. and Puerto Quetzal Power LLC;
- (22) US\$6,500,000 short-term Credit Facility (for the issuance of Letters of Credit), dated August 10, 2017, between Banco Industrial, S.A. and Puerto Quetzal Power LLC;
- (23) US\$8,000,000 short-term Credit Facility (for the issuance of Letters of Credit related to Wholesale Market Administrator transactions), dated August 10, 2017, between Banco Industrial, S.A. and Puerto Quetzal Power LLC;
- (24) US\$3,000,000 short-term overdraft Credit Facility, dated July 17, 2017, between Banco Industrial, S.A. and Puerto Quetzal Power LLC;
- (25) US\$5,000,000 short-term Credit Facility between Banco Bisa S.A. and Compañía Boliviana de Energía Eléctrica S.A.;
- (26) US\$5,000,000 short-term Credit Facility between Banco Mercantil Santa Cruz S.A. and Compañía Boliviana de Energía Eléctrica S.A.;
- (27) US\$4,023,000 short-term Credit Facility (28,000,000 Bolivianos) between Banco Nacional de Bolivia S.A. and Compañía Boliviana de Energía Eléctrica S.A.;
- (28) US\$4,928,000 short-term Credit Facility (34,300,000 Bolivianos) between Banco de Crédito de Bolivia S.A. and Compañía Boliviana de Energía Eléctrica S.A.;
- (29) US\$8,378,000 long-term Credit Facility (58,300,000 Bolivianos) between Banco de Crédito de Bolivia S.A. and Compañía Boliviana de Energía Eléctrica S.A.;
- (30) US\$1,500,000 short-term Credit Facility between Banco BICE and Termoeléctrica Colmito S.A.;
- (31) US\$2,000,000 short-term Credit Facility between Banco BICE and IC Power Chile Inv. Ltda.;
- (32) US\$3,500,000 short-term Credit Facility between Banco Santander-Chile and IC Power Chile Inv. Ltda.;
- (33) US\$6,000,000 short-term Credit Facility between Banco de América Central, S.A. and Empresa Energética Corinto Ltd.;
- (34) US\$3,000,000 short-term Credit Facility between Banco de América Central, S.A. and Tipitapa Power Company Ltd.;
- (35) US\$11,000,000 short-term Credit Facility between Banco Citibank de El Salvador, S.A. and Nejapa Power Company S.A. and Compañía de Energía de Centroamérica, S.A. de C.V.;
- (36) US\$16,000,000 short-term Credit Facility between Banco de América Central, S.A. and Nejapa Power Company S.A. and Compañía de Energía de Centroamérica, S.A. de C.V.;
- (37) US\$12,000,000 short-term Credit Facility between Scotiabank El Salvador S.A. and Nejapa Power Company S.A.;
- (38) US\$5,000,000 short-term Credit Facility (625,000,000 Jamaican Dollars) between Sagicor Bank Jamaica Limited and Jamaica Private Power Company Ltd.;
- (39) US\$10,000,000 short-term Credit Facility between Scotiabank República Dominicana and Compañía de Electricidad de Puerto Plata S.A.;

(40) US\$10,000,000 short-term Credit Facility between Banco BHD S.A. and Compañía de Electricidad de Puerto Plata S.A.;

(41) US\$10,000,000 short-term Credit Facility between Banco de Reservas de la República Dominicana and Compañía de Electricidad de Puerto Plata S.A.; and

(42) US\$5,950,000 short-term Credit Facility between Citibank, N.A., Sucursal República Dominicana and Compañía de Electricidad de Puerto Plata S.A.

“*Fair Market Value*” means the value (excluding, for the avoidance of doubt, any assumption of Indebtedness in connection with such transaction) that would be paid by a buyer to an unaffiliated seller, determined in good faith by the Board of Directors of the Company (unless otherwise provided in the Indenture) and evidenced by a Board Resolution; *provided*, that with respect to any price less than US\$10.0 million (or the equivalent in other currencies) only a good faith determination by the Company’s senior management will be required.

“*Fitch*” means Fitch Ratings Ltd. and its successors.

“*Fuel Agreement*” of any Person means any fuel price protection agreement (including, without limitation, interest rate swaps, caps, floors, collars, derivative instruments and similar agreements) and/or other types of hedging agreements designed to hedge fuel price risk of such Person. For the avoidance of doubt, the term “*Fuel Agreement*” does not include long-term fuel supply purchase agreements.

“*Governmental Authority*” means the government of Bermuda, Peru or any other nation or any political subdivision of any thereof, whether provincial, state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other Person exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government.

“*Guarantee*” means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness of any other Person:

(1) to purchase or pay, or advance or supply funds for the purchase or payment of, such Indebtedness of such other Person, whether arising by virtue of partnership arrangements, or by agreement to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise; or

(2) entered into for purposes of assuring in any other manner the obligee of such Indebtedness of the payment thereof or to protect such obligee against loss in respect thereof, in whole or in part;

*provided*, that “*Guarantee*” will not include endorsements for collection or deposit in the ordinary course of business. “*Guarantee*” used as a verb has a corresponding meaning.

“*Hedging Obligations*” means the obligations of any Person pursuant to any Interest Rate Agreement, Currency Agreement or Fuel Agreement.

“*Holding Company Permitted Liens*” means any of the following:

(1) Liens securing Acquired Indebtedness Incurred in accordance with “—Certain Covenants—Limitation on Incurrence of Additional Indebtedness” not incurred in connection with, or in anticipation or contemplation of, the relevant acquisition, merger or consolidation; *provided*, that

(a) such Liens secured such Acquired Indebtedness at the time of and prior to the Incurrence of such Acquired Indebtedness by the Company or a Restricted Subsidiary and were not granted in connection with, or in anticipation of the Incurrence of such Acquired Indebtedness by the Company; and

(b) such Liens do not extend to or cover any property of the Company other than the property that secured the Acquired Indebtedness prior to the time such Indebtedness became Acquired Indebtedness of the Company and are no more favorable to the lienholders than the Liens securing the Acquired Indebtedness prior to the Incurrence of such Acquired Indebtedness by the Company;

(2) Liens for taxes, assessments or other governmental charges not yet subject to penalties for nonpayment or which are being contested in good faith by appropriate proceedings, provided that appropriate reserves required pursuant to IFRS have been made in respect thereof;

(3) judgment Liens not giving rise to an Event of Default so long as such Lien is adequately bonded and any appropriate legal proceedings which may have been duly initiated for the review of such judgment have not been finally terminated or the period within which such proceeding may be initiated has not expired; and

(4) Liens for the purpose of securing the payment of all or a part of the purchase price of assets or property acquired or constructed in the ordinary course of business, provided that:

(a) the aggregate principal amount of Indebtedness secured by such Liens is otherwise permitted to be Incurred in accordance with “—Certain Covenants—Limitation on Incurrence of Additional Indebtedness” and does not exceed the cost of the assets or property so acquired or constructed; and

(b) such Liens are created within 180 days of construction or acquisition of such assets or property and do not encumber any other assets or property of the Company or any Restricted Subsidiary other than such assets or property and assets affixed or appurtenant thereto.

“*IC Power*” means IC Power Ltd., a Singapore corporation.

“*IFRS*” means, International Financial Reporting Standards as issued by the International Accounting Standards Board.

“*Incur*” means, with respect to any Indebtedness or other obligation of any Person, to create, issue, incur (including by conversion, exchange or otherwise), assume, Guarantee or otherwise become liable in respect of such Indebtedness or other obligation on the balance sheet of such Person (and “Incurrence,” “Incurred” and “Incurring” will have meanings correlative to the preceding). For the avoidance of doubt, any completion guarantee entered into by a Person that qualifies as Indebtedness of such Person shall be Incurred on the date the completion guarantee becomes a legal, valid and binding obligation of such Person.

“*Indebtedness*” means with respect to any Person, without duplication:

(1) the principal amount (or, if less, the accreted value) of all obligations of such Person for borrowed money;

(2) the principal amount (or, if less, the accreted value) of all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;

(3) all Capitalized Lease Obligations of such Person, other than power purchase agreements and fuel supply and transportation agreements that are treated as such;

(4) Purchase Money Indebtedness;

(5) all letters of credit, banker’s acceptances or similar credit transactions, including reimbursement obligations in respect thereof;

(6) Guarantees and other contingent obligations of such Person in respect of Indebtedness referred to in clauses (1) through (5) above and clauses (8) through (10) below;

(7) all Indebtedness of any other Person of the type referred to in clauses (1) through (6) which is secured by any Lien on any property or asset of such Person (other than the Capital Stock of such Person, if any such Person is a Project Finance Subsidiary or an Unrestricted Subsidiary), the amount of such Indebtedness being deemed to be the lesser of the Fair Market Value of such property or asset or the amount of the Indebtedness so secured;

(8) all obligations under Hedging Obligations of such Person to the extent such Hedging Obligations appear as a liability on the balance sheet of such Person, prepared in accordance with IFRS;



(9) all Disqualified Capital Stock issued by such Person with the amount of Indebtedness represented by such Disqualified Capital Stock being equal to the greater of its voluntary or involuntary liquidation preference and its maximum fixed repurchase price, but excluding accrued dividends, if any; provided, that:

(a) if the Disqualified Capital Stock does not have a fixed repurchase price, such maximum fixed repurchase price will be calculated in accordance with the terms of the Disqualified Capital Stock as if the Disqualified Capital Stock were purchased on any date on which Indebtedness will be required to be determined pursuant to the Indenture; and

(b) if the maximum fixed repurchase price is based upon, or measured by, the fair market value of the Disqualified Capital Stock, the fair market value will be the Fair Market Value thereof; and

(10) all liabilities recorded on the balance sheet of such Person in connection with any equity commitments made to a Project Finance Subsidiary.

Notwithstanding anything to the contrary contained herein, Indebtedness shall not include: (a) any intercompany loan provided by Kenon, a Qualified Transferee or any of their respective Affiliates that is subordinated, in the event of a total or partial liquidation or a total or partial dissolution of the Company or in a bankruptcy, insolvency or receivership, to the prior payment in full in cash of all obligations with respect to the Notes; *provided*, that any future intercompany loan provided by Kenon, a Qualified Transferee or any of their respective Affiliates shall be subordinated, in the event of a total or partial liquidation or a total or partial dissolution of the Company or in a bankruptcy, insolvency or receivership, to the prior payment in full in cash of all obligations with respect to the Notes, and shall contain subordination provisions that are not more disadvantageous to the Holders in any material respect, taken as a whole, than the subordination provisions in the intercompany loans provided by Kenon or any of its Affiliates as of the Issue Date, (b) any liabilities recorded on the balance sheet of the Company or any Restricted Subsidiary in connection with any equity contribution commitments for any Project Finance Subsidiary or (c) completion guarantees or equity commitments that are treated as Restricted Payments at the election of the Company.

“*Independent Financial Advisor*” means an accounting firm, appraisal firm, investment banking firm or consultant that is, in the reasonable judgment of the Company’s Board of Directors, qualified to perform the task for which it has been engaged and which is independent in connection with the relevant transaction.

“*Independent Investment Banker*” has the meaning set forth under “—Optional Redemption.”

“*Interest Rate Agreement*” of any Person means any interest rate protection agreement (including, without limitation, interest rate swaps, caps, floors, collars, derivative instruments and similar agreements) and/or other types of hedging agreements designed to hedge interest rate risk of such Person.

“*Intermediate Holding Company*” means (x) any Restricted Subsidiary that owns directly or indirectly at least 25% of the Capital Stock of Kallpa, Distribuidora de Electricidad de Occidente, S.A. or Distribuidora de Electricidad de Oriente, S.A. and (y) any Specified Affiliate Holding Company; provided, that such Restricted Subsidiary or Specified Affiliate Holding Company shall be a “passive” holding company.

“*Investment*” means, with respect to any Person, any:

(1) direct or indirect loan, advance or other extension of credit (including, without limitation, a Guarantee) to any other Person (other than advances or extensions of credit to customers in the ordinary course of business or any debt or extension of credit by a bank deposit other than a time deposit),

(2) capital contribution (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others) to any other Person, or

(3) purchase or acquisition by such Person of any Capital Stock, bonds, notes, debentures or other securities or evidences of Indebtedness issued by, any other Person.

The Company will be deemed to have made an “Investment” in an Unrestricted Subsidiary or a Project Finance Subsidiary, as applicable, at the time of its Designation, which will be valued at the Fair Market Value of the sum of the net assets of such Unrestricted Subsidiary or a Project Finance Subsidiary, as applicable, at the time of its Designation

and the amount of any Indebtedness of such Unrestricted Subsidiary or a Project Finance Subsidiary, as applicable, owed to the Company or any Restricted Subsidiary immediately following such Designation. Any property transferred to or from an Unrestricted Subsidiary or a Project Finance Subsidiary, as applicable, will be valued at its Fair Market Value at the time of such transfer. If the Company or any Restricted Subsidiary sells or otherwise disposes of any Capital Stock of a Restricted Subsidiary (including any issuance and sale of Capital Stock by a Restricted Subsidiary) such that, after giving effect to any such sale or disposition, such Restricted Subsidiary would cease to be a Subsidiary (including any Specified Affiliate Holding Company) of the Company, the Company will be deemed to have made an Investment on the date of any such sale or disposition equal to sum of the Fair Market Value of the Capital Stock of such former Restricted Subsidiary held by the Company or any Restricted Subsidiary immediately following such sale or other disposition and the amount of any Indebtedness of such former Restricted Subsidiary Guaranteed by the Company or any Restricted Subsidiary or owed to the Company or any other Restricted Subsidiary immediately following such sale or other disposition.

“*Investment Grade Rating*” means BBB- or higher by S&P, Baa3 or higher by Moody’s or BBB- or higher by Fitch, or the equivalent of such global ratings by S&P, Moody’s or Fitch.

“*Issue Date*” means, the first date of issuance of Notes under the Indenture.

“*Kallpa*” means Kallpa Generación S.A., or any successor entity thereto.

“*Kenon*” means Kenon Holdings Ltd., a Singapore corporation.

“*Legal Defeasance*” has the meaning set forth under “Legal Defeasance and Covenant Defeasance.”

“*Lien*” means any lien, mortgage, deed of trust, pledge, security interest, charge or encumbrance of any kind (including any conditional sale or other title retention agreement, any lease in the nature thereof and any agreement to give any security interest); provided that the lessee in respect of a Capitalized Lease Obligation or Sale and Leaseback Transaction will be deemed to have Incurred a Lien on the property leased thereunder.

“*Moody’s*” means Moody’s Investors Service, Inc. and its successors.

“*Net Cash Proceeds*” means, with respect to any Asset Sale, the proceeds in the form of cash or Cash Equivalents, including payments in respect of deferred payment obligations when received in the form of cash or Cash Equivalents (other than the portion of any such deferred payment constituting interest) received by the Company or any of the Restricted Subsidiaries from such Asset Sale, net of:

- (1) reasonable out-of-pocket expenses and fees relating to such Asset Sale (including, without limitation, legal, accounting and investment banking fees, brokerage commissions, sales commissions and other direct costs);
- (2) taxes paid or payable in respect of such Asset Sale after taking into account any reduction in consolidated tax liability due to available tax credits or deductions and any tax sharing arrangements;
- (3) repayment of Indebtedness including premiums and accrued interest that are either (a) secured by a Lien permitted under the Indenture that is required to be repaid in connection with such Asset Sale or (b) otherwise required to be repaid in connection with such Asset Sale; and
- (4) appropriate amounts to be provided by the Company or any Restricted Subsidiary, as the case may be, as a reserve, in accordance with IFRS, against any liabilities associated with such Asset Sale and retained by the Company or any Restricted Subsidiary, as the case may be, after such Asset Sale, including, without limitation, pension and other post-employment benefit liabilities, liabilities related to environmental matters and liabilities under any indemnification obligations associated with such Asset Sale, but excluding any reserves with respect to Indebtedness.

“*Net Offering Proceeds*” means, with respect to the issuance of the Notes, the proceeds in the form of cash received by the Company from the issuance and sale of the Notes on the Issue Date, net of:

(1) reasonable out-of-pocket expenses and fees relating to such issuance (including, without limitation, legal, accounting and investment banking fees, brokerage commissions, sales commissions and other direct costs);

(2) taxes paid or payable in respect of such issuance; and

(3) repayment of Indebtedness including premiums and accrued interest with the proceeds of such issuance.

“*OFAC*” means the Office of Foreign Assets Control of the U.S. Department of the Treasury.

“*Officer*” means the Chairman of the Board (if an executive), the Chief Executive Officer, the Chief Financial Officer, the President, the Chief Operating Officer, General Counsel, Chief Accounting Officer, the Treasurer, the Controller or the Secretary of the Company.

“*Officers’ Certificate*” means a certificate signed by two Officers.

“*Opinion of Counsel*” means a written opinion of counsel, who may be an employee of or counsel for the Company, containing customary exceptions and qualifications.

“*Permitted Business*” means (i) the business or businesses conducted by the Company, its Subsidiaries (including any Specified Affiliate Holding Company and its Subsidiaries) and other operating businesses described in the offering memorandum as of the Issue Date, and (ii) any business reasonably ancillary, complementary, similar or related to the business or businesses provided for in clause (i) above.

“*Permitted Holders*” means Kenon, IC Power, any fund managed by Kenon or IC Power or any Affiliate thereof.

“*Permitted Indebtedness*” has the meaning set forth under clause (2) of “—Certain Covenants—Limitation on Incurrence of Additional Indebtedness.”

“*Permitted Investments*” means:

(1) Investments by the Company or any Restricted Subsidiary (other than a Project Finance Subsidiary) in any Person that is, or that result in any Person becoming, immediately after such Investment, a Restricted Subsidiary (other than a Project Finance Subsidiary) or constituting a merger or consolidation of such Person into the Company or with or into a Restricted Subsidiary (other than a Project Finance Subsidiary);

(2) Investments in the Company (including purchases by the Company or any Restricted Subsidiary of the Notes or any other Indebtedness of the Company or any wholly-owned Restricted Subsidiary);

(3) Investments in cash and Cash Equivalents;

(4) any Investment existing on, or made pursuant to written agreements existing on, the Issue Date and any extension, modification or renewal of such Investments (but not Investments involving additional advances, contributions or other investments of cash or property or other increases thereof (unless a binding commitment therefore has been entered into on or prior to the Issue Date), other than as a result of the accrual or accretion of interest or original issue discount or payment-in-kind pursuant to the terms of such Investment as of the Issue Date);

(5) Investments permitted pursuant to clause (2)(c) or (d) of “—Certain Covenants—Limitation on Transactions with Affiliates”;

(6) any Investments received in compromise or resolution of (A) obligations of Persons that were incurred in the ordinary course of business of the Company or any of the Restricted Subsidiaries, including pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of any Persons; or (B) litigation, arbitration or other disputes;

(7) Investments by the Company or the Restricted Subsidiaries as a result of non-cash consideration permitted to be received in connection with an Asset Sale made in compliance with the covenant described under “—Certain Covenants— Limitation on Asset Sales”;

(8) Investments permitted under clause 2(d) of “—Certain Covenants—Limitation on Incurrence of Additional Indebtedness”;

(9) loans and advances to officers, directors and employees made in the ordinary course of business of the Company or any Restricted Subsidiary of the Company in an aggregate principal amount not to exceed US\$2.0 million at any one time outstanding.

(10) any Investment acquired from a Person which is merged with or into the Company or any Restricted Subsidiary, or any Investment of any Person existing at the time such Person becomes a Restricted Subsidiary and, in either such case, is not created as a result of or in connection with or in anticipation of any such transaction;

(11) any acquisition of assets or Capital Stock solely in exchange for the issuance of Capital Stock (other than Disqualified Capital Stock) of the Company; and

(12) Investments by the Company or any Restricted Subsidiary consisting of deposits, prepayment and other credits to suppliers or lessors in the ordinary course of business;

(13) Investments by the Company or any Restricted Subsidiary in customers and suppliers in the ordinary course of business which either (a) generate accounts receivable, or (b) are accepted in settlement of bona fide disputes;

(14) advances, loans or extensions of trade credit in the ordinary course of business by the Company or any Restricted Subsidiary;

(15) Investments in Project Finance Subsidiaries in the aggregate not to exceed the aggregate of (i) the greater of (x) US\$500.0 million and (y) 10.0% of the Company’s Consolidated Total Assets plus (ii) the net proceeds from this offering that is not used to repay existing Indebtedness, at any one time outstanding; and

(16) other Investments in Persons primarily engaged in a Permitted Business in an aggregate amount outstanding at any one time not to exceed the greater of (i) US\$200.0 million and (ii) 5.0% of the Company’s Consolidated Total Assets.

“*Permitted Reorganization*” means, in connection with or following any sale or other disposition of all or substantially all of the assets of the Company and the Restricted Subsidiaries to a Qualified Transferee and its Affiliates, any amalgamation, merger, consolidation, sale, conveyance, transfer or other corporate reorganization, in one or more transactions, pursuant to which 100% of the Capital Stock of any Restricted Subsidiary which owns and operates the business in Guatemala under the trade name “Energuate” or any of the assets of the Company or the Restricted Subsidiaries located in Nicaragua, El Salvador, Panama, Dominican Republic, Guatemala, Jamaica, Chile or Bolivia is transferred to an Affiliate of the Company (or the Surviving Entity) (each such Affiliate, a “Specified Affiliate Holding Company”); provided that (a) each Specified Affiliate Holding Company shall be deemed a Restricted Subsidiary for all purposes (including with respect to the definitions of Consolidated EBITDA, Consolidated Net Leverage Ratio, Consolidated Net Income, Consolidated Total Assets and Consolidated Total Net Indebtedness) under the Indenture; and (b) each Specified Affiliate Holding Company shall become a co-issuer of the Notes.

“*Person*” means an individual, partnership, limited partnership, corporation, company, limited liability company, unincorporated organization, trust or joint venture, or a governmental agency or political subdivision thereof.

“*Preferred Stock*” of any Person means any Capital Stock of such Person that has preferential rights over any other Capital Stock of such Person with respect to dividends, distributions or redemptions or upon liquidation.

“*Project Finance Subsidiary*” means any Restricted Subsidiary and any Restricted Subsidiary thereof that is a special purpose vehicle established to finance a project for the acquisition, construction, development and exploitation of any power plant, transmission facility, distribution facility, fuel shipment receiving facility, gas pipeline or other related facility. As of the Issue Date, Samay I S.A. will be a Project Finance Subsidiary; provided that, for the avoidance of

doubt, Kallpa's designation as a "project finance subsidiary" under the terms of any other Indebtedness shall not be impacted by the absence of its designation as a Project Finance Subsidiary under the Indenture.

"*Public Equity Event*" means a public offering of Qualified Capital Stock of the Company in excess of US\$100.0 million.

"*Purchase Money Indebtedness*" means all obligations of a Person issued or assumed as the deferred purchase price of property, all conditional sale obligations and all obligations under any title retention agreement due more than six months after such property is acquired and excluding trade accounts payable and other accrued liabilities arising in the ordinary course of business that are not overdue by 90 days or more or are being contested in good faith by appropriate proceedings promptly instituted and diligently conducted.

"*Qualified Capital Stock*" means any Capital Stock that is not Disqualified Capital Stock and any warrants, rights or options to purchase or acquire Capital Stock that is not Disqualified Capital Stock or that are not convertible into or exchangeable into Disqualified Capital Stock.

"*Qualified Transferee*" means any Person (whether directly or indirectly through one or more of its Subsidiaries or, in the case of a fund, one or more funds under management by the same fund manager), that at the time it acquires an interest in the Company:

(1) (A) has a tangible net worth or assets under management of at least US\$2.0 billion or (B) the ratings (from at least two of S&P, Moody's or Fitch) of the unsecured senior indebtedness of such Person are at least "BBB-" from S&P or Fitch and "Baa3" from Moody's; and

(2) either (A) together with its Affiliates, directly or indirectly, owns and manages or operates at least (i) 750 MW of power generating assets relating to one or more projects or (ii) one or more electric distribution companies with at least 500,000 customers in the aggregate or (B) has contracted with a third party to manage and operate the business and operations of the Company and/or any of its Subsidiaries that, together with the Affiliates of such third party, satisfies the requirements set forth in the preceding clause 2(A);

*provided* that in no case shall any Person that (or, to such Person's knowledge following diligent inquiry, that has any director, officer or controlling shareholder (direct or indirect) that) (i) is currently the subject of any Sanctions that broadly prohibit dealings with such Person, (ii) is located, organized or resident in any Designated Jurisdiction, (iii) is a department, agency or instrumentality of, or otherwise controlled by or acting on behalf of, the government of any country that is a Designated Jurisdiction or (iv) is included on OFAC's Specially Designated Nationals List or the Consolidated Sanctions List maintained by OFAC, Her Majesty's Treasury's Consolidated List of Financial Sanctions Targets or the Investment Ban List, or any similar list enforced by any other relevant Sanctions authority of a jurisdiction in which the Company or its Subsidiaries operate that broadly prohibit dealings with Persons on such lists, or is owned or controlled by any such Person or Persons described in this clause (iv), constitute a Qualified Transferee.

"*Rating Agency*" means any of S&P, Fitch or Moody's; or if, at the relevant time of determination, S&P, Fitch or Moody's do not have a public rating in effect on the Notes, an internationally recognized U.S. rating agency or agencies, as the case may be, selected by the Company, which will be substituted for S&P, Fitch or Moody's, as the case may be.

"*Ratings Event*" means that at any time within 60 days (which period shall be extended so long as the rating of the Notes is under publicly announced consideration for possible downgrade by any of the Rating Agencies) after the earlier of the date of public notice of a Change of Control and of the Company's intention or that of any Person to effect a Change of Control, (i) in the event the Notes are assigned an Investment Grade Rating by at least two of the Rating Agencies prior to such public notice, the rating of the Notes by any Rating Agency shall be below an Investment Grade Rating; (ii) in the event the Notes are rated below an Investment Grade Rating by at least two of the Rating Agencies prior to such public notice, the rating of the Notes by two or more Rating Agencies shall be decreased by one or more categories, or (iii) in the event the Notes are not, or cease to be, rated by at least one of the Rating Agencies (provided that this clause (iii) shall not apply in the event the Notes are rated by at least two of the Rating Agencies); *provided* that, in each case, any such Rating Event is in whole or in part in connection with a Change in Control.

"*Reference Treasury Dealers*" has the meaning set forth under "Optional Redemption."

“*Reference Treasury Dealer Quotation*” has the meaning set forth under “Optional Redemption.”

“*Refinance*” means, in respect of any Indebtedness, to issue any Indebtedness in exchange for or to refinance, replace, defease or refund such Indebtedness in whole or in part or, in the case of a revolving credit facility, any re-borrowing of amounts previously advanced and re-paid thereunder. “Refinanced” and “Refinancing” will have correlative meanings.

“*Refinancing Indebtedness*” means Indebtedness of the Company or any Restricted Subsidiary (other than a Project Finance Subsidiary) issued to Refinance any other Indebtedness of the Company or a Restricted Subsidiary (other than a Project Finance Subsidiary) so long as:

(1) the aggregate principal amount (or initial accreted value, if applicable) of such new Indebtedness as of the date of such proposed Refinancing does not exceed the aggregate principal amount (or initial accreted value, if applicable) of the Indebtedness being Refinanced (plus the amount of any premium required to be paid under the terms of the instrument governing such Indebtedness and the amount of reasonable fees, expenses and defeasance costs, if any, incurred by the Company in connection with such Refinancing);

(2) such new Indebtedness has:

(a) a Weighted Average Life to Maturity that is equal to or greater than the Weighted Average Life to Maturity of the Indebtedness being Refinanced; and

(b) a final maturity that is equal to or later than the final maturity of the Indebtedness being Refinanced;

(3) if the Indebtedness being Refinanced is:

(a) Indebtedness of the Company, then such Refinancing Indebtedness will be Indebtedness of the Company;

(b) Indebtedness of a Restricted Subsidiary, then such Refinancing Indebtedness will be Indebtedness of the Company and/or such Restricted Subsidiary; and

(c) Subordinated Indebtedness, then such Refinancing Indebtedness shall be subordinate to the Notes at least to the same extent and in the same manner as the Indebtedness being Refinanced.

“*Restricted Investment*” means any Investment other than a Permitted Investment.

“*Restricted Payment*” has the meaning set forth under “—Certain Covenants—Limitation on Restricted Payments.”

“*Restricted Subsidiary*” means any Subsidiary of the Company, any Specified Affiliate Holding Company (and any Subsidiary of a Specified Affiliate Holding Company that is not an Unrestricted Subsidiary) following consummation of a Permitted Reorganization or any Restricted Subsidiary which at the time of determination is not an Unrestricted Subsidiary.

“*Restricted Subsidiary Permitted Liens*” means any of the following:

(1) Liens imposed by law, such as statutory Liens of landlords and Liens of carriers, warehousemen, mechanics, suppliers, material-men, repairmen and other Liens imposed by law (including tax Liens) incurred in the ordinary course of business or Liens arising solely by virtue of any statutory or common law (but not contractual) provisions relating to bankers’ liens, rights of set-off or similar rights and remedies as to deposit accounts or other funds maintained with a creditor depository institution;

(2) Liens Incurred or deposits made in the ordinary course of business (i) in connection with workers’ compensation, unemployment insurance and other types of social security (including any Lien securing letters of credit issued in the ordinary course of business consistent with past practice in connection therewith) or (ii) to secure the performance of tenders, statutory obligations, surety and appeal bonds, bids, leases, government performance and return-of-money bonds and other similar obligations (exclusive of obligations for the payment of borrowed money);

(3) Liens securing reimbursement obligations with respect to commercial letters of credit which encumber documents and other property relating to such letters of credit and products and proceeds thereof;

(4) Liens encumbering deposits made to secure obligations arising from statutory, regulatory, contractual, or warranty requirements of the Company, including rights of offset and set-off;

(5) Liens securing Hedging Obligations that relate to Indebtedness that is Incurred in accordance with “—Certain Covenants—Limitation on Incurrence of Additional Indebtedness”;

(6) Liens existing on the Issue Date and any extension, renewal or replacement thereof or of any Lien in clauses (7), (8), (9), (13), (17), (18) or (19) below; *provided, however*, that the total amount of Indebtedness so secured is not increased plus any premiums, fees and expenses in connection with such extension, renewal or replacement;

(7) Liens on any property or assets (including Capital Stock of any person) securing Indebtedness Incurred solely for purposes of financing the acquisition, construction or improvement of such property or assets after the Issue Date; *provided* that (a) the aggregate principal amount of Indebtedness secured by the Liens will not exceed (but may be less than) the cost (i.e., purchase price) of the property or assets so acquired, constructed or improved and (b) the Lien is incurred before, or within 365 days after the completion of, such acquisition, construction or improvement and does not encumber any other property or assets of the Company or any Restricted Subsidiary; and *provided, further*, that to the extent that the property or asset acquired is Capital Stock, the Lien also may encumber other property or assets of the person so acquired;

(8) any Lien securing Indebtedness for the purpose of financing all or part of cost of the acquisition, construction or development of a project; *provided* that the Liens in respect of such Indebtedness are limited to assets (including Capital Stock of the project entity) and/or revenues of such project; and *provided, further*, that the Lien is incurred before, or within 365 days after the completion of, that acquisition, construction or development and does not apply to any other property or assets of the Company or any Restricted Subsidiary;

(9) any Lien existing on any property or assets of any person before that person’s acquisition (in whole or in part) by, merger into or consolidation with the Company or any Restricted Subsidiary after the Issue Date; *provided* that the Lien is not created in contemplation of or in connection with such acquisition, merger or consolidation;

(10) Liens for taxes, assessments or other governmental charges not yet subject to penalties for nonpayment or which are being contested in good faith by appropriate proceedings, *provided* that appropriate reserves required pursuant to IFRS have been made in respect thereof;

(11) Liens arising by means of judgment, decree or order of any court, not giving rise to an Event of Default so long as such Lien is adequately bonded and any appropriate legal proceedings which may have been duly initiated for the review of such judgment, decree or order have not been finally terminated or the period within which such proceeding may be initiated has not expired and any Liens that are required to protect or enforce rights in any administrative, arbitration or other court proceeding in the ordinary course of business;

(12) Liens constituting any interest of title of a lessor, a licensor or either’s creditors in the Property subject to any lease;

(13) any Lien securing Indebtedness Incurred pursuant to clauses (2)(i) or (2)(l) under the covenant “—Certain Covenants—Limitation on Incurrence of Additional Indebtedness.”

(14) Liens securing Indebtedness Incurred by a Subsidiary that was a Project Finance Subsidiary at the time of such Incurrence and the granting of such Liens that continue to exist after the date that the Company revokes the designation of such Subsidiary as a Project Finance Subsidiary; and

(15) Liens on the property of the Company or any Restricted Subsidiary Incurred in the ordinary course of business to secure performance of obligations with respect to statutory or regulatory requirements, performance bids, trade contracts, letters of credit performance or return-of-money bonds, surety bonds, obligations in connection with a bid or other process for the award of a power purchase agreement, or other obligations of a like nature and

Incurred in a manner consistent with industry practice, in each case which are not Incurred in connection with the borrowing of money, the obtaining of advances or credit or the payment of the deferred purchase price of property and which do not in the aggregate impair in any material respect the use of property in the operation of the business of the Company and their Restricted Subsidiaries, taken as a whole;

(16) any provision for the retention of title to any property by the vendor or transferor of such property which property is acquired by the Company or a Restricted Subsidiary in a transaction entered into in the ordinary course of business of the Company or a Restricted Subsidiary and for which kind of transaction it is customary market practice for such retention of title provision to be included;

(17) Liens on and pledges of the Capital Stock of any Unrestricted Subsidiary to secure Indebtedness of that Unrestricted Subsidiary;

(18) (a) mortgages, liens, security interests, restrictions, encumbrances or any other matters of record that have been placed by any developer, landlord or other third party on property over which the Company or any Restricted Subsidiary has easement rights or on any real property leased by the Company or any Restricted Subsidiary or similar agreements relating thereto, and (b) any condemnation or eminent domain proceedings or compulsory purchase order affecting real property;

(19) Liens in favor of the Company or any Restricted Subsidiary;

(20) Liens on goods (and the proceeds thereof) and documents of title and the property covered thereby securing Indebtedness in respect of commercial letters of credit issued to facilitate the purchase, shipment or storage of such inventory or other goods;

(21) Liens on any escrow account used in connection with pre-funding a refinancing of Indebtedness otherwise permissible by the Indenture; and

(22) Liens securing an amount of Indebtedness outstanding at any one time not to exceed the greater of (i) US\$425.0 million and (ii) 10.0% of the Company's Consolidated Total Assets.

“*Reversion Date*” has the meaning set forth under “—Covenant Suspension.”

“*Revocation*” has the meaning set forth under “—Certain Covenants—Limitation on Designation of Unrestricted Subsidiaries and Project Finance Subsidiaries.”

“*Sanctions*” means the economic or financial sanctions, requirements or trade embargoes imposed, administered or enforced from time to time by (a) U.S. governmental authorities (including OFAC, the U.S. Department of State and the U.S. Department of Commerce), the United Nations Security Council, the European Union and Her Majesty's Treasury, and (b) any corresponding laws of jurisdictions in which the Company or any of its Subsidiaries operates, to the extent applicable to the Company or such Subsidiary, as the case may be.

“*S&P*” means Standard & Poor's Ratings Group, a division of McGraw Hill, Inc. and its successors.

“*Sale and Leaseback Transaction*” means any direct or indirect arrangement with any Person or to which any such Person is a party providing for the leasing to the Company or a Restricted Subsidiary of any property, whether owned by the Company or any Restricted Subsidiary at the Issue Date or later acquired, which has been or is to be sold or transferred by the Company or such Restricted Subsidiary to such Person or to any other Person by whom funds have been or are to be advanced on the security of such Property.

“*SEC*” means the U.S. Securities and Exchange Commission.

“*Senior Indebtedness*” means the Notes and any other Indebtedness of the Company that ranks equal in right of payment with the Notes, as the case may be.

“*Significant Subsidiary*” means a Subsidiary of the Company or a Subsidiary of a Specified Affiliate Holding Company, as applicable, constituting a “Significant Subsidiary” of the Company in accordance with Rule 1-02(w) of Regulation S-X under the Securities Act in effect on the date hereof; provided, that for the purposes of Event of Default



(7) with respect to a Project Finance Subsidiary only, the significance of such Subsidiary shall be calculated with respect to the Company's (i) investment in and advances to, and (ii) equity in the income from continuing operations before income taxes, extraordinary items and the cumulative effect of changes in accounting principles in, such Subsidiary.

“*Specified Affiliate Holding Company*” has the meaning set forth in the definition of “Permitted Reorganization.”

“*Stated Maturity*” means, with respect to any security, the date specified in such security as the fixed date on which the final payment of principal of such security is due and payable, including pursuant to any mandatory redemption provision (but excluding any provision providing for the repurchase of such security at the option of the holder thereof upon the happening of any contingency unless such contingency has occurred).

“*Subordinated Indebtedness*” means any Indebtedness of the Company or any Specified Affiliate Holding Company which is expressly subordinated in right of payment to the Notes, as the case may be.

“*Subsidiary*” means, with respect to any Person (the “parent”) at any date, any Person the account of which would be consolidated with those of the parent in the parent's consolidated financial statements if such financial statements were prepared in accordance with IFRS as of such date.

“*Surviving Entity*” has the meaning set forth under “—Certain Covenants—Limitation on Merger, Consolidation and Sale of Assets.”

“*Suspended Covenants*” has the meaning set forth under “—Covenant Suspension.”

“*Suspension Period*” has the meaning set forth under “—Covenant Suspension.”

“*Taxes*” has the meaning set forth under “—Additional Amounts.”

“*Treasury Rate*” has the meaning set forth under “—Optional Redemption.”

“*Unconsolidated Expenses*” means, for any Person for any period, its (i) Unconsolidated Operating Expenses; *plus* (ii) any Taxes payable by such Person.

“*Unconsolidated Interest Coverage Ratio*” means, for any Person, for the most recently ended period of four consecutive fiscal quarters for which financial statements of such Person have been provided to the Trustee pursuant to the Indenture, the ratio of Unconsolidated Operating Cash Flow to Unconsolidated Interest Expense for such period; provided that:

(1) if the Company or any Specified Affiliate Holding Company has

(a) Incurred any Indebtedness since the beginning of such period that remains outstanding on the date of the transaction giving rise to the need to calculate the Unconsolidated Interest Coverage Ratio or if the transaction giving rise to the need to calculate the Unconsolidated Interest Coverage Ratio is an Incurrence of Indebtedness, Unconsolidated Operating Cash Flow and Unconsolidated Interest Expense for such period will be calculated on a pro forma basis as if such Indebtedness had been Incurred on the first day of such period, except that in making such computation, the amount of Indebtedness under any revolving credit facility outstanding on the day of such calculation will be deemed to be (i) the average daily balance of such Indebtedness during such period or such shorter period for which such facility was outstanding; or (ii) if such facility was created after the end of such period, the average daily balance of such Indebtedness during the period from the date of creation of such facility to the date of such calculation); or

(b) repaid, repurchased, defeased or otherwise discharged any Indebtedness since the beginning of such period or if any Indebtedness is to be repaid, repurchased, defeased or otherwise discharged (in each case, other than Indebtedness Incurred under any revolving credit facility, unless such Indebtedness has been permanently repaid and has not been replaced) on the date of the transaction giving rise to the need to calculate the Unconsolidated Interest Coverage Ratio, Unconsolidated Operating Cash Flow and Unconsolidated Interest Expense for such period will be calculated on a pro forma basis as if such discharge had occurred on the first day of such period and as if the Company or the applicable Specified Affiliate Holding Company, as applicable,

had not earned the interest income actually earned during such period in respect of cash or Cash Equivalents used to repay, repurchase, defease or otherwise discharge such Indebtedness; and

(2) if since the beginning of such period or on the date of the transaction giving rise to the need to calculate the Unconsolidated Interest Coverage Ratio, the Company or any Specified Affiliate Holding Company has made or makes any Asset Sale Transaction or Asset Acquisition, then Unconsolidated Operating Cash Flow for such period will be calculated on a pro forma basis as if such Asset Sale Transaction or Asset Acquisition had occurred on the first day of such period.

For purposes of this definition, whenever Unconsolidated Interest Expense or Unconsolidated Operating Cash Flow is to be calculated on a pro forma basis, the pro forma calculations will be determined in good faith by a responsible financial or accounting officer of the Company. If any Indebtedness bears a floating rate of interest and the effects of such Indebtedness are to be calculated on a pro forma basis, the interest expense related to such Indebtedness will be calculated as if the rate in effect on the date of determination had been the applicable rate for the entire period (taking into account any interest rate agreement applicable to such Indebtedness if such interest rate agreement has a remaining term as at the date of determination in excess of twelve months).

“*Unconsolidated Interest Expense*” means, for any period, the aggregate accrued interest expense of the Company and any Specified Affiliate Holding Companies for such period (determined on an unconsolidated basis, without duplication), including the portion of any payments made in respect of Capitalized Lease Obligations allocable to interest expense, but excluding any interest expense incurred in connection with any intercompany loan provided by Kenon, a Qualified Transferee or any of their respective Affiliates.

“*Unconsolidated Operating Cash Flow*” means, for any period, for any Person, the sum of the following amounts (determined on an unconsolidated basis, without duplication), but only to the extent received in cash by the Company or any Specified Affiliate Holding Company from a Person during such period:

(1) dividends paid to the Company and any Specified Affiliate Holding Company by their respective Subsidiaries, in each case, during such period;

(2) consulting and management fees paid to the Company or any Specified Affiliate Holding Company for such period;

(3) interest and other distributions paid during such period with respect to cash and Cash Equivalents of the Company or any Specified Affiliate Holding Company;

(4) distributions arising from any capital reduction;

(5) interest payments made with respect to any intercompany loans provided to any Subsidiary; and

(6) loans made or repaid to the Company or any Specified Affiliate Holding Company from Subsidiaries in anticipation of the payment of dividends which funds for the payment of such dividends have been set aside for such period,

less the sum of the following expenses (determined on an unconsolidated basis without duplication), in each case to the extent paid by the Company or any Specified Affiliate Holding Company during such period and regardless of whether any such amount was accrued during such period:

(1) income tax expenses of the Company or any Specified Affiliate Holding Company; and

(2) Unconsolidated Operating Expenses.

“*Unconsolidated Operating Expenses*” means the expenses paid in cash in conducting normal business operations, including wages, salaries, administrative expenses, professional expenses, insurance and rent, of any Person, for any period, determined on an unconsolidated basis.

“*Unrestricted Subsidiary*” means any Subsidiary of the Company or a Restricted Subsidiary Designated as such pursuant to “—Certain Covenants—Limitation on Designation of Unrestricted Subsidiaries”; any such Designation may be revoked by a Board Resolution of the Company, subject to the provisions of such covenant.

“*Voting Stock*” with respect to any Person, means securities of any class of Capital Stock of such Person entitling the holders thereof (whether at all times or only so long as no senior class of stock has voting power by reason of any contingency) to vote in the election of members of the Board of Directors (or equivalent governing body) of such Person.

“*Weighted Average Life to Maturity*” means, when applied to any Indebtedness at any date, the number of years (calculated to the nearest one-twelfth) obtained by dividing:

- (1) the then outstanding aggregate principal amount or liquidation preference, as the case may be, of such Indebtedness into
- (2) the sum of the products obtained by multiplying:
  - (a) the amount of each then remaining installment, sinking fund, serial maturity or other required payment of principal or liquidation preference, as the case may be, including payment at final maturity, in respect thereof, by
  - (b) the number of years (calculated to the nearest one-twelfth) which will elapse between such date and the making of such payment.

## TAXATION

*The following discussion summarizes certain Bermuda and U.S. federal income considerations that may be relevant to you if you invest in the Notes. This summary is based on laws, regulations, rulings and decisions now in effect in Bermuda and the United States, which, in each case, may change. Any change could apply retroactively and could affect the continued validity of this summary.*

*This summary does not describe all of the tax considerations that may be relevant to you or your situation, particularly if you are subject to special tax rules. You should consult your tax advisors about the tax consequences of holding the Notes, including the relevance to your particular situation of the considerations discussed below, as well as of state, local and other tax laws.*

### **Bermuda Tax Considerations**

At the date of this offering memorandum, there is no Bermuda income or profits tax, withholding tax, capital gains tax, capital transfer tax, estate duty or inheritance tax payable by Inkia.

Inkia has obtained, from the Ministry of Finance of Bermuda under the Exempted Undertakings Tax Protection Act 1966 of Bermuda, an assurance that, in the event of there being enacted in Bermuda any legislation imposing tax computed on profits or income, or computed on any capital asset, gain or appreciation or any tax in the nature of estate duty or inheritance tax, such tax shall not, until 31 March 2035, be applicable to Inkia or any of its operations, or to its shares, debentures or other obligations, except in so far as such tax applies to persons ordinarily resident in Bermuda or is payable by Inkia in respect of real property owned or leased by it in Bermuda.

As an exempted company with an authorized share capital of less than US\$12,000, Inkia is liable to pay to the Registrar of Companies in Bermuda an annual governmental fee, which for the year 2017 is BD\$1,995.

### **Certain United States Federal Income Tax Considerations**

The following is a summary of certain US federal income tax considerations relevant to US Holders (as defined below) acquiring, holding and disposing of Notes. This summary is based on the US Internal Revenue Code of 1986, as amended (the "Code"), final, temporary and proposed US Treasury regulations issued thereunder and administrative and judicial interpretations thereof, each as in effect on the date hereof and all of which are subject to change, possibly with retroactive effect. This summary does not discuss all aspects of US federal income taxation that may be relevant to holders in light of their particular circumstances, such as holders subject to special tax rules (including, without limitation: (i) financial institutions; (ii) insurance companies; (iii) dealers or traders in stocks, securities, or currencies or notional principal contracts; (iv) regulated investment companies; (v) real estate investment trusts; (vi) tax-exempt organizations; (vii) partnerships, pass-through entities, or persons that hold Notes through pass-through entities; (viii) holders that hold Notes as part of a straddle, hedge, conversion, constructive sale or other integrated transaction for US federal income tax purposes; (ix) holders that have a functional currency other than the US dollar; and (x) US expatriates and former long-term residents of the United States, each of whom may be subject to tax rules that differ significantly from those summarized below. This summary does not address US federal tax considerations other than income tax considerations (e.g., estate or gift tax considerations), and does not address alternative minimum tax considerations, the Medicare contribution tax on investment income or any non-US, state or local tax considerations. Furthermore, this summary does not address the US federal income tax treatment of holders that do not acquire the Notes as part of the initial distribution at their issue price (generally, the first price to the public at which a substantial amount of Notes is sold for money to persons other than bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers) or that tender Existing Notes in connection with the Exchange". This summary assumes that holders will hold their Notes as capital assets (generally, property held for investment).

For the purposes of this summary, a "US Holder" is a beneficial owner of Notes that is for US federal income tax purposes (i) an individual who is a citizen or resident of the United States, (ii) a corporation that is created in, or organized under, the laws of the United States, any state thereof or the District of Columbia, (iii) an estate the income of which is includible in gross income for US federal income tax purposes regardless of its source or (iv) a trust the administration of which is subject to the primary supervision of a US court and which has one or more United States persons who have the authority to control all substantial decisions of the trust, or if it has properly elected under

applicable US Treasury regulations to be treated as a United States person. If any entity or arrangement treated as a partnership for US federal income tax purposes holds the Notes, the US tax treatment of a partner in the partnership generally will depend on the status of the partner and the activities of the partnership. A partnership considering an investment in the Notes and partners in such partnership, should consult their own tax advisors concerning the US federal income tax consequences of the acquisition, ownership and disposition of the Notes.

Prospective purchasers of the Notes should consult their tax advisors concerning the tax consequences of holding Notes in light of their particular circumstances, including the application of the US federal income tax considerations discussed below, as well as the application of other federal, state, local, non-US or other tax laws.

### ***Effect of Certain Contingent Payments***

In certain circumstances, the Issuer may be obligated to make contingent payments on the Notes as described, for example, under “Description of the Notes—Optional Redemption”, “Description of the Notes—Redemption for Changes in Withholding Taxes” and “Description of the Notes—Repurchase at the Option of Holders—Change of Control.” Under the contingent payment debt instrument U.S. Treasury regulations (the “CPDI Regulations”), the possibility of a contingent payment on a Note may be disregarded if the likelihood of the contingent payment, as of the date the Notes are issued, is remote or incidental. The Issuer does not intend to treat the possibility of the contingent payments on the Notes as subjecting the Notes to the CPDI Regulations. It is possible, however, that the Internal Revenue Service (“IRS”) may take a different position regarding the possibility of such contingent payments, in which case, if the position of the IRS were sustained, the timing, amount and character of income recognized with respect to a Note may be different than described herein and a US Holder may be required to recognize income significantly in excess of payments received and may be required to treat as interest income all or a portion of any gain recognized on the disposition of any Note. The remainder of this discussion assumes that the Notes will not be treated as contingent payment debt instruments. US Holders should consult their own tax advisors regarding the potential application of the CPDI Regulations to the Notes.

### ***Payments of Interest***

Payments of stated interest on a Note (including any additional amounts paid in respect of withholding taxes and without reduction for any amounts withheld) will be taxable to a US Holder as ordinary income at the time received or accrued, in accordance with the holder’s regular method of accounting for US federal income tax purposes.

### ***Original Issue Discount***

The Notes may be issued with original issue discount (“OID”) for US federal income tax purposes. In such an event (in addition to stated interest), US Holders generally will be required to include such OID in gross income (as ordinary income) for US federal income tax purposes on an annual basis under a constant yield accrual method regardless of their regular method of accounting for US federal income tax purposes. As a result, US Holders generally will include any OID in income in advance of the receipt of cash attributable to such income.

The Notes will be treated as issued with OID if the stated principal amount of the Notes exceeds their issue price by an amount equal to or more than a statutorily defined de minimis amount (generally, 0.0025 multiplied by the stated principal amount and the number of complete years to maturity from the issue date).

In the event that the Notes are issued with OID, the amount of OID includible in income by a US Holder is the sum of the “daily portions” of OID with respect to the Note for each day during the taxable year or portion thereof in which such US Holder holds such Note (the “Accrued OID”). A daily portion is determined by allocating to each day in any “accrual period” a pro rata portion of the OID that accrued in such period. The accrual period of a Note may be of any length and may vary in length over the term of the Note, provided that each accrual period is no longer than one year and each scheduled payment of principal or interest occurs either on the first or last day of an accrual period. The amount of OID that accrues with respect to any accrual period is the excess of: (i) the product of the Note’s “adjusted issue price” at the beginning of such accrual period and its yield to maturity, determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of such period, over: (ii) the amount of stated interest allocable to such accrual period. The adjusted issue price of a Note at the start of any accrual period generally is equal to its issue price, increased by the Accrued OID for each prior accrual period.

### ***Foreign Tax Credit***

Stated interest income and OID, if any, on a Note generally will constitute foreign source income and generally will be considered “passive category income” in computing the foreign tax credit allowable to US Holders under US federal income tax laws. There are significant complex limitations on a US Holder’s ability to claim foreign tax credits. US Holders should consult their tax advisors regarding the creditability or deductibility of any withholding taxes.

### ***Sale, Exchange, Retirement, Redemption or Other Taxable Disposition of Notes***

Generally, upon the sale, exchange, retirement, redemption or other taxable disposition of a Note, a US Holder will recognize a gain or loss equal to the difference between the amounts realized on the disposition (less any amount attributable to accrued but unpaid stated interest, which will be taxable as such) and such US Holder’s adjusted tax basis in the Note. A US Holder’s adjusted tax basis in a Note will generally equal the cost of such Note to such US Holder increased by any previously Accrued OID.

Any such gain or loss generally will be capital gain or loss and will be long-term capital gain or loss if at the time of sale, exchange, retirement, redemption or other taxable disposition the Note has been held by such US Holder for more than one year. Such gain or loss will generally be treated as from US sources for purposes of the US foreign tax credit limitation. Capital gains of non-corporate US Holders (including individuals) derived in respect of capital assets held for more than one year are generally eligible for reduced rates of taxation. The deductibility of capital losses is subject to significant limitations.

### ***Information Reporting and Backup Withholding***

In general, payments of principal and interest (including OID) on and the proceeds of a sale, redemption or other disposition of, the Notes, payable to a US Holder by a US paying agent or other US intermediary will be reported to the IRS and to the US Holder as may be required under applicable US Treasury regulations. Backup withholding may apply to these payments if the US Holder fails to provide an accurate taxpayer identification number or certification of exempt status or otherwise fails to comply with the applicable backup withholding requirements.

Certain US Holders (including corporations) are not subject to information reporting and backup withholding. Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against a U.S. Holder’s U.S. federal income tax liability and may entitle the holder to a refund, provided that the appropriate information is timely furnished to the IRS.

Certain holders that own “specified foreign financial assets” with an aggregate value in excess of certain threshold amounts are generally required to file an information report with respect to such assets with their tax returns. The Notes generally will constitute specified foreign financial assets subject to these reporting requirements, unless the Notes are held in an account at a US financial institution.

THE DISCUSSION ABOVE IS A GENERAL SUMMARY. IT DOES NOT COVER ALL TAX MATTERS THAT MAY BE OF IMPORTANCE TO A PARTICULAR INVESTOR. EACH PROSPECTIVE INVESTOR SHOULD CONSULT ITS OWN TAX ADVISOR ABOUT THE TAX CONSEQUENCES OF AN INVESTMENT IN THE NOTES UNDER THE INVESTOR’S OWN CIRCUMSTANCES.

## PLAN OF DISTRIBUTION

Credit Suisse Securities (USA) LLC, Scotia Capital (USA) Inc., Citigroup Global Markets Inc. and Santander Investment Securities Inc. are acting as the initial purchasers in connection with the offering of the Notes. Subject to the terms and conditions stated in the purchase agreement dated the date of this offering memorandum, each initial purchaser named below has severally agreed to purchase, and we have agreed to sell to that initial purchaser, the principal amount of the Notes set forth opposite the initial purchaser's name.

| <b>Initial Purchaser</b>                  | <b>Principal Amount of Notes</b> |
|---|----------------------------------|
| Credit Suisse Securities (USA) LLC.....   | US\$157,500,000                  |
| Scotia Capital (USA) Inc. ....            | 157,500,000                      |
| Citigroup Global Markets Inc. ....        | 90,000,000                       |
| Santander Investment Securities Inc. .... | 45,000,000                       |
| <b>Total</b> .....                        | <b>US\$450,000,000</b>           |

Subject to the terms and conditions set forth in the purchase agreement, the initial purchasers have agreed to purchase all of the Notes sold under the purchase agreement if any of these Notes are purchased.

Inkia has agreed to indemnify the initial purchasers against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the initial purchaser may be required to make in respect of any of those liabilities.

The purchase agreement provides that the obligation of the initial purchasers to purchase the Notes is subject to approval of legal matters by their counsels, including the validity of the Notes, and to other conditions contained in the purchase agreement, such as the receipt by the initial purchasers of officer's certificates and legal opinions. The initial purchasers reserve the right to withdraw, cancel or modify offers and to reject orders in whole or in part.

### Offering Terms

The initial purchasers have advised us that they propose initially to offer the Notes at the offering price set forth on the cover page of this offering memorandum to qualified institutional buyers (as defined in Rule 144A) in reliance on Rule 144A and outside the United States in reliance on Regulation S. After the initial offering, the offering price or any other term of the offering may be changed at any time without notice. The initial purchasers may offer and sell Notes through certain of their affiliates.

### Notes Are Not Being Registered

The Notes have not been and will not be registered under the Securities Act or any applicable securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. See "Transfer Restrictions."

In addition, until 40 days after the commencement of this offering, an offer or sale of Notes within the United States by a dealer that is not participating in this offering may violate the registration requirements of the Securities Act if that offer or sale is made otherwise than in accordance with Rule 144A.

### Issue of Notes

The Notes are an issue of securities with no established trading market. We do not intend to apply for listing of the Notes on any national securities exchange or for inclusion of the Notes on any automated dealer quotation system, except that approval in principle has been received for the listing and quotation of the Notes on the SGX-ST. However, we cannot assure you that we will be or remain listed. The initial purchasers have advised us that they currently intend to make a market in the Notes after completion of the offering. However, they are not obligated to do so and may

discontinue any market-making activities with respect to the Notes at any time without notice. Neither we nor the initial purchasers can provide any assurance as to the liquidity of the trading market for the Notes. If an active public trading market for the Notes does not develop, the market price and liquidity of the Notes may be adversely affected. If the Notes are traded, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, our operating performance and financial condition, general economic conditions and other factors.

### **No Sales of Similar Securities**

We have agreed that, for a period of 60 days from the date of this offering memorandum, Inkia will not, without the prior written consent of Credit Suisse Securities (USA) LLC, Scotia Capital (USA) Inc. and Citigroup Global Markets Inc., offer, sell or contract to sell, or otherwise dispose of, directly or indirectly, any U.S. dollar denominated debt securities issued or guaranteed by Inkia with a maturity of greater than one year. Credit Suisse Securities (USA) LLC and Scotia Capital (USA) Inc. in their sole discretion may release Inkia from this obligation at any time without notice.

### **Short Positions**

In connection with the offering of the Notes, the initial purchasers (or persons acting on their behalf) may purchase and sell Notes in the open market. Purchases and sales in the open market may include short sales, purchases to cover short positions and stabilizing purchases.

- Short sales involve secondary market sales by the initial purchasers of a greater number of Notes than they are required to purchase in the offering.
- Covering transactions involve purchases of Notes in the open market after the distribution has been completed in order to cover short positions.
- Stabilizing transactions involve bids to purchase Notes so long as the stabilizing bids do not exceed a specified maximum.

Purchases to cover short positions and stabilizing purchases, as well as other purchases by the initial purchasers for their own accounts, may have the effect of preventing or retarding a decline in the market price of the Notes. They may also cause the price of the Notes to be higher than the price that would otherwise exist in the open market in the absence of these transactions. The initial purchasers may conduct these transactions in the over-the-counter market or otherwise. Neither we nor the initial purchasers make any representation that the initial purchasers will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

### **Settlement of the Notes**

We expect to deliver the Notes against payment for the Notes on or about the date specified in the last paragraph of the cover page of this offering memorandum, which will be the fifth business day following the date of the pricing of the Notes. Under Rule 15c6-1 of the Exchange Act, trades in the secondary market generally settle in two business days, and purchasers who wish to trade Notes on the date of pricing will be required, by virtue of the fact that the Notes initially will settle in T+5, to specify alternative settlement arrangements to prevent a failed settlement.

### **Sales Outside the United States**

Neither we nor the initial purchasers are making an offer to sell, or seeking offers to buy, the Notes in any jurisdiction where the offer and sale is not permitted. You must comply with all applicable laws and regulations in force in any jurisdiction in which you purchase, offer or sell the Notes or possess or distribute this offering memorandum, and you must obtain any consent, approval or permission required for your purchase, offer or sale of the Notes under the laws and regulations in force in any jurisdiction to which you are subject or in which you make such purchases, offers or sales. Neither we nor the initial purchasers will have any responsibility therefore.



### ***European Economic Area***

In relation to each Member State of the EEA (each, a “Relevant Member State”), each initial purchaser has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this offering memorandum to the public in that Relevant Member State other than:

- (a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant dealer or dealers nominated by the Issuer for any such offer; or
- (c) in any other circumstances falling within Article 3(2) of the Prospectus Directive;

*provided* that no such offer of Notes shall require us or any initial purchaser to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of notes to the public” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State, the expression “Prospectus Directive” means Directive 2003/71/EC, as amended, and includes any relevant implementing measure in the Relevant Member State.

### ***United Kingdom***

Each initial purchaser has represented and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the United Kingdom Financial Services and Markets Act 2000 (“FSMA”) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to us; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

### ***Switzerland***

This offering memorandum is not intended to constitute an offer or solicitation to purchase or invest in the Notes described herein. The Notes may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither this offering memorandum nor any other offering or marketing material relating to the Notes constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations or a listing prospectus within the meaning of the listing rules of the SIX Swiss Exchange or any other regulated trading facility in Switzerland, and neither this offering memorandum nor any other offering or marketing material relating to the Notes may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this offering memorandum nor any other offering or marketing material relating to the offering, nor the Issuer, the Borrowers, nor the Notes have been or will be filed with or approved by any Swiss regulatory authority. The Notes are not subject to the supervision by any Swiss regulatory authority, e.g., the Swiss Financial Markets Supervisory Authority (FINMA), and investors in the Notes will not benefit from protection or supervision by such authority.

## ***Republic of Italy***

The offering of securities has not been registered with the Commissione Nazionale per le Società e la Borsa (“CONSOB”) pursuant to Italian securities legislation and, accordingly, no securities may be offered, sold or delivered, nor copies of this offering memorandum, the accompanying prospectus or any other documents relating to the Notes may not be distributed in Italy except:

- (1) to “qualified investors,” as referred to in Article 100 of Legislative Decree No. 58 of 24 February 1998, as amended (the “Decree No. 58”) and defined in Article 26, paragraph 1, letter d) of CONSOB Regulation No. 16190 of 29 October 2007, as amended (“Regulation No. 16190”) pursuant to Article 34-ter, paragraph 1, letter b) of CONSOB Regulation No. 11971 of 14 May 1999, as amended (“Regulation No. 11971”); or
- (2) in any other circumstances where an express exemption from compliance with the offer restrictions applies, as provided under Decree No. 58 or Regulation No. 11971.

Any offer, sale or delivery of the Notes or distribution of copies of this offering memorandum, the accompanying prospectus or any other documents relating to the Notes in the Republic of Italy must be:

- made by investment firms, banks or financial intermediaries permitted to conduct such activities in the Republic of Italy in accordance with Legislative Decree No. 385 of 1 September 1993, as amended (the “Banking Law”), Decree No. 58 and Regulation No. 16190 and any other applicable laws and regulations;
- in compliance with Article 129 of the Banking Law, and the implementing guidelines of the Bank of Italy, as amended; and
- in compliance with any other applicable notification requirement or limitation which may be imposed, from time to time, by CONSOB or the Bank of Italy or other competent authority.

Please note that, in accordance with Article 100-bis of Decree No. 58, where no exemption from the rules on public offerings applies, the subsequent distribution of the Notes on the secondary market in Italy must be made in compliance with the public offer and the prospectus requirement rules provided under Decree No. 58 and Regulation No. 11971.

Furthermore, securities which are initially offered and placed in Italy or abroad to qualified investors only but in the following year are regularly (“*sistematicamente*”) distributed on the secondary market in Italy to non-qualified investors become subject to the public offer and the prospectus requirement rules provided under Decree No. 58 and Regulation No. 11971. Failure to comply with such rules may result in the sale of the Notes being declared null and void and in the liability of the intermediary transferring the Notes for any damages suffered by such non-qualified investors.

## ***Canada***

The notes may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws. Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this prospectus (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser’s province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser’s province or territory for particulars of these rights or consult with a legal advisor. Pursuant to section 3A.3 (or, in the case of securities issued or guaranteed by the government of a non-Canadian jurisdiction, section 3A.4) of National Instrument 33-105 Underwriting Conflicts (“NI 33-105”), the initial purchasers are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

## ***The Netherlands***

In addition and without prejudice to the EEA selling restrictions above, zero coupon debt securities in bearer form on which interest does not become due and payable during their term but only at maturity and other debt securities in bearer form that qualify as savings certificates (*spaarbewijzen*) within the meaning of the Dutch Savings Certificates Act (*Wet inzake spaarbewijzen*) may be transferred or accepted only through the mediation of either the Issuer or a member of Euronext Amsterdam N.V. and with due observance of the Dutch Savings Certificates Act and its implementing regulations (including the registration requirements), provided that no such mediation is required in respect of (i) the initial issue of such debt securities to the first holders thereof, (ii) any transfer and delivery by natural persons who do not act in the conduct of a profession or trade, and (iii) the issue and trading of such debt securities, if such debt securities are physically issued outside the Netherlands and not distributed in the Netherlands in the course of primary trading or immediately thereafter; in addition (i) certain identification requirements in relation to the issue and transfer of, and payment on, such debt securities have to be complied with, (ii) any reference in publications concerning such debt securities to the words “to bearer” is prohibited, (iii) so long as such debt securities are not listed at the regulated market operated by Euronext Amsterdam N.V., each transaction involving a transfer of such debt securities must be recorded in a transaction note, containing, at least, the name and address of the counterparty to the transaction, the nature of the transaction, and a description of the amount, registration number(s), and type of the debt securities concerned, and (iv) the requirement described under (iii) must be printed on such debt securities.

Each initial purchaser will acknowledge and agree that it will not make an offer of the Notes to the public in the Netherlands in reliance on Article 3(2) of the Prospectus Directive unless (i) such offer is made exclusively to persons or entities which are (a) qualified investors as defined in the Prospectus Directive or (b) represented by eligible discretionary asset managers in accordance with Article 55 of the Exemption Regulation DFSA (*Vrijstellingsregeling Wft*), or (ii) a standard warning is used as required by Article 5:5(2) or 5:20(5) of the Dutch Financial Supervision Act (*Wet op het financieel toezicht* or DFSA), provided that no such offer of securities shall require the issuer or any underwriter or agent to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive. For the purpose of this paragraph the expression “Prospectus Directive” means Directive 2003/71/EC as amended and implemented in Dutch law.

Each initial purchaser and agent will furthermore acknowledge and agree that it will not make an offer of securities with a maturity of less than 12 months until the competent authority publishes its interpretation of the term “public” (as referred to in Article 4.1(1) of Regulation (EU) No 575/2013), unless such securities either (a) have a minimum denomination of EUR 100,000, or (b) are offered solely to professional market parties (*professionele marktpartij*) within the meaning of the DFSA and the rules promulgated thereunder and, as soon as the competent authority publishes the interpretation of the term “public” as referred to in Article 4.1(1) of Regulation (EU) No 575/2013, to persons or legal entities that are part of the public within the meaning of Regulation (EU) No 575/2013 and the DFSA and the rules promulgated thereunder.

## ***Spain***

Each initial purchaser has represented and agreed that it has not offered, sold or distributed the Notes, nor will it carry out any subsequent resale of the Notes in Spain except in circumstances which do not constitute a public offer of securities in Spain within the meaning of Article 35 of the restated text of the Securities Markets Act approved by Royal Legislative Decree 4/2015, dated 23 October (*Real Decreto Legislativo 4/2015, de 23 de octubre, por el que se aprueba el texto refundido de la Ley del Mercado de Valores*), Royal Decree 1310/2005 of 4 November (*Real Decreto 1310/2005 de 4 de noviembre*), and supplemental rules enacted thereunder.

## ***Cayman Islands***

No invitation is made by or on behalf of the Trust or the Borrowers to the public in the Cayman Islands to subscribe for the Notes.

## **Chile**

The offer of the notes will begin on October 26, 2017 and is subject to General Rule No. 336 of the Chilean Securities Commission (*Superintendent de Valores y Seguros de Chile*, or the “SVS”). The notes being offered are not registered in the Securities Registry (*Registro de Valores*) or in the Foreign Securities Registry (*Registro de Valores Extranjeros*) of the SVS and, therefore, the notes are not subject to the supervision of the SVS. As unregistered securities, we are not required to disclose public information about the notes in Chile. The notes may not be publicly offered in Chile unless they are registered in the corresponding securities registry.

*La oferta de los valores comienza el 26 de octubre 2017 y está acogida a la Norma de Carácter General número 336 de fecha 27 de junio de 2012 de la Superintendencia de Valores y Seguros de Chile (la “SVS”). La oferta versa sobre valores no inscritos en el Registro de Valores o en el Registro de Valores Extranjeros que lleva la SVS, por lo que los valores no están sujetos a la fiscalización de dicho organismo. Por tratarse de valores no inscritos, no existe obligación por parte del emisor de entregar en Chile información pública respecto de los valores. Estos valores no pueden ser objeto de oferta pública a menos que sean inscritos en el registro de valores correspondiente.*

## **Panama**

The Notes have not been, and will not be, registered for public offering in Panama with the National Securities Commission of Panama under Decree-Law 1 of July 8, 1999 (the “Panamanian Securities Act”). Accordingly, the Notes may not be offered or sold in Panama, except in certain limited transactions exempted from the registration requirements of the Panamanian Securities Act. The Notes do not benefit from tax incentives accorded by the Panamanian Securities Act and are not subject to regulation or supervision by the National Securities Commission of Panama.

## **Peru**

The Notes will not be subject to a public offering in Peru. The Notes and the information contained in this offering memorandum have not been and will not be registered with or approved by the SMV or the BVL. Accordingly, the Notes cannot be offered or sold in Peru, except if (i) the Notes were previously registered with the SMV, or (ii) such offering is considered a private offering under the securities laws and regulations of Peru. The Peruvian securities laws establish, among other things, that an offer directed exclusively at Peruvian institutional investors qualifies as a private offering. In making an investment decision, institutional investors (as defined by Peruvian law) must rely on their own examination of the terms of the offering of the Notes to determine their ability to invest in the Notes.

## **Guatemala**

The Notes have not been, and will not be, registered for public offering in Guatemala with the Securities Market Registry under the Stock Exchange Act, Decree 34-96 of Congress of Guatemala, amended by Decree 49-2008 (the “Guatemalan Securities and Commodities Act”). Accordingly, the Notes may not be offered or sold in Guatemala, except in certain limited transactions exempted from the registration requirements of the Guatemalan Securities and Commodities Act. The Notes do not benefit from tax incentives accorded by the Guatemalan Securities and Commodities Act and are not subject to regulation or supervision by the Securities Market Registry.

## **Jamaica**

The Notes have not been, and are not being, publicly offered in Jamaica. This offering memorandum does not and is not intended to constitute a public offer of securities in Jamaica.

Pursuant to guidelines (“Guidelines”) numbered SR-GUID-08/05-0016 published by the Financial Services Commission of Jamaica (“FSCJ”), securities may be offered in Jamaica by way of an exempt distribution. Exempt distributions are exempt from the requirement to register a prospectus or other offering document. The registration requirement under the provisions of the Securities Act of Jamaica in respect of a trade in a security, where the security is offered by way of an exempt distribution, is satisfied by compliance with the provisions of the Guidelines.

We expect to file the required Notice of Exempt Distribution (Form XDF-1) with the FSCJ. If the FSCJ approves the filing, we expect that it will provide to us a notice in writing that the notes have been granted exemption from registration of an offering document. If the exemption from registration with respect to the notes is granted, the notes will be subject to transfer restrictions pursuant to the Guidelines.

### ***Singapore***

This offering memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this offering memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (1) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”), (2) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275 of the SFA, or (3) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 by a relevant person which is: (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor, securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferable within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 except (1) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA, (2) where no consideration is given for the transfer, (3) where the transfer is by operation of law, (4) as specified in Section 276(7) of the SFA, or (5) as specified in Regulation 32 of the Securities and Futures (Offers and Investments) (Shares and Debentures) Regulations 2005 of Singapore.

### ***Hong Kong***

The Notes may not be offered or sold in Hong Kong by means of any document other than (i) to “professional investors” as defined in the Securities and Futures Ordinance (Cap.571) of Hong Kong and any rules made under that Ordinance, or (ii) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies Ordinance (Cap.32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance. No advertisement, invitation or document relating to the depositary securities may be issued or may be in the possession of any person for the purpose of issue, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to depositary securities which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

### ***Japan***

The Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948, as amended) and accordingly, will not be offered or sold, directly or indirectly, in Japan, or for the benefit of any Japanese Person or to others for re-offering or resale, directly or indirectly, in Japan or to any Japanese Person, except in compliance with all applicable laws, regulations and ministerial guidelines promulgated by relevant Japanese governmental or regulatory authorities in effect at the relevant time. For the purposes of this paragraph, “Japanese Person” shall mean any person resident in Japan, including any corporation or other entity organized under the laws of Japan.

### **Relationships with Initial Purchasers**

The initial purchasers are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal

investment, hedging, financing and brokerage activities. The initial purchasers and their respective affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with us or our affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions. Moreover, affiliates of certain of the initial purchasers may hold a portion of the Inkia 2021 Notes and consequently may receive a portion of the net proceeds from this offering. Credit Suisse Securities (USA) LLC and Scotia Capital (USA) Inc. are also acting as the dealer manager in connection with the tender offer for the Inkia 2021 Notes. In addition, Credit Suisse Securities (USA) LLC is also acting in an advisory role for the financial investor referenced in connection with the potential transaction described under “Summary—Recent Developments—Potential Sale of All of Inkia’s Business.”

Furthermore, in the ordinary course of their business activities, the initial purchasers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of ours or our affiliates. If any of the initial purchasers or their affiliates has a lending relationship with us, certain of those initial purchasers or their affiliates routinely hedge, and certain other of those initial purchasers or their affiliates may hedge, their credit exposure to us consistent with their customary risk management policies. Typically, these initial purchasers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in our securities, including potentially the Notes offered hereby. Any such credit default swaps or short positions could adversely affect future trading prices of the Notes offered hereby. The initial purchasers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

## TRANSFER RESTRICTIONS

The Notes have not been registered, and will not be registered, under the Securities Act or any applicable securities laws, and the Notes may not be offered or sold except pursuant to an effective registration statement or pursuant to transactions exempt from, or not subject to, registration under the Securities Act. Accordingly, the Notes are being offered and sold only:

- in the United States to qualified institutional buyers (as defined in Rule 144A) in reliance on Rule 144A under the Securities Act; and
- outside of the United States, to certain persons, other than U.S. persons, in offshore transactions meeting the requirements of Rule 903 of Regulation S under the Securities Act.

### **Purchasers' Representations and Restrictions on Resale and Transfer**

Each purchaser of Notes (other than the initial purchasers in connection with the initial issuance and sale of Notes) and each owner of any beneficial interest therein will be deemed, by its acceptance or purchase thereof, to have represented and agreed as follows:

- (1) it is purchasing the Notes for its own account or an account with respect to which it exercises sole investment discretion and it and any such account is either (a) a qualified institutional buyer and is aware that the sale to it is being made in reliance on Rule 144A or (b) a non-U.S. person that is outside the United States;
- (2) it acknowledges that the Notes have not been registered under the Securities Act or with any securities regulatory authority of any jurisdiction and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except as set forth below;
- (3) it understands and agrees that Notes initially offered in the United States to qualified institutional buyers will be represented by a global note and that Notes offered outside the United States in reliance on Regulation S will also be represented by a global note;
- (4) it will not resell or otherwise transfer any of such Notes, except (i) to us or any of our subsidiaries, (ii) within the United States to a qualified institutional buyer in a transaction complying with Rule 144A under the Securities Act, (iii) outside the United States in compliance with Rule 903 or 904 under the Securities Act, (iv) pursuant to another applicable exemption from registration under the Securities Act (if available) or (v) pursuant to an effective registration statement under the Securities Act;
- (5) it agrees that it will give to each person to whom it transfers the Notes notice of any restrictions on transfer of such Notes;
- (6) it acknowledges that prior to any proposed transfer of Notes (other than pursuant to an effective registration statement or in respect of Notes sold or transferred in reliance on either (a) Rule 144A or (b) Regulation S), the holder of such Notes may be required to provide certifications relating to the manner of such transfer as provided in the indenture;
- (7) it acknowledges that the trustee, registrar or transfer agent for the Notes will not be required to accept for registration or transfer of any Notes acquired by it, except upon presentation of evidence satisfactory to us and the trustee, registrar or transfer agent that the restrictions set forth herein have been complied with;
- (8) it acknowledges that we, the initial purchasers, the trustee, the registrar, the transfer agent and other persons will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of the acknowledgements, representations and agreements deemed to have been made by its purchase of the Notes are no longer accurate, it will promptly notify us and the initial purchasers; and

- (9) if it is acquiring the Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each account.

## Legends

The following is the form of restrictive legend which will appear on the face of the Rule 144A global note and which will be used to notify transferees of the foregoing restrictions on transfer. This legend will only be removed with our consent. If we so consent, it will be deemed to be removed.

THE SECURITIES EVIDENCED HEREBY HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE OR OTHER SECURITIES LAWS, AND MAY NOT BE OFFERED, SOLD, PLEDGED, OR OTHERWISE TRANSFERRED EXCEPT IN ACCORDANCE WITH THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF OR OF A BENEFICIAL INTEREST HEREIN, THE HOLDER OF THIS SECURITY BY ITS ACCEPTANCE HEREOF (1) REPRESENTS THAT IT, AND ANY ACCOUNT FOR WHICH IT IS ACTING, (A) IS A "QUALIFIED INSTITUTIONAL BUYER" (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT) OR (B) IS NOT A U.S. PERSON AND IS ACQUIRING THIS SECURITY IN AN "OFFSHORE TRANSACTION" PURSUANT TO RULE 903 OR 904 OF REGULATION S AND, WITH RESPECT TO (A) AND (B), EXERCISES SOLE INVESTMENT DISCRETION WITH RESPECT TO SUCH ACCOUNT; (2) AGREES FOR THE BENEFIT OF THE ISSUER THAT IT WILL NOT OFFER, SELL, PLEDGE OR OTHERWISE TRANSFER THIS SECURITY OR ANY BENEFICIAL INTEREST HEREIN, EXCEPT (A) (I) TO THE ISSUER OR ANY SUBSIDIARY THEREOF, (II) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BECOME EFFECTIVE UNDER THE SECURITIES ACT, (III) TO A QUALIFIED INSTITUTIONAL BUYER IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT, (IV) IN AN OFFSHORE TRANSACTION COMPLYING WITH THE REQUIREMENTS OF RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, OR (V) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT (IF AVAILABLE), AND (B) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND OTHER JURISDICTIONS; AND (3) AGREES THAT IT WILL GIVE TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. AS USED HEREIN, THE TERMS "OFFSHORE TRANSACTION," "UNITED STATES" AND "U.S. PERSON" HAVE THE RESPECTIVE MEANINGS GIVEN TO THEM BY REGULATION S UNDER THE SECURITIES ACT.

PRIOR TO THE REGISTRATION OF ANY TRANSFER IN ACCORDANCE WITH PARAGRAPH 2(A)(V) ABOVE, THE ISSUER AND THE TRUSTEE RESERVES THE RIGHT TO REQUIRE THE DELIVERY OF SUCH LEGAL OPINIONS, CERTIFICATIONS (IN THE FORM ATTACHED AS EXHIBITS TO THE INDENTURE), OR OTHER EVIDENCE AS MAY REASONABLY BE REQUIRED IN ORDER TO DETERMINE THAT THE PROPOSED TRANSFER IS BEING MADE IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS. NO REPRESENTATION IS MADE AS TO THE AVAILABILITY OF ANY EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

THIS LEGEND WILL ONLY BE REMOVED AT THE OPTION OF THE ISSUER.

The following is the form of restrictive legend which will appear on the face of the Regulation S global note and which will be used to notify transferees of the foregoing restrictions on transfer. This legend will only be removed with our consent. If we so consent, it will be deemed to be removed.

PRIOR TO EXPIRATION OF THE 40-DAY DISTRIBUTION COMPLIANCE PERIOD (AS DEFINED IN REGULATION S ("REGULATION S") UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT")), THIS SECURITY MAY NOT BE REOFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES (AS DEFINED IN REGULATION S) OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, A U.S. PERSON (AS DEFINED IN REGULATION S), EXCEPT TO A QUALIFIED INSTITUTIONAL BUYER IN COMPLIANCE WITH RULE 144A UNDER



THE SECURITIES ACT IN A TRANSACTION MEETING THE REQUIREMENTS OF THE INDENTURE REFERRED TO HEREIN.

## **VALIDITY OF THE NOTES**

The validity of the Notes will be passed upon for us by White & Case LLP, our U.S. counsel, as to certain matters of New York law, and by Appleby (Bermuda) Limited, our Bermuda counsel, as to certain matters of Bermuda law. The validity of the Notes will be passed upon for the initial purchasers by Milbank, Tweed, Hadley & McCloy LLP, U.S. counsel to the initial purchasers. Certain matters of Peruvian law will be passed upon for us by Miranda & Amado Abogados and for the initial purchasers by J&A Garrigues Perú S. Civil de R.L. Certain matters of Guatemalan law will be passed upon for us by Aguilar Castillo Love Guatemala S.A.

## **INDEPENDENT AUDITORS**

The consolidated financial statements of Inkia Energy Limited as of December 31, 2016, 2015 and 2014 and for each of the years then ended included in this offering memorandum have been audited by Caipo y Asociados S. Civil de R.L., independent auditors, a member firm of KPMG International Cooperative (a Swiss entity), as stated in their report, included herein.

With respect to the unaudited condensed consolidated interim financial statements of Inkia Energy Limited as of June 30, 2017 and for the period ended June 30, 2017 included herein, the independent auditors have reported that they applied limited procedures in accordance with professional standards for a review of such information. However, their separate report included herein, states that they did not audit and they do not express an opinion on those condensed consolidated interim financial statements. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

## LISTING AND GENERAL INFORMATION

- Approval in principle has been received for the listing and quotation of the Notes on the SGX-ST. The Notes will be traded on the SGX-ST in a minimum board lot size of US\$200,000 as long as any of the Notes are listed on the SGX-ST and the rules of the SGX-ST so require.

For so long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, if a global note is exchanged for certificated Notes, the Issuer will appoint and maintain a paying agent in Singapore, where the Notes may be presented or surrendered for payment or redemption, and make an announcement of such exchange through the SGX-ST that will include all material information with respect to the delivery of the certificated Notes, including details of the paying agent in Singapore.

- The Notes have been accepted for clearance and settlement through DTC, Euroclear and Clearstream. The CUSIP and ISIN numbers for the Notes are as follows:

|             | <b>Restricted<br/>Global Note</b> | <b>Regulation S<br/>Global Note</b> |
|-------------|-----------------------------------|-------------------------------------|
| CUSIP ..... | 45721R AC7                        | G4808VAC49                          |
| ISIN .....  | US45721RAC79                      | USG4808VAC49                        |

- Except as disclosed in this offering memorandum, there are no pending actions, suits or proceedings against or affecting us or any of our properties, which, if determined adversely to us would individually or in the aggregate have an adverse effect on our financial condition or would adversely affect our ability to perform our obligations under the Notes or which are otherwise material in the context of the issue of the Notes, and, to the best of our knowledge, no such actions, suits or proceedings are threatened.
- Except as disclosed in this offering memorandum, since December 31, 2016, there has been no change (or any development or event involving a prospective change of which we are or might reasonably be expected to be aware) which is materially adverse to our financial condition.

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

**To the Shareholders and Board of Directors  
Inkia Energy Ltd.**

## Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of Inkia Energy Ltd. and subsidiaries ("the Company") as at June 30, 2017, the condensed consolidated statements of profit or loss and other comprehensive income (loss) for the six and three-month periods then ended, the condensed consolidated statement of changes in equity and cash flows for the six-month period then ended, and notes to the condensed consolidated financial statements. Management is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with International Accounting Standards N° 34 *Interim Financial Reporting* (IAS 34). Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

## Scope of Review

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

## Conclusion

Based on our review nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements as at June 30, 2017 are not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting.

October 25, 2017

*Caipo y Asociados*

Countersigned by:

Juan J. Córdova (Partner)  
Peruvian Certified Public Accountant  
Registration N° 01-18869

**INKIA ENERGY LTD. AND SUBSIDIARIES**  
Unaudited Condensed Consolidated Statement of Financial Position  
As of June 30, 2017 and December 31, 2016

| <i>In thousands of U.S. dollars</i>      | <b>June 30,<br/>2017</b> | <b>2016</b>      | <i>In thousands of U.S. dollars</i>                                   | <b>June 30,<br/>2017</b> | <b>2016</b>      |
|--|--------------------------|------------------|---|--------------------------|------------------|
| <b>Assets</b>                            |                          |                  | <b>Liabilities and equity</b>   |                          |                  |
| <b>Current assets</b>                    |                          |                  | <b>Current liabilities</b>  |                          |                  |
| Cash and cash equivalents                | 170,088                  | 172,695          | Credit from banks and others  | 197,831                  | 360,938          |
| Short-term deposits and restricted cash  | 29,081                   | 41,679           | Trade payables  | 183,981                  | 252,956          |
| Trade receivables                        | 244,821                  | 249,753          | Other payable, including derivative financial instruments             | 79,925                   | 77,163           |
| Other receivables                        | 105,601                  | 46,896           | Guarantee deposits from customers                                     | 61,072                   | 56,833           |
| Income tax receivable                    | 1,640                    | 11,326           | Income tax payable  | 16,797                   | 6,984            |
| Inventories                              | 81,794                   | 91,659           | Deferred revenue  | 1,502                    | 944              |
| Intercompany balance with parent company | 73,768                   | 51,134           | <b>Total current liabilities</b>                                      | <b>541,108</b>           | <b>755,818</b>   |
| <b>Total current assets</b>              | <b>706,793</b>           | <b>665,142</b>   |   |                          |                  |
| <b>Non-current assets</b>                |                          |                  | <b>Non-current liabilities</b>  |                          |                  |
| Restricted cash                          | 25,483                   | 16,540           | Loans from Banks and others   | 1,157,015                | 1,328,604        |
| Trade receivables                        | 13,078                   | 10,120           | Debentures  | 1,170,781                | 856,670          |
| Investments in associate                 | 9,404                    | 8,896            | Trade payables  | 38,997                   | 44,057           |
| Deposits and other receivables,          |                          |                  | Derivative financial instruments                                      | 14,632                   | 14,271           |
| including derivative instruments         |                          |                  | Deferred income tax liabilities                                       | 187,091                  | 186,686          |
| Income tax receivable and tax claims     | 19,989                   | 27,593           | Employee benefits   | 10,090                   | 11,076           |
| Deferred income tax assets               | 106,902                  | 99,892           | Other long term liabilities   | 46,275                   | 44,032           |
| Property, plant and equipment, net       | 24,254                   | 25,104           | <b>Total non-current liabilities</b>                                  | <b>2,624,881</b>         | <b>2,485,396</b> |
| Intangible assets and goodwill, net      | 2,941,898                | 3,001,690        | <b>Total liabilities</b>  | <b>3,165,989</b>         | <b>3,241,214</b> |
|  | 362,203                  | 375,756          |   |                          |                  |
| <b>Total non-current assets</b>          | <b>3,503,211</b>         | <b>3,565,591</b> | <b>Equity</b>   |                          |                  |
|  |                          |                  | Share capital   | 3                        | 3                |
|  |                          |                  | Share premium   | 342,773                  | 342,773          |
|  |                          |                  | Reserves  | (4,036)                  | (14,283)         |
|  |                          |                  | Retained earnings   | 514,375                  | 468,732          |
|  |                          |                  | <b>Total equity attributable to the equity holders of the Company</b> | <b>853,115</b>           | <b>797,225</b>   |
|  |                          |                  | Non-controlling interests   | 190,900                  | 192,294          |
|  |                          |                  | <b>Total equity</b>   | <b>1,044,015</b>         | <b>989,519</b>   |
| <b>Total assets</b>                      | <b>4,210,004</b>         | <b>4,230,733</b> | <b>Total liabilities and equity</b>                                   | <b>4,210,004</b>         | <b>4,230,733</b> |

The notes on pages F-9 to F-25 are an integral part of these unaudited condensed consolidated interim financial statements.

**INKIA ENERGY LTD. AND SUBSIDIARIES**

Unaudited Condensed Consolidated Statement of Profit or Loss

For the six and three months periods ended June 30, 2017 and 2016

| <i>In thousands of U.S. dollars</i>             | Note  | Six-Months Period Ended |                 | Three Months Period Ended |                 |
|---|-------|-------------------------|-----------------|---------------------------|-----------------|
|   |       | 2017                    | 2016 (*)        | 2017                      | 2016 (*)        |
| Revenues  |       | 882,470                 | 696,107         | 438,916                   | 366,620         |
| Cost of sales                                   | 6, 10 | (693,101)               | (557,806)       | (332,490)                 | (294,910)       |
| <b>Gross profit</b>                             |       | <b>189,369</b>          | <b>138,301</b>  | <b>106,426</b>            | <b>71,710</b>   |
| Selling, general and administrative expenses    |       | (56,672)                | (44,701)        | (30,806)                  | (23,585)        |
| Other income                                    | 12    | 63,505                  | 6,166           | 50,641                    | 3,960           |
| Other expense                                   | 6     | (7,252)                 | (1,616)         | (6,876)                   | (1,089)         |
| <b>Profit from operating activities</b>         |       | <b>188,950</b>          | <b>98,150</b>   | <b>119,385</b>            | <b>50,996</b>   |
| Finance income                                  |       | 13,834                  | 4,856           | 2,263                     | 2,952           |
| Gain from derivative financial instruments, net |       | 302                     | 44              | (107)                     | (164)           |
| Finance costs                                   |       | (90,635)                | (63,466)        | (45,807)                  | (36,310)        |
| <b>Finance costs, net</b>                       |       | <b>(76,499)</b>         | <b>(58,566)</b> | <b>(43,651)</b>           | <b>(33,522)</b> |
| Share of profit in associated company           |       | 527                     | 343             | 341                       | 144             |
| <b>Profit before tax</b>                        |       | <b>112,978</b>          | <b>39,927</b>   | <b>76,075</b>             | <b>17,618</b>   |
| Income tax expense                              | 14    | (46,896)                | (19,670)        | (31,272)                  | (9,408)         |
| <b>Profit for the period</b>                    |       | <b>66,082</b>           | <b>20,257</b>   | <b>44,803</b>             | <b>8,210</b>    |
| <b>Attributable to:</b>                         |       |                         |                 |                           |                 |
| Inkia's equity holders                          |       | 45,664                  | 12,501          | 32,378                    | 5,685           |
| Non-controlling interest                        |       | 20,418                  | 7,756           | 12,425                    | 2,525           |
| <b>Profit for the period</b>                    |       | <b>66,082</b>           | <b>20,257</b>   | <b>44,803</b>             | <b>8,210</b>    |

\* See note 5

The notes on pages F-9 to F-25 are an integral part of these unaudited condensed consolidated interim financial statements.

**INKIA ENERGY LTD. AND SUBSIDIARIES**

Unaudited Condensed Consolidated Statement of Other Comprehensive Income (Loss)  
For the six and three months period ended June 30, 2017 and 2016

| <i>In thousands of U.S. dollars</i>                                       | <b>Six-Months Period Ended</b> |                 | <b>Three-Months Period Ended</b> |                 |
|---|--------------------------------|-----------------|----------------------------------|-----------------|
|   | <b>2017</b>                    | <b>2016 (*)</b> | <b>2017</b>                      | <b>2016 (*)</b> |
| <b>Profit for the period</b>  | 66,082                         | 20,257          | 44,803                           | 8,210           |
| <b>Components of other comprehensive income</b>                           |                                |                 |                                  |                 |
| <b>Items that are subsequently reclassified to profit or loss</b>         |                                |                 |                                  |                 |
| Exchange differences on translating foreign operations                    | 5,267                          | 1,752           | 718                              | 2,074           |
| Foreign currency translation differences transferred to profit and loss   | 5,351                          | -               | 5,351                            | -               |
| Cash flow hedges – effective fair value                                   | 1,151                          | (11,325)        | (1,844)                          | 2,468           |
| Cash flow hedges – reclassified to profit and loss of the period          | (684)                          | 62              | (58)                             | 62              |
| Share of other comprehensive loss in associate                            | (21)                           | -               | (21)                             | -               |
| Income tax (expense) benefit relating to cash flow hedges                 | (401)                          | 3,150           | 460                              | (970)           |
|   | <b>10,663</b>                  | <b>(6,361)</b>  | <b>4,606</b>                     | <b>3,634</b>    |
| <b>Items that will not be subsequently reclassified to profit or loss</b> |                                |                 |                                  |                 |
| Remeasurement of defined benefit obligation                               | 104                            | (368)           | 51                               | (491)           |
| Income tax on defined benefit obligation                                  | (26)                           | 30              | (13)                             | 123             |
|   | <b>78</b>                      | <b>(338)</b>    | <b>38</b>                        | <b>(368)</b>    |
| <b>Other comprehensive income (loss) for the period, net of tax</b>       | <b>10,741</b>                  | <b>(6,699)</b>  | <b>4,644</b>                     | <b>3,266</b>    |
| <b>Total comprehensive income for the period</b>                          | <b>76,823</b>                  | <b>13,558</b>   | <b>49,447</b>                    | <b>11,476</b>   |
| <b>Attributable to</b>  |                                |                 |                                  |                 |
| Inkia's equity holders  | 55,890                         | 7,246           | 37,306                           | 8,279           |
| Non-controlling interest  | 20,933                         | 6,312           | 12,141                           | 3,197           |
| <b>Total comprehensive income for the period</b>                          | <b>76,823</b>                  | <b>13,558</b>   | <b>49,447</b>                    | <b>11,476</b>   |

\* See note 5

The notes on pages F-9 to F-25 are an integral part of these unaudited condensed consolidated interim financial statements.



**INKIA ENERGY LTD. AND SUBSIDIARIES**

Unaudited Condensed Consolidated Statement of Changes in Equity  
For the six months ended June 30, 2017 and 2016

|   | Attributable to Inkia's equity holders |                |                 |                     |                            |                   |                | Non-controlling interest | Total equity |
|---|--|----------------|-----------------|---------------------|----------------------------|-------------------|----------------|--------------------------|--------------|
|   | Share capital                          | Share premium  | Hedging reserve | Translation reserve | Defined benefit obligation | Retained earnings | Total          |                          |              |
| <i>In thousands of U.S. dollars</i>                                     |  |                |                 |                     |                            |                   |                |                          |              |
| Balance at January 1, 2017  | 3                                      | 342,773        | (9,601)         | (4,434)             | (248)                      | 468,732           | 192,294        | 989,519                  |              |
| <b>Comprehensive income for the period</b>                              |  |                |                 |                     |                            |                   |                |                          |              |
| Profit  | -                                      | -              | -               | -                   | -                          | 45,664            | 20,418         | 66,082                   |              |
| <b>Other comprehensive income (loss)</b>                                |  |                |                 |                     |                            |                   |                |                          |              |
| Exchange differences on translating foreign operations                  | -                                      | -              | -               | 4,828               | -                          | -                 | 439            | 5,267                    |              |
| Cash flow hedges, net of income tax                                     | -                                      | -              | (3)             | -                   | -                          | -                 | 69             | 66                       |              |
| Remeasurement of defined benefit obligation, net of income tax          | -                                      | -              | -               | -                   | 71                         | -                 | 7              | 78                       |              |
| Share of other comprehensive income of associates                       | -                                      | -              | -               | -                   | -                          | (21)              | -              | (21)                     |              |
| Foreign currency translation differences transferred to profit and loss | -                                      | -              | -               | 5,351               | -                          | -                 | -              | 5,351                    |              |
| <b>Total other comprehensive income (loss)</b>                          | -                                      | -              | (3)             | 10,179              | 71                         | (21)              | 515            | 10,741                   |              |
| <b>Total comprehensive income (loss) for the period</b>                 | -                                      | -              | (3)             | 10,179              | 71                         | 45,643            | 20,933         | 76,823                   |              |
| <b>Transactions with owners of the Company</b>                          |  |                |                 |                     |                            |                   |                |                          |              |
| Dividends to non-controlling shareholders                               | -                                      | -              | -               | -                   | -                          | -                 | (13,437)       | (13,437)                 |              |
| Sale of Colombian assets  | -                                      | -              | -               | -                   | -                          | -                 | (8,890)        | (8,890)                  |              |
| <b>Balance at June 30, 2017</b>   | <b>3</b>                               | <b>342,773</b> | <b>(9,604)</b>  | <b>5,745</b>        | <b>(177)</b>               | <b>514,375</b>    | <b>190,900</b> | <b>1,044,015</b>         |              |
| Balance at January 1, 2016  | 3                                      | 342,773        | (21,767)        | (7,152)             | -                          | 454,885           | 177,762        | 946,504                  |              |
| <b>Comprehensive income for the period</b>                              |  |                |                 |                     |                            |                   |                |                          |              |
| Profit (*)  | -                                      | -              | -               | -                   | -                          | 12,501            | 7,756          | 20,257                   |              |
| <b>Other comprehensive income (loss)</b>                                |  |                |                 |                     |                            |                   |                |                          |              |
| Exchange differences on translating foreign operations                  | -                                      | -              | -               | 1,151               | -                          | -                 | 601            | 1,752                    |              |
| Cash flow hedges, net of income tax                                     | -                                      | -              | -               | -                   | (338)                      | -                 | (30)           | (368)                    |              |
| Remeasurement of defined benefit obligation, net of income tax          | -                                      | -              | (6,068)         | -                   | -                          | -                 | (2,015)        | (8,083)                  |              |
| <b>Total other comprehensive income (loss)</b>                          | -                                      | -              | (6,068)         | 1,151               | (338)                      | -                 | (1,444)        | (6,699)                  |              |
| <b>Total comprehensive income (loss) for the period</b>                 | -                                      | -              | (6,068)         | 1,151               | (338)                      | 12,501            | 6,312          | 13,558                   |              |
| <b>Transactions with owners of the Company</b>                          |  |                |                 |                     |                            |                   |                |                          |              |
| Non-controlling capital contributions                                   | -                                      | -              | -               | -                   | -                          | -                 | 1,644          | 1,644                    |              |
| Dividends to non-controlling shareholders                               | -                                      | -              | -               | -                   | -                          | -                 | (17,118)       | (17,118)                 |              |
| Business combination  | -                                      | -              | -               | -                   | -                          | -                 | 20,325         | 20,325                   |              |
| <b>Balance at June 30, 2016</b>   | <b>3</b>                               | <b>342,773</b> | <b>(27,835)</b> | <b>(6,001)</b>      | <b>(338)</b>               | <b>467,386</b>    | <b>188,925</b> | <b>964,913</b>           |              |

\* See note 5

The notes on pages F-9 to F-25 are an integral part of these unaudited condensed consolidated interim financial statements.

**INKIA ENERGY LTD. AND SUBSIDIARIES**

Unaudited Condensed Consolidated Statement of Cash Flows  
For the six months ended June 30, 2017 and 2016

| <i>In thousands of U.S. dollars</i>                             | <i>Note</i> | <b>2017</b>     | <b>2016 (*)</b>  |
|---|-------------|-----------------|------------------|
| <b>Cash flows from operating activities</b>                     |             |                 |                  |
| Profit for the period   |             | 66,082          | 20,257           |
| Adjustments:  |             |                 |                  |
| Finance costs, net  |             | 76,499          | 58,566           |
| Depreciation and amortization                                   |             | 75,950          | 63,954           |
| Income tax expense  |             | 46,896          | 19,670           |
| Impairment  |             | 20,438          | -                |
| Bad debt expense  |             | 1,681           | 2,281            |
| Inventory write off   |             | 3               | 60               |
| (Profit) loss on disposal of property, plant and equipment, net |             | (8,559)         | 1,061            |
| Share of profit in associated company                           |             | (527)           | (343)            |
|   |             | <b>278,463</b>  | <b>165,506</b>   |
| <b>Changes in:</b>  |             |                 |                  |
| Inventories   |             | 8,683           | (34,268)         |
| Trade and other receivable                                      |             | (4,707)         | (52,529)         |
| Trade and other payable   |             | (78,573)        | 8,948            |
| Provisions and employee benefits                                |             | (804)           | (147)            |
|   |             | <b>203,062</b>  | <b>87,510</b>    |
| <b>Cash generated by operating activities</b>                   |             |                 |                  |
| Income tax paid   |             | (33,056)        | (20,423)         |
|   |             | <b>170,006</b>  | <b>67,087</b>    |
| <b>Net cash provided by operating activities</b>                |             |                 |                  |
| <b>Cash flows from investing activities</b>                     |             |                 |                  |
| Acquisition of property, plant and equipment                    |             | (57,447)        | (177,867)        |
| Acquisition of intangibles                                      |             | (2,112)         | (3,805)          |
| Value Added Tax, net of projects under construction             |             | (23)            | 585              |
| Energuate purchase adjustment                                   |             | 10,272          | -                |
| Restricted cash   |             | 3,653           | 133,129          |
| Collection of interest  |             | 2,885           | 2,953            |
| Proceeds from sales of plant and equipment                      |             | 2,491           | 235              |
| Sale of subsidiary, net of cash                                 | 6           | 600             | -                |
| Payment of consideration retained                               |             | -               | (1,448)          |
| Business combination, net of cash acquired                      |             | -               | (206,059)        |
| Short-term deposits   |             | -               | 50,000           |
|   |             | <b>(39,681)</b> | <b>(202,277)</b> |
| <b>Net cash used in investing activities</b>                    |             |                 |                  |

\* See note 5

The notes on pages F-9 to F-25 are an integral part of these unaudited condensed consolidated interim financial statements.

**INKIA ENERGY LTD. AND SUBSIDIARIES**

Unaudited Condensed Consolidated Statement of Cash Flows

For the six months ended June 30, 2017 and 2016

| <i>In thousands of U.S. dollars</i>                            | <b>Note</b> | <b>2017</b>      | <b>2016 (*)</b> |
|--|-------------|------------------|-----------------|
| <b>Cash flows from financing activities</b>                    |             |                  |                 |
| Payment of long term debt                                      | 11          | (330,970)        | (318,131)       |
| Payment of short term borrowings                               |             | (281,048)        | (249,688)       |
| Payment of interest  |             | (76,606)         | (45,607)        |
| Expenses paid by Inkia on behalf of related parties            |             | (29,305)         | (5,014)         |
| Payment of dividends to non-controlling interest               |             | (15,412)         | (11,471)        |
| Issuance expenses  |             | (8,026)          | (22,836)        |
| Proceeds of long-term debt                                     | 11          | 458,366          | 466,316         |
| Proceeds of short term borrowings                              |             | 139,617          | 261,317         |
| Payment of consent fee   |             | -                | (9,515)         |
| Non-controlling interest contribution                          |             | -                | 1,644           |
| <b>Net cash provided by (used in) financing activities</b>     |             | <b>(143,384)</b> | <b>67,015</b>   |
| Net increase in cash and cash equivalents                      |             |                  |                 |
|  |             | (13,059)         | (68,175)        |
| Cash and cash equivalents at the beginning of the period       |             |                  |                 |
|  |             | 172,695          | 239,109         |
| Effect on changes in the exchange rate on cash and equivalents |             |                  |                 |
|  |             | 10,452           | 1,372           |
| <b>Cash and cash equivalents at June 30</b>                    |             | <b>170,088</b>   | <b>172,306</b>  |
| <b>Non-cash investing transactions:</b>                        |             |                  |                 |
| Compensation of liquidated damages                             |             | (40,000)         | -               |
| Amortization of transaction costs                              |             | -                | (4,156)         |
| Purchase of fixed assets on credit and others                  |             | 34,101           | 4,289           |

\* See note 5

The notes on pages F-9 to F-25 are an integral part of these unaudited condensed consolidated interim financial statements.

## **INKIA ENERGY LTD. AND SUBSIDIARIES**

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

### **1. Corporate Information**

Inkia Energy Ltd (hereinafter “Inkia” or the “Company”) is a holding company incorporated in Bermuda in June 2007 that through its subsidiaries and affiliates, (collectively the “Group”) operates and develops power generation facilities in Latin America and the Caribbean. Inkia has operations in Peru, Chile, Dominican Republic, Bolivia, El Salvador, Jamaica, Nicaragua, Guatemala, and investments in Panama, consisting of power generation plants that utilize a range of fuel sources, including natural gas, hydroelectric, heavy fuel oil, diesel and wind. Since January 22, 2016, the Group is also involved in the distribution business.

As of January 6, 2015, Inkia was a wholly-owned subsidiary of Israel Corporation (hereinafter - “IC” or “the Former Parent Company”) through IC Power Ltd. On January 7, 2015, Israel Corp. transferred all of IC Power Shares to Kenon Holdings Ltd (“Kenon” or “the Parent Company”) as part of its internal reorganization. Kenon is a publicly listed company in both the New York Stock Exchange and the Tel Aviv Stock Exchange.

On March 17, 2016, as part of the reorganization process carried out by Kenon, Kenon transferred all IC Power’s shares to IC Power Ltd. (formerly IC Power Pte. Ltd.), a wholly owned subsidiary of Kenon, incorporated in Singapore.

Inkia’s administrative offices are located in Santo Toribio 115, 8th floor, Lima 27, Peru. The address of its registered office is 22 Victoria Street, Hamilton HM 12, Bermuda.

Within the Latin American and the Caribbean countries in which we have generation operations, power is generally generated by hydroelectric or thermal power stations. The hydroelectric stations are an efficient source of power generation due to the cost savings of fuel associated with thermal power generation. The power generated by these hydroelectric power stations varies in accordance with the rainy seasons and rainfall patterns of each country in each year. For example, greater amounts of hydroelectric power are dispatched between November and April in Peru—the Peruvian rainy season—than between May and October, when the volumes of rainfall declines and operators have less water available for electricity generation in the reservoirs serving their plants. During periods of lesser rainfall, greater volumes of thermoelectric power are dispatched. Therefore, Kallpa provides our Peruvian generation segment with a hedge during drier periods (in which less hydroelectric power is generally dispatched), while CDA provides our Peruvian generation segment with a hedge during the rainy season (in which less thermoelectric power is generally dispatched).

By contrast, in El Salvador greater amounts of hydroelectric power are dispatched between May and October—the Salvadorian rainy season—than between November and April, when the volumes of Salvadorian rainfall declines and the hydroelectric units have less water available for electricity generation. El Salvador’s hydroelectric plant is also subject to annual variations depending on climactic conditions, such as the El Niño phenomenon. For the same reasons, the volume of power generated by thermal power stations is also variable. Furthermore, our Nicaraguan assets which rely on wind generate less volume of power during the Nicaraguan rainy season between May and October, as those months tend to experience less wind. Accordingly, our revenues are subject to seasonality, the effects of rainfall, and the type of energy generated in each country of operation (whether hydroelectric or thermal, and whether generated using natural gas, HFO or diesel). Although we act to reduce this exposure to seasonality by contracting long-term PPAs for most of our capacity, this effect cannot be completely neutralized.

Seasonality does not have a significant impact on the demand for electricity in Energuate’s service area. Demand for electricity is consistent throughout the year due to a steady number of daylight hours throughout the year and limited use of heating and air conditioning systems within Energuate’s service areas.

## INKIA ENERGY LTD. AND SUBSIDIARIES

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

### 2. Basis of Accounting

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* and should be read in conjunction with the Group's last annual consolidated financial statements as at and for the year ended December 31, 2016. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as at and for the year ended December 31, 2016. These condensed consolidated interim financial statements do not include all of the information required for full annual financial statements prepared in accordance with International Financial Reporting Standards. The condensed consolidated statement of financial position as of December 31, 2016 has been derived from the Group's annual consolidated financial statements as of and for the year ended December 31, 2016.

These condensed consolidated interim financial statements were approved by the Company's Management on August 11, 2017.

### 3. Significant Accounting Policies

The accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended December 31, 2016.

### 4. Estimates

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

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended December 31, 2016.

### 5. Restatement

During the last quarter of 2016 and following the guidelines stated in IFRS 3 *Business Combinations*, Inkia completed the fair value measurement of identifiable net assets related to Energate acquisition.

As a result of the changes, the comparative figures were restated as of June 30, 2016. A summary of adjusted figures is presented below:

| <i>In thousands of U.S. dollars</i>            | <b>As<br/>previously<br/>reported</b> | <b>Adjustments</b> | <b>As restated</b> |
|--|---------------------------------------|--------------------|--------------------|
| <b>For the six months ended June 30, 2016:</b> |                                       |                    |                    |
| <b>Statement of Profit or Loss:</b>            |                                       |                    |                    |
| Revenue  | 705,251                               | (9,144)            | 696,107            |
| Cost of sales                                  | (558,178)                             | 372                | (557,806)          |
| Selling, general and administrative expenses   | (53,056)                              | 8,355              | (44,701)           |
| Other expense                                  | (990)                                 | (626)              | (1,616)            |
| Finance costs                                  | (64,892)                              | 1,426              | (63,466)           |
| Gains from derivative financial instrument     | 124                                   | (80)               | 44                 |
| Income tax expense                             | (21,267)                              | 1,597              | (19,670)           |
| Profit for the period                          | 18,357                                | 1,900              | 20,257             |

**INKIA ENERGY LTD. AND SUBSIDIARIES**

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

| <i>In thousands of U.S. dollars</i>              | <b>As<br/>previously<br/>reported</b> | <b>Adjustments</b> | <b>As restated</b> |
|--|---------------------------------------|--------------------|--------------------|
| <b>For the three months ended June 30, 2016:</b> |                                       |                    |                    |
| <b>Statement of Profit or Loss:</b>              |                                       |                    |                    |
| Revenue  | 373,200                               | (6,580)            | 366,620            |
| Cost of sales                                    | (295,458)                             | 548                | (294,910)          |
| Selling, general and administrative expenses     | (30,271)                              | 6,686              | (23,585)           |
| Other expense                                    | (693)                                 | (396)              | (1,089)            |
| Finance costs                                    | (37,136)                              | 826                | (36,310)           |
| Gains from derivative financial instrument       | (84)                                  | (80)               | (164)              |
| Income tax expense                               | (10,853)                              | 1,445              | (9,408)            |
| Profit for the period                            | 5,761                                 | 2,449              | 8,210              |

| <i>In thousands of U.S. dollars</i>               | <b>As<br/>previously<br/>reported</b> | <b>Adjustments</b> | <b>As restated</b> |
|---|---------------------------------------|--------------------|--------------------|
| <b>For the six months ended June 30, 2016:</b>    |                                       |                    |                    |
| <b>Cash flows from operating activities</b>       |                                       |                    |                    |
| Profit for the period                             | 18,357                                | 1,900              | 20,257             |
| Depreciation and amortization                     | 64,103                                | (149)              | 63,954             |
| Finance costs, net                                | 59,912                                | (1,346)            | 58,566             |
| Income tax expense                                | 21,267                                | (1,597)            | 19,670             |
| Loss on disposal of property, plant and equipment | 435                                   | 626                | 1,061              |
| Bad debt expense                                  | 10,636                                | (8,355)            | 2,281              |
| Net cash provided by operating activities         | 174,427                               | (8,921)            | 165,506            |
| Changes in:                                       |                                       |                    |                    |
| Inventories                                       | (34,627)                              | 359                | (34,268)           |
| Trade and other receivable                        | (52,533)                              | 4                  | (52,529)           |
| Trade and other payable                           | 390                                   | 8,558              | 8,948              |
| Net cash provided by operating activities         | 67,087                                | -                  | 67,087             |

| <i>In thousands of U.S. dollars</i>               | <b>As<br/>previously<br/>reported</b> | <b>Adjustments</b> | <b>As restated</b> |
|---|---------------------------------------|--------------------|--------------------|
| <b>For the three months ended June 30, 2016:</b>  |                                       |                    |                    |
| <b>Cash flows from operating activities</b>       |                                       |                    |                    |
| Profit for the period                             | 5,761                                 | 2,449              | 8,210              |
| Depreciation and amortization                     | 34,755                                | (325)              | 34,430             |
| Finance costs, net                                | 34,268                                | (746)              | 33,522             |
| Income tax expense                                | 10,853                                | (1,445)            | 9,408              |
| Loss on disposal of property, plant and equipment | 299                                   | 396                | 695                |
| Bad debt expense                                  | 6,676                                 | (9,250)            | (2,574)            |
| Net cash provided by operating activities         | 92,612                                | (8,921)            | 83,691             |
| Changes in:                                       |                                       |                    |                    |
| Inventories                                       | (32,117)                              | 359                | (31,758)           |
| Trade and other receivable                        | (24,268)                              | 4                  | (24,264)           |
| Trade and other payable                           | 26,543                                | 8,558              | 35,101             |

## INKIA ENERGY LTD. AND SUBSIDIARIES

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

### 6. Sale of Colombian Assets

On March 2, 2017, Samay III decided to perform a Business Split Agreement with the non-controlling interest (NCI), which established the following:

- Transference of sixty percent (60%) of Surenergy Holding SAS, owned by Samay III, to IC Power Development Colombia SAS, and the subsequent transference of these shares to NCI.
- Transference of the agreed projects in favor of IC Power Development Colombia SAS as the consideration for the shares transfer. In addition, transference of debts with Samay III as well as sixty percent (60%) of the total liabilities with financial entities of the companies.

On April 27, 2017, Business Split Agreement was cancelled by the Sale Agreement. Samay III sold its shares in Surenergy Holdings SAS (formerly IC Power Trading SAS), owner of Surpetroil SAS and Surenergy SAS ESP, to Yesid Gasca for US\$ 1,156 thousand. Sale of Colombian assets, net of cash, has been recognized as follows:

| <i>In thousands of U.S. dollars</i>    |            |
|--|------------|
| Price according Sale Agreement         | 1,156      |
| Tax                                    | (156)      |
| Cash                                   | (400)      |
| <b>Sale of subsidiary, net of cash</b> | <b>600</b> |

As result of these transactions, the Company identified impairment indicators in Colombian assets and therefore conducted an impairment analysis using the price agreed as recoverable amount. As a result, the Company recorded impairment in cost of sales of US\$ 20,438 thousand in March 2017 (US\$ 10,186 thousand in Property, plant and equipment, US\$ 3,273 thousand in intangibles, and US\$ 6,979 thousand in Goodwill).

In addition, in April 2017 an accumulated foreign currency translation loss of US\$ 5,351 thousand was reclassified to profit and loss as part of other expenses.

### 7. Energuate Purchase Adjustment

On April 28, 2017, Ernst & Young LLP ("the consultant") issued the Accountant Ruling in connection with the disagreement between Actis and the Company on the final working capital adjustment related to Energuate purchase price-consideration. As a result of the consultant ruling, a US\$ 10,272 thousand adjustment is required to be made in favor of Inkia. The Company has recorded such amount as other income in the consolidated statement of profit or loss (Note 12).

On May 12 and May 17, 2017, Actis paid US\$ 272 thousand and authorized the release of US\$ 10,000 thousand from Escrow account, respectively.

**INKIA ENERGY LTD. AND SUBSIDIARIES**

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

**8. Cash and Cash Equivalents**

| <i>In thousands of U.S. dollars</i> | <b>As at<br/>June 30,<br/>2017</b> | <b>As at December<br/>31,<br/>2016</b> |
|-------------------------------------|------------------------------------|--|
| Cash                                | 1,260                              | 433                                    |
| Checking accounts (a)               | 153,960                            | 171,427                                |
| Time deposits (b)                   | 14,868                             | 835                                    |
|                                     | <b>170,088</b>                     | <b>172,695</b>                         |

- (a) Cash and balance in banks include checking accounts are freely available and earn interest at market rates ranging from 0.05% to 5.60% p.a., except for the subsidiaries Samay I S.A. and Cerro del Águila (CDA) Onshore Construction accounts which belong to a Trustee and are part of the Guarantees of Samay I and CDA's syndicated loan, respectively.
- (b) Time deposits are short-term investments made for periods ranging from one day to three months, depending on immediate cash requirements of the Group, and they earn interest at short-term deposit rates in US Dollars and other currencies ranging from 0.10% to 4.00% p.a.

**9. Short-term Deposits and Restricted Cash**

| <i>In thousands of U.S. dollars</i> | <b>As at<br/>June 30,<br/>2017</b> | <b>As at<br/>December 31,<br/>2016</b> |
|-------------------------------------|------------------------------------|--|
| Restricted cash - current (a)       | 29,081                             | 41,679                                 |
|                                     | <b>29,081</b>                      | <b>41,679</b>                          |
| Restricted cash - non-current (a)   | 25,483                             | 16,540                                 |
|                                     | <b>54,564</b>                      | <b>58,219</b>                          |

- (a) Corresponds to amounts held in escrow accounts as collateral for loans and contractual obligations, such as debt-service reserve accounts and time deposits that guarantee letters of credit. They earn interest at market interest rates of 0.50% to 6.20%.



**INKIA ENERGY LTD. AND SUBSIDIARIES**

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

**10. Property, Plant and Equipment, Net**

During the six months ended June 2017, the Group acquired assets with a cost of approximately US\$ 63,346 thousand.

| <i>In thousands of U.S. dollars</i>     | <b>As at<br/>June 30,<br/>2017</b> | <b>As at<br/>December 31,<br/>2016</b> |
|---|------------------------------------|--|
| <b>Cost</b>                             |                                    |  |
| Beginning balance                       | 3,749,396                          | 3,124,356                              |
| Additions                               | 63,346                             | 252,299                                |
| Business combination                    | -                                  | 392,495                                |
| Translation difference                  | 11,864                             | 7,018                                  |
| Transfers and reclassifications         | 881                                | (190)                                  |
| Retirements                             | (67,323)                           | (26,582)                               |
| Retirement of Colombian assets (Note 6) | (22,745)                           | -                                      |
| <b>Ending balance</b>                   | <b>3,735,419</b>                   | <b>3,749,396</b>                       |
| <b>Accumulated depreciation</b>         |                                    |  |
| Beginning balance                       | 747,706                            | 621,366                                |
| Additions                               | 69,254                             | 132,305                                |
| Impairment (Note 6)                     | 10,186                             | -                                      |
| Translation difference                  | 650                                | 350                                    |
| Transfers and reclassifications         | (182)                              | (4)                                    |
| Retirements                             | (19,236)                           | (6,311)                                |
| Retirement of Colombian assets (Note 6) | (14,857)                           | -                                      |
| <b>Ending balance</b>                   | <b>793,521</b>                     | <b>747,706</b>                         |
| <b>Net cost</b>                         | <b>2,941,898</b>                   | <b>3,001,690</b>                       |

**A. Samay I**

Further to that stated in Note 13 of the annual consolidated financial statements, on January 17 and on January 31, 2017, Management declared Units 2 and Unit 3 available to the system. Therefore, Samay I recorded those replaced assets in Property, Plant and Equipment account for US\$ 8,809 thousand and reduced the account receivable accordingly.

**B. Cerro del Águila (CDA)**

In March 2017, Comité de Operación Económica del Sistema Interconectado Nacional (COES) approved the effective capacity tests, increasing the capacity to 545 MW. As a result of this, CDA recorded an additional US\$ 27,441 thousand due to the installed capacity bonus to Rio Mantaro Consortium (EPC Contractor).

**C. Surpetroil and Surenergy**

As a result of Surenergy Holdings SAS sale in Note 6, the Company recorded US\$ 7,888 thousand net retirement of Colombian property, plant and equipment, in addition to the US\$ 10,186 thousand impairment.

**D. Kanan**

On April 5, 2017, Kanan's power plant experienced a fire. As a result, 37 MW barge and 55 MW barge were placed off-line and Kanan wrote off US\$ 47,847 thousand assets, net of depreciation, from its Property, Plant and Equipment balance.

Kanan carries property damage and business interruption insurance coverage for its assets to protect against all risks of direct physical loss or damage including machinery breakdown, earthquake and other main risks associated with the operation of the plant. The coverage is divided in two portions: (1) property damage with a limit of US\$ 94,500 thousand and (2) business interruption with an up to 12-month indemnity period with a limit of US\$ 30,800 thousand.

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Kanan's management deems that this event is covered by the insurance policy and received the confirmation of the 124 MW Esperanza barge acquisition, owned by Puerto Quetzal Power LLC (PQP) and located in Guatemala, as the option for the insurance claim. Therefore, Kanan recorded other receivable for an original amount of US\$ 56,250 thousand equivalent to the acquisition purchase price of this barge net of the insurance deductibles. This amount is presented net of US\$ 47,847 thousand, reflecting a net gain of US\$ 8,403 thousand (note 12). As of to date, Kanan has received from insurance company US\$ 38,600 thousand (Note 18(a)).

Based upon current estimates, it is expected that the refurbished Esperanza barge should be operational in Q1 of 2018.

**11. Credit from Banks and Others**

| <i>In thousands of U.S. dollars</i>         | <b>Nominal annual<br/>interest rate</b> | <b>Currency</b> | <b>Maturity</b> | <b>Carrying amount</b> |
|---|---|-----------------|-----------------|------------------------|
| <b>Beginning balance</b>                    |   |                 |                 | <b>2,546,212</b>       |
| <b>Payments of long-term debt</b>           |   |                 |                 |                        |
| Loans from bank and others                  |   |                 |                 | (318,086)              |
| Debentures                                  |   |                 |                 | (9,328)                |
| Finance leases                              |   |                 |                 | (3,556)                |
| <b>Subtotal payments of long-term debt</b>  |   |                 |                 | <b>(330,970)</b>       |
| <b>Proceeds of long-term debt</b>           |   |                 |                 |                        |
| DEOCSA                                      |   |                 |                 |                        |
| Senior unsecured loan (a)                   | 5.875%                                  | US\$            | 2027            | 191,400                |
| Banco Industrial (b)                        | 7.08%                                   | GTQ             | 2027            | 71,993                 |
| DEORSA                                      |   |                 |                 |                        |
| Senior unsecured loan (a)                   | 5.875%                                  | US\$            | 2027            | 138,600                |
| Banco Industrial (b)                        | 7.08%                                   | GTQ             | 2027            | 47,995                 |
| COBEE                                       |   |                 |                 |                        |
| Banco de Crédito (c)                        | 4.20%                                   | BOL             | 2027            | 8,378                  |
| <b>Subtotal proceeds of long-term debt</b>  |   |                 |                 | <b>458,366</b>         |
| <b>Short-term loans from banks</b>          |   |                 |                 |                        |
| Samay I                                     |   |                 |                 |                        |
| Interbank (d)                               | 2.90%                                   | US\$            | 2018            | 35,000                 |
| Interbank (d)                               | 1.75%                                   | US\$            | 2017            | 7,000                  |
| Nejapa                                      |   |                 |                 |                        |
| Various banks                               | 4.25% - 4.75%                           | US\$            | 2017            | 5,400                  |
| Payments of short term loans, net           |   |                 |                 | (188,831)              |
| <b>Subtotal short-term loans from banks</b> |   |                 |                 | <b>(141,431)</b>       |
| Other movements                             |   |                 |                 | (6,550)                |
| <b>Ending balance</b>                       |   |                 |                 | <b>2,525,627</b>       |

**Long-term debt**

- A. *DEOCSA and DEORSA senior unsecured bonds* – On May 3, 2017, both Companies as combined entities entered in a senior unsecured long-term bonds, as co-borrowers, with Credit Suisse AG, Cayman Islands Branch for an aggregate amount of US\$ 330,000 thousand. DEOCSA received US\$ 191,400 thousand (58% of the notional amount) and DEORSA US\$ 138,600 (42% of the notional amount) of the proceeds of this transaction. The bonds accrue interest at a fixed rate of 5.875% and will be payable semi-annually, with final maturity on May 3, 2027.

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- B. *Banco Industrial* – In connection with senior unsecured loan in note 11A, DEOCSA and DEORSA, on an individual basis, entered into Quetzal-denominated loans with Banco Industrial in an amount of Q. 528,480 thousand (approximately US\$ 71,993 thousand) and Q. 352,320 thousand (approximately US\$ 47,995 thousand), respectively. These loans accrue interest on a monthly basis at the weighted average active interest rate, as published by the Guatemalan Central Bank, less 6% (subject to a floor rate of 7%) and considers quarterly principal repayments beginning on September 2020, with final maturity date in June 2027.

These loans require DEOCSA and DEORSA to comply with covenants on an individual basis: LTM Net Leverage Ratio below 4.5 before December 31, 2018 and 4.0 thereafter; and, LTM Interest Coverage Ratio greater than 2.0.

- C. *Banco de Crédito de Bolivia* - On March 13, 2017, COBEE received proceeds in the aggregate amount of BOL 58,310 thousand (approximately to US\$ 8,378 thousand) under loan agreement with Banco de Crédito. These proceeds were used to cover working capital needs. The loan bears interest at a fixed rate of 4.20% per annum and expires in March 2027.

### Short-term loans from banks

- D. *Interbank* - On February 26 and March 16, 2017, Samay I signed short term facilities with Interbank for an amount of US\$ 35,000 thousand and US\$ 7,000 thousand, respectively, for working capital issues. These facilities accrue interest at a fixed rate of 2.90% and 1.75%, respectively, and expire in February 2018 and September 2017, respectively.

## 12. Other income

| <i>In thousands of U.S. dollars</i>                       | For the six months ended<br>June 30, 2017 | For the six months ended<br>June 30, 2016 | Three-month period ended<br>June 30, 2017 | Three-month period ended<br>June 30, 2016 |
|---|---|---|---|---|
| CDA liquidated damages (a)                                | 40,000                                    | -   | 40,000                                    | -   |
| Energuate purchase adjustment, Note 7                     | 10,272                                    | -   | -   | -   |
| Net gain on Kanan retirement of fixed assets, Note 10 (d) | 8,403                                     | -   | 8,403                                     | -   |
| Cobee insurance claim                                     | -   | 2,490                                     | -   | 2,490                                     |
| Other   | 4,830                                     | 3,676                                     | 2,238                                     | 1,470                                     |
| <b>Total other income</b>                                 | <b>63,505</b>                             | <b>6,166</b>                              | <b>50,641</b>                             | <b>3,960</b>                              |

- (a) On June 2, 2017, CDA and Astaldi SpA and GyM S.A. (hereinafter the "Contractor") signed a Settlement Agreement in order to resolve the disputes concerning the liquidated damages under the EPC Contract. As stated in this Agreement, the Contractor agreed to pay US\$ 31,600 thousand as liquidated damages for delay, and US\$ 8,400 thousand as liquidated damages for outages and for stoppages of the generator sets.

## 13. Financial Instruments

### A. Carrying amounts and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy for financial instruments measured at fair value. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

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|   | Carrying amount  |                                       |                         |                                |                  | Fair Value |                  |         |                  |
|---|------------------|---------------------------------------|-------------------------|--------------------------------|------------------|------------|------------------|---------|------------------|
|   | Held-for trading | Fair value-<br>hedging<br>instruments | Loan and<br>receivables | Other financial<br>liabilities | Total            | Level 1    | Level 2          | Level 3 | Total            |
| <b>June 30, 2017</b>                                    |                  |                                       |                         |                                |                  |            |                  |         |                  |
| <i>In thousands of US\$</i>                             |                  |                                       |                         |                                |                  |            |                  |         |                  |
| <b>Financial assets measured at fair value</b>          |                  |                                       |                         |                                |                  |            |                  |         |                  |
| Interest rate swap not used for hedging                 | 59               | -                                     | -                       | -                              | 59               | -          | 59               | -       | 59               |
|   | <b>59</b>        |                                       |                         |                                | <b>59</b>        |            | <b>59</b>        |         | <b>59</b>        |
| <b>Financial assets not measured at fair value</b>      |                  |                                       |                         |                                |                  |            |                  |         |                  |
| Cash and cash equivalents                               | -                | -                                     | 170,088                 | -                              | 170,088          | -          | -                | -       | -                |
| Short term deposits and restricted cash                 | -                | -                                     | 54,564                  | -                              | 54,564           | -          | -                | -       | -                |
| Trade receivables                                       | -                | -                                     | 257,899                 | -                              | 257,899          | -          | -                | -       | -                |
| Other receivables                                       | -                | -                                     | 69,694                  | -                              | 69,694           | -          | -                | -       | -                |
| Deposits and other receivables                          | -                | -                                     | 8,058                   | -                              | 8,058            | -          | -                | -       | -                |
|   | -                | -                                     | <b>560,303</b>          | -                              | <b>560,303</b>   | -          | -                | -       | -                |
| <b>Financial liabilities measured at fair value</b>     |                  |                                       |                         |                                |                  |            |                  |         |                  |
| Interest rate swap used for hedging                     | -                | 21,432                                | -                       | -                              | 21,432           | -          | 21,432           | -       | 21,432           |
| Interest rate swap not used for hedging                 | 1,770            | -                                     | -                       | -                              | 1,770            | -          | 1,770            | -       | 1,770            |
|   | <b>1,770</b>     | <b>21,432</b>                         |                         |                                | <b>23,202</b>    |            | <b>23,202</b>    |         | <b>23,202</b>    |
| <b>Financial liabilities not measured at fair value</b> |                  |                                       |                         |                                |                  |            |                  |         |                  |
| Loan from banks and others                              | -                | -                                     | -                       | 1,261,351                      | 1,261,351        | -          | 1,371,425        | -       | 1,371,425        |
| Liabilities in respect of finance leases                | -                | -                                     | -                       | 84,623                         | 84,623           | -          | 80,476           | -       | 80,476           |
| Debentures  | -                | -                                     | -                       | 1,179,653                      | 1,179,653        | -          | 1,271,396        | -       | 1,271,396        |
| Trade payables  | -                | -                                     | -                       | 222,978                        | 222,978          | -          | -                | -       | -                |
| Guarantee deposits from customers                       | -                | -                                     | -                       | 61,072                         | 61,072           | -          | -                | -       | -                |
| Other payables  | -                | -                                     | -                       | 55,774                         | 55,774           | -          | -                | -       | -                |
|   | -                | -                                     | -                       | <b>2,865,451</b>               | <b>2,865,451</b> | -          | <b>2,723,297</b> | -       | <b>2,723,297</b> |

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| December 31, 2016                                       | Carrying amount  |                                |                      |                             | Fair value       |          |                  |          |                  |
|---|------------------|--------------------------------|----------------------|-----------------------------|------------------|----------|------------------|----------|------------------|
|   | Held-for trading | Fair value-hedging instruments | Loan and receivables | Other financial liabilities | Total            | Level 1  | Level 2          | Level 3  | Total            |
| <i>In thousands of U.S. dollars</i>                     |                  |                                |                      |                             |                  |          |                  |          |                  |
| <b>Financial assets measured at fair value</b>          |                  |                                |                      |                             |                  |          |                  |          |                  |
| Interest rate swap not used for hedging                 | 111              | -                              | -                    | -                           | 111              | -        | 111              | -        | 111              |
|   | <b>111</b>       | <b>-</b>                       | <b>-</b>             | <b>-</b>                    | <b>111</b>       | <b>-</b> | <b>111</b>       | <b>-</b> | <b>111</b>       |
| <b>Financial assets not measured at fair value</b>      |                  |                                |                      |                             |                  |          |                  |          |                  |
| Cash and cash equivalents                               | -                | -                              | 172,695              | -                           | 172,695          | -        | -                | -        | -                |
| Short term deposits and restricted cash                 | -                | -                              | 58,219               | -                           | 58,219           | -        | -                | -        | -                |
| Trade receivables                                       | -                | -                              | 259,873              | -                           | 259,873          | -        | -                | -        | -                |
| Other receivables                                       | -                | -                              | 29,325               | -                           | 29,325           | -        | -                | -        | -                |
| Deposits and other receivables                          | -                | -                              | 26,706               | -                           | 26,706           | -        | -                | -        | -                |
|   | <b>-</b>         | <b>-</b>                       | <b>546,818</b>       | <b>-</b>                    | <b>546,818</b>   | <b>-</b> | <b>-</b>         | <b>-</b> | <b>-</b>         |
| <b>Financial liabilities measured at fair value</b>     |                  |                                |                      |                             |                  |          |                  |          |                  |
| Interest rate swap used for hedging                     | -                | 22,865                         | -                    | -                           | 22,865           | -        | 22,865           | -        | 22,865           |
| Interest rate swap not used for hedging                 | 2,125            | -                              | -                    | -                           | 2,125            | -        | 2,125            | -        | 2,125            |
|   | <b>2,125</b>     | <b>22,865</b>                  | <b>-</b>             | <b>-</b>                    | <b>24,990</b>    | <b>-</b> | <b>24,990</b>    | <b>-</b> | <b>24,990</b>    |
| <b>Financial liabilities not measured at fair value</b> |                  |                                |                      |                             |                  |          |                  |          |                  |
| Loan from banks and others                              | -                | -                              | -                    | 1,590,756                   | 1,590,756        | -        | 1,842,632        | -        | 1,842,632        |
| Liabilities in respect of finance leases                | -                | -                              | -                    | 88,169                      | 88,169           | -        | 90,576           | -        | 90,576           |
| Debentures  | -                | -                              | -                    | 867,287                     | 867,287          | -        | 947,786          | -        | 947,786          |
| Guarantee deposits from customers                       | -                | -                              | -                    | 56,833                      | 56,833           | -        | -                | -        | -                |
| Trade payables  | -                | -                              | -                    | 297,013                     | 297,013          | -        | -                | -        | -                |
| Other payables  | -                | -                              | -                    | 49,681                      | 49,681           | -        | -                | -        | -                |
|   | <b>-</b>         | <b>-</b>                       | <b>-</b>             | <b>2,949,739</b>            | <b>2,949,739</b> | <b>-</b> | <b>2,880,994</b> | <b>-</b> | <b>2,880,994</b> |

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### B. Measurement of fair values

The following table shows the valuation techniques used in measuring Level 2 fair values as at June 30, 2017 and December 31, 2016, as well as the significant unobservable inputs used.

| Type                                     | Valuation technique  | Significant unobservable data | Inter-relationship between significant unobservable inputs and fair value measurement |
|--|--|-------------------------------|---|
| Interest rate Swaps                      | The group applies standard valuation techniques such as: discounted cash flows for fixed and variables coupons (estimated with forward curves) using as discounted rates the projected LIBOR zero coupon curve. The observable inputs are obtained through market information suppliers. | Not applicable                | Not applicable  |
| Foreign Exchange Forwards                | The Group applies standard valuation techniques which include market observable parameters such as the implicit exchange rate calculated with forward points. These variables are obtained through market information suppliers.   | Not applicable                | Not applicable  |
| Credit from banks, others and debentures | Discounted cash flows with market interest rate  | Not applicable                | Not applicable  |

### 14. Income Tax

The Group's consolidated effective tax rate for the six and three-months ended June 30, 2017 are 42% and 41%, respectively; and for the six and three months ended June 30, 2016 are 49% and 53%. The change in effective tax rate was caused mainly by the following factors:

- A. A US\$ 20,438 thousand losses before taxes due to impairment related to Surenergy Holding SAS sale, recognized in cost of sales.
- B. A US\$ 5,351 thousand accumulated translation loss reclassified to profit and loss due to Surenergy Holdings SAS sale.
- C. A US\$ 987 thousand increase in net expenses in holdings companies or entities domiciled in territories with nil taxes.

### 15. Contingent Liabilities

As of June 30, 2017, the main contingencies for the Group's subsidiaries and associates are described as follows:

#### A. Kallpa Generación S.A.

##### *Import Tax Assessment against Kallpa*

Further to that stated in Note 27(a) of Inkia's annual financial statements, and in relation to Kallpa I case, an oral hearing happened on April 24, 2017 where Kallpa explained its defense arguments. As of June 30, 2017, the amount under discussion is approximately S/ 32,546 thousand (approximately US\$ 10,011 thousand). The Kallpa I assessment liability (including tax, fines and interest) is nil as Kallpa has already paid the total amount under discussion. In this sense, a favorable result of the process would imply a refund of the amounts paid.

In connection to Kallpa I case, in June 2017, the second instance judge decided for the invalidity of the first instance decision and not only ordered to issue a new decision but also to merit the technical support merit by Kallpa.

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As of June 30, 2017, the total tax exposure related to these assessments is as follows:

|            |                    | Amount           | Amount             |
|------------|--------------------|------------------|--------------------|
| Stage      |                    | (In thousand S/) | (In thousand US\$) |
| Kallpa II  | Peruvian Tax Court | 23,016           | 7,070              |
| Kallpa III | Peruvian Tax Court | 22,285           | 6,847              |
| Kallpa IV  | Peruvian Tax Court | 953              | 293                |
|            |                    | <b>46,254</b>    | <b>14,210</b>      |

All of these procedures are still pending of resolution in the Tax Court.

Management and the Company's legal advisors are of the opinion that Kallpa's appeals will more likely than not be successful; accordingly, no provision was recorded in the financial statements.

***Income Tax Audit corresponding to the year 2012***

Further to that stated in Note 27(a) of Inkia's annual financial statements, on May 16, 2016, Kallpa filed a complaint appeal against the SUNAT assessment, which was rejected by SUNAT through a resolution (Resolución de Intendencia) notified on February 14, 2017. On March 7, 2017 this resolution was appealed at the Tax Court.

As of June 30, 2017, the total amount that SUNAT claims should be subject to tax is S/ 16,528 thousand (approximately US\$ 5,077 thousand), representing a potential tax liability of S/ 12,040 thousand (approximately US\$ 3,699 thousand), including interest and fines, for Kallpa.

Management and the Company's legal advisors consider that this appeal will more likely than not be successful as there are already resolutions issued by the Tax Court recognizing the deduction of interest expenses in similar circumstances based on the language of article 37a) of the Peruvian Income Tax Law.

**B. DEOCSA and DEORSA Tax claim in relation to deduction of interest and goodwill**

Further to that stated in Note 27(d) of Inkia's annual financial statements, as of June 30, 2017, the total tax claim amounts to US\$ 86,616 thousand (Q. 636,812 thousand). This tax claim has been recorded as a receivable.

On January 31, 2017 DEOCSA and DEORSA made an additional payment of income tax paid in advance by Q. 20,727 (approximately US\$ 2,773 thousand) corresponding to year 2016. On May 2, 2017, DEORSA and DEOCSA made an additional payment of income tax paid in advance by Q. 14,143 thousand (approximately US\$ 1,928 thousand) corresponding to first quarter 2017.

Regarding to the criminal investigation proceeding under the Complaint, on March 3, 2017, DEOCSA and DEORSA filed a motion alleging that assuming that the factual allegations made by SAT in the Complaint were true, then such Complaint had no legal grounds because such facts did not constitute a crime under Guatemalan law. A hearing took place on June 8, 2017 to issue a judgment on the mentioned motion. Judge resolved against DEOCSA and DEORSA. An appeal has been filed as of June 12, 2017 and is currently under pending resolution.

In addition, a hearing was scheduled for April 26, 2017 to hear testimony from individual third parties and decide on their possible indictment in the proceedings. Such hearing has been suspended until Prosecutor Officer confirms the list of all individuals to be included in the investigation under the Complaint as per the request of some of the third parties currently involved in the case.

A hearing to deliberate on the calculation of accrued interest and fines that was originally scheduled for December 29, 2016 was rescheduled twice and took place on June 23, 2017. The court ordered the SAT to issue a report with definitive calculations on accrued interests and fines regarding payments made on August 2016. A hearing for evaluating this report took place on July 25, 2017. As

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such interest and fines have been paid under protest by DEOCSA and DEORSA, the purpose of the hearing was to express disagreement with such payment. A subsequent hearing has been scheduled for October 13, 2017 to determine the amount of interest and fines on the claim but was again re scheduled for January 31, 2018.

Since the inception of the transactions in 2011 and up to date, the opinion of DEOCSA and DEORSA's management and its legal and tax advisors is that the transactions that generated the interest expenses and the amortization of goodwill deductions are legitimate tax deductions. This position was confirmed in February 2015 by a binding ruling issued by the SAT. Hence, in the opinion of DEOCSA and DEORSA's management the final outcome of this claim and of the other recourses to be initiated by DEOCSA and DEORSA seeking restitution of such payments would be favorable.

### C. Claims Relating to DEOCSA and DEORSA's Technical Service Quality

DEOCSA and DEORSA are obligated to compensate its customers for failures to meet technical service quality requirements set by the CNEE. The CNEE has initiated sanctions processes against DEOCSA and DEORSA for failures to comply with technical service quality standards amounting to US\$ 11 million for DEOCSA and US\$ 18 million for DEORSA as of June 30, 2017.

Although DEOCSA and DEORSA's management believes that it has meritorious defenses to these claims, there can be no assurance as to the ultimate outcomes of these matters.

## 16. Segment information

There were no intersegment material revenues for the six month period ended in June 30, 2017 and 2016, three month period ended in June 30, 2017 and 2016, and for the year ended in December 31, 2016.

### Major customers

The Group does not have any customers with revenue that constituted 10 percent or more to total consolidated revenue nor material intersegment revenue for the six month period ended in June 30, 2017 and 2016, three month period ended in June 30, 2017 and 2016, and for the year ended in December 31, 2016.

### Information based on countries

The Group's revenues by country are as follows:

| <i>In thousands of US dollars</i> | <b>2017</b>    | <b>2016</b>    |
|-----------------------------------|----------------|----------------|
| Peru                              | 342,099        | 236,691        |
| Guatemala                         | 304,145        | 265,691        |
| Nicaragua                         | 48,720         | 43,416         |
| Bolivia                           | 23,439         | 21,714         |
| Chile                             | 18,719         | 17,280         |
| Others                            | 145,348        | 111,855        |
|                                   | <b>882,470</b> | <b>696,107</b> |

The Group's non-current assets (a) by country are as follows:

| <i>In thousands of US dollars</i> | <b>2017</b>      | <b>2016</b>      |
|-----------------------------------|------------------|------------------|
| Peru                              | 1,930,215        | 1,937,930        |
| Guatemala                         | 716,145          | 461,719          |
| Nicaragua                         | 138,770          | 152,247          |
| Bolivia                           | 123,585          | 118,031          |
| Chile                             | 129,404          | 131,235          |
| Others                            | 440,784          | 658,636          |
|                                   | <b>3,478,903</b> | <b>3,459,798</b> |



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A. Mainly composed of property, plant and equipment and intangible assets.

The tables below provide the measurement of each reportable segment, as follows.

| <i>In thousands of U.S. dollars</i>  | <b>Distribution<br/>Companies</b> | <b>Peruvian<br/>entities</b> | <b>Central<br/>America entities</b> | <b>All other<br/>segments (b)</b> | <b>Adjustments (a)</b> | <b>Total</b>   |
|--|-----------------------------------|------------------------------|-------------------------------------|-----------------------------------|------------------------|----------------|
| <b>For the six-month period<br/>ended in June 30, 2017</b>                     |                                   |                              |                                     |                                   |                        |                |
| Revenues   | 280,373                           | 342,099                      | 173,785                             | 87,944                            | (1,731)                | 882,470        |
| Cost of sales  | (226,630)                         | (229,902)                    | (150,265)                           | (93,274)                          | 6,970                  | (693,101)      |
| <b>Gross profit</b>  | <b>53,743</b>                     | <b>112,197</b>               | <b>23,520</b>                       | <b>(5,330)</b>                    | <b>5,239</b>           | <b>189,369</b> |
| Selling, general and<br>administrative expenses                                | (18,703)                          | (16,700)                     | (7,037)                             | (15,486)                          | 1,254                  | (56,672)       |
| Other income, net  | 2,365                             | 40,615                       | (879)                               | 4,319                             | 9,833                  | 56,253         |
| <b>Profit from operating<br/>activities</b>                                    | <b>37,405</b>                     | <b>136,112</b>               | <b>15,604</b>                       | <b>(16,497)</b>                   | <b>16,326</b>          | <b>188,950</b> |
| Finance income, including net<br>gain from derivative financial<br>instruments | 8,319                             | 3,372                        | 436                                 | 1,193                             | 16                     | 14,136         |
| Share of profit in associated<br>company                                       | -                                 | -                            | -                                   | 527                               | -                      | 527            |
| Finance cost   | (15,519)                          | (42,073)                     | (6,484)                             | (26,559)                          | -                      | (90,635)       |
| <b>Income before taxes from<br/>continuing operations</b>                      | <b>30,205</b>                     | <b>97,411</b>                | <b>9,556</b>                        | <b>(40,536)</b>                   | <b>16,342</b>          | <b>112,978</b> |
| Income tax expense   | (13,934)                          | (25,937)                     | (4,523)                             | (1,772)                           | (730)                  | (46,896)       |
| <b>Net income for the period</b>   | <b>16,271</b>                     | <b>71,474</b>                | <b>5,033</b>                        | <b>(42,308)</b>                   | <b>15,612</b>          | <b>66,082</b>  |
| Segment assets   | 686,942                           | 2,167,741                    | 486,803                             | 1,161,087                         | (301,973)              | 4,200,600      |
| Investment in associate  | -                                 | -                            | -                                   | 9,404                             | -                      | 9,404          |
| Segment liabilities  | 639,930                           | 1,597,182                    | 239,781                             | 749,769                           | (60,673)               | 3,165,989      |
| <b>Adjusted EBITDA</b>   | <b>48,157</b>                     | <b>171,390</b>               | <b>32,571</b>                       | <b>24,747</b>                     | <b>70</b>              | <b>276,935</b> |

**INKIA ENERGY LTD. AND SUBSIDIARIES**

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements

| <i>In thousands of U.S. dollars</i>                                      | Distribution Companies | Peruvian entities | Central America entities | All other segments (b) | Adjustments (a) | Total          |
|--|------------------------|-------------------|--------------------------|------------------------|-----------------|----------------|
| <b>For the three-month period ended in June 30, 2017</b>                 |                        |                   |                          |                        |                 |                |
| Revenues   | 141,040                | 171,632           | 85,397                   | 41,816                 | (969)           | 438,916        |
| Cost of sales  | (113,103)              | (112,112)         | (75,631)                 | (35,239)               | 3,595           | (332,490)      |
| <b>Gross profit</b>  | <b>27,937</b>          | <b>59,520</b>     | <b>9,766</b>             | <b>6,577</b>           | <b>2,626</b>    | <b>106,426</b> |
| Selling, general and administrative expenses                             | (9,825)                | (9,262)           | (3,705)                  | (9,267)                | 1,253           | (30,806)       |
| Other income, net  | 752                    | 40,184            | (1,082)                  | (5,922)                | 9,833           | 43,765         |
| <b>Profit from operating activities</b>                                  | <b>18,864</b>          | <b>90,442</b>     | <b>4,979</b>             | <b>(8,612)</b>         | <b>13,712</b>   | <b>119,385</b> |
| Finance income, including net gain from derivative financial instruments | 560                    | 422               | 28                       | 1,160                  | (14)            | 2,156          |
| Share of profit in associated company                                    | -                      | -                 | -                        | 341                    | -               | 341            |
| Finance cost   | (7,740)                | (21,221)          | (3,702)                  | (13,144)               | -               | (45,807)       |
| <b>Income before taxes from continuing operations</b>                    | <b>11,684</b>          | <b>69,643</b>     | <b>1,305</b>             | <b>(20,255)</b>        | <b>13,698</b>   | <b>76,075</b>  |
| Income tax expense   | (6,947)                | (20,569)          | (1,695)                  | (1,696)                | (365)           | (31,272)       |
| <b>Net income for the period</b>   | <b>4,737</b>           | <b>49,074</b>     | <b>(390)</b>             | <b>(21,951)</b>        | <b>13,333</b>   | <b>44,803</b>  |
| <b>Adjusted EBITDA</b>   | <b>24,444</b>          | <b>108,022</b>    | <b>12,359</b>            | <b>2,132</b>           | <b>74</b>       | <b>147,031</b> |
| <b>For the six-month period ended in June 30, 2016</b>                   |                        |                   |                          |                        |                 |                |
| Revenues   | 231,564                | 235,931           | 156,587                  | 72,926                 | (901)           | 696,107        |
| Cost of sales  | (187,503)              | (176,111)         | (138,121)                | (61,843)               | 5,772           | (557,806)      |
| <b>Gross profit</b>  | <b>44,061</b>          | <b>59,820</b>     | <b>18,466</b>            | <b>11,083</b>          | <b>4,871</b>    | <b>138,301</b> |
| Selling, general and administrative expenses                             | (15,457)               | (8,965)           | (7,267)                  | (13,063)               | 51              | (44,701)       |
| Other income, net  | 1,975                  | 9                 | (128)                    | 2,694                  | -               | 4,550          |
| <b>Profit from operating activities</b>                                  | <b>30,579</b>          | <b>50,864</b>     | <b>11,071</b>            | <b>714</b>             | <b>4,922</b>    | <b>98,150</b>  |
| Finance income, including net gain from derivative financial instruments | 734                    | 2,706             | 132                      | 1,387                  | (59)            | 4,900          |
| Share of profit in associated company                                    | -                      | -                 | -                        | 343                    | -               | 343            |
| Finance cost   | (10,861)               | (25,383)          | (6,849)                  | (20,388)               | 15              | (63,466)       |
| <b>Income before taxes from continuing operations</b>                    | <b>20,452</b>          | <b>28,187</b>     | <b>4,354</b>             | <b>(17,944)</b>        | <b>4,878</b>    | <b>39,927</b>  |
| Income tax expense   | (5,492)                | (8,356)           | (3,762)                  | (1,430)                | (630)           | (19,670)       |
| <b>Net income for the period</b>   | <b>14,960</b>          | <b>19,831</b>     | <b>592</b>               | <b>(19,374)</b>        | <b>4,248</b>    | <b>20,257</b>  |
| Segment assets   | 517,813                | 2,116,266         | 462,901                  | 1,229,732              | (228,608)       | 4,098,104      |
| Investment in associate  | -                      | -                 | -                        | 9,337                  | -               | 9,337          |
| Segment liabilities  | 436,454                | 1,630,683         | 299,164                  | 830,228                | (54,001)        | 3,142,528      |
| <b>Adjusted EBITDA</b>   | <b>38,918</b>          | <b>75,447</b>     | <b>28,862</b>            | <b>18,826</b>          | <b>51</b>       | <b>162,104</b> |

**INKIA ENERGY LTD. AND SUBSIDIARIES**

## Notes to the Unaudited Condensed Consolidated Interim Financial Statements

| <i>In thousands of U.S. dollars</i>                                      | Distribution Companies | Peruvian entities | Central America entities | All other segments (b) | Adjustments (a) | Total          |
|--|------------------------|-------------------|--------------------------|------------------------|-----------------|----------------|
| <b>For the three-month period ended in June 30, 2016</b>                 |                        |                   |                          |                        |                 |                |
| Revenues   | 133,540                | 114,737           | 81,471                   | 37,449                 | (577)           | 366,620        |
| Cost of sales  | (105,791)              | (86,176)          | (73,922)                 | (32,064)               | 3,043           | (294,910)      |
| <b>Gross profit</b>  | <b>27,749</b>          | <b>28,561</b>     | <b>7,549</b>             | <b>5,385</b>           | <b>2,466</b>    | <b>71,710</b>  |
| Selling, general and administrative expenses                             | (8,009)                | (4,850)           | (4,004)                  | (6,740)                | 18              | (23,585)       |
| Other income, net  | 573                    | 7                 | (239)                    | 2,530                  | -               | 2,871          |
| <b>Profit from operating activities</b>                                  | <b>20,313</b>          | <b>23,718</b>     | <b>3,306</b>             | <b>1,175</b>           | <b>2,484</b>    | <b>50,996</b>  |
| Finance income, including net gain from derivative financial instruments | (742)                  | 2,582             | (131)                    | 975                    | 104             | 2,788          |
| Share of profit in associated company                                    | -                      | -                 | -                        | 144                    | -               | 144            |
| Finance cost   | (3,176)                | (19,769)          | (3,162)                  | (10,218)               | 15              | (36,310)       |
| <b>Income before taxes from continuing operations</b>                    | <b>16,395</b>          | <b>6,531</b>      | <b>13</b>                | <b>(7,924)</b>         | <b>2,603</b>    | <b>17,618</b>  |
| Income tax expense   | (4,407)                | (2,253)           | (1,496)                  | (970)                  | (282)           | (9,408)        |
| <b>Net income for the period</b>   | <b>11,988</b>          | <b>4,278</b>      | <b>(1,483)</b>           | <b>(8,894)</b>         | <b>2,321</b>    | <b>8,210</b>   |
| <b>Adjusted EBITDA</b>   | <b>25,006</b>          | <b>36,539</b>     | <b>13,927</b>            | <b>9,900</b>           | <b>54</b>       | <b>85,426</b>  |
| <b>For the year ended in December 31, 2016</b>                           |                        |                   |                          |                        |                 |                |
| Revenues   | 508,628                | 528,121           | 326,281                  | 156,704                | (2,342)         | 1,517,392      |
| Cost of sales  | (417,762)              | (382,192)         | (289,378)                | (132,314)              | 12,084          | (1,209,562)    |
| <b>Gross profit</b>  | <b>90,866</b>          | <b>145,929</b>    | <b>36,903</b>            | <b>24,390</b>          | <b>9,742</b>    | <b>307,830</b> |
| Selling, general and administrative expenses                             | (35,966)               | (23,455)          | (15,892)                 | (29,209)               | 66              | (104,456)      |
| Other income, net  | 7,599                  | 6,852             | 340                      | 441                    | -               | 15,232         |
| <b>Profit from operating activities</b>                                  | <b>62,499</b>          | <b>129,326</b>    | <b>21,351</b>            | <b>(4,378)</b>         | <b>9,808</b>    | <b>218,606</b> |
| Finance income, including net gain from derivative financial instruments | -                      | 308               | 649                      | 20,188                 | (16,964)        | 4,181          |
| Share of profit in associated company                                    | -                      | -                 | -                        | 623                    | -               | 623            |
| Finance costs  | -                      | (34,882)          | (8,530)                  | (53,572)               | 16,379          | (80,605)       |
| <b>Income before taxes from continuing operations</b>                    | <b>47,465</b>          | <b>66,133</b>     | <b>8,809</b>             | <b>(48,493)</b>        | <b>10,243</b>   | <b>84,157</b>  |
| Income tax expense   | (12,471)               | (33,088)          | (4,805)                  | (5,182)                | (1,537)         | (57,083)       |
| <b>Net income for the period</b>   | <b>34,994</b>          | <b>33,045</b>     | <b>4,004</b>             | <b>(42,308)</b>        | <b>8,706</b>    | <b>27,074</b>  |
| Segment assets   | 599,809                | 2,165,703         | 493,506                  | 1,192,533              | (229,715)       | 4,221,836      |
| Investment in associate  | -                      | -                 | -                        | 8,896                  | -               | 8,896          |
| Segment liabilities  | 542,223                | 1,635,912         | 245,862                  | 859,183                | (41,966)        | 3,241,214      |
| <b>Adjusted EBITDA</b>   | <b>81,013</b>          | <b>189,637</b>    | <b>59,848</b>            | <b>33,121</b>          | <b>30</b>       | <b>363,649</b> |

(a) Adjustments in depreciation and amortization refers to the elimination of the depreciation effect of revaluated assets on stand-alone basis due to these assets are measured under cost method for consolidation purposes.

(b) In addition to the results of certain of our generation assets, the Other segment also includes expenses and other adjustments relating to our headquarters and intermediate holding companies, including purchase price allocations recorded in connection with our acquisition of Energuate in 2016. However, as the Other segment is primarily composed of the financial results of certain of our generation assets and their related holding companies, we analyze the results of our Other segment within our discussion of the results of our generation business.

## **INKIA ENERGY LTD. AND SUBSIDIARIES**

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

### **17. Related Party Transactions**

The Group does not have significant transactions with related parties as of June 30, 2017 and for the six and three months then ended, as defined by IAS 24.

### **18. Subsequent Event**

#### **A. Kanan**

On July 6 and 17, 2017, on August 11, and September 19, 2017 Kanan received from the insurance company, Mapfre Panamá, four advanced payments of US\$ 24,200 thousand, US\$ 13,000 thousand, US\$ 1,400 thousand and US\$ 1,400 thousand, respectively.

#### **B. Inkia Energy Ltd.**

On July 23, 2017, Kenon announced that it has been approached by, and received indicative, non-binding offers from, parties looking to acquire some or all of its businesses in Latin America and the Caribbean. As a result, the Parent Company is considering such a sale and is in discussions with such parties. There is no assurance that such discussions will result in a sale.

#### **C. CDA Bonds**

On August 9, 2017, Cerro del Águila S.A. ("CDA"), issued senior unsecured notes in an aggregate principal amount of US\$ 650,000 thousand (the "Notes"). The Notes accrue interest at a rate of 4.125% and will mature in August 2027. The proceeds of the Notes are intended to refinance the outstanding project finance debt and to pay related costs and shareholder loans.

In addition, effectively on August 16, 2017, Kallpa Generación S.A. merged with CDA. Upon the consummation of the merger, the surviving entity CDA will have a total installed capacity of 1,608 MW, making CDA the leading power producer in Peru in terms of energy generation.



# INDEPENDENT AUDITORS' REPORT

## To the Shareholders and Board of Directors Inkia Energy Ltd.

### Opinion

We have audited the consolidated financial statements of Inkia Energy Ltd. and subsidiaries ("the Group"), which comprise the consolidated statements of financial position as at December 31, 2016, 2015 and 2014, the consolidated statements of profit or loss, other comprehensive income (loss), changes in equity and cash flows for the years then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2016, 2015 and 2014, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethical Standards Board for Accountants Code of Ethics for professional Accountants (IESBAC Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

#### Acquisition of entities in Guatemala

See note 4 *Business Combination*.

| Key Audit Matter  | How the matter was addressed in our audit   |
|---|---|
| <p>On January 22, 2016, the Group acquired Estrella Cooperatief BA, a holding company that indirectly owned two distribution companies in Guatemala and two other companies engaged to perform related business in this sector for a consideration of US\$ 266,286 thousand.</p> <p>The accounting for this transaction is complex due to the significant judgements and estimates that are required to determine the values of the consideration transferred and the identification and measurement of fair value of the assets acquired and liabilities assumed.</p> <p>Due to the size and complexity of the acquisition, we considered this to be a key audit matter.</p> | <p>Our audit procedures in this area included, among others:</p> <ul style="list-style-type: none"> <li>▪ obtaining the significant contracts and analysis applicable to this transaction;</li> <li>▪ involving our own valuation specialists to support us in challenging the valuations produced by the Group and the methodology used to identify the assets and liabilities acquired; in particular: <ul style="list-style-type: none"> <li>- the methodologies adopted and key assumptions used in valuing the tangible fixed assets by comparing them with market information; and</li> <li>- the key assumptions used to determine the fair value of the intangible asset;</li> </ul> </li> <li>▪ evaluating the fair value of the consideration transferred and goodwill as a result of this acquisition in accordance with IFRS 3.</li> <li>▪ evaluating the adequacy of the consolidated financial statements disclosures, including disclosures of key assumptions, judgements and sensitivities.</li> </ul> |

**Impairment testing of property, plant and equipment (PPE) and intangible and goodwill**

See notes 13 *Property, Plant and Equipment, Net* and 14 *Intangible Assets and Goodwill*.

| <b>Key Audit Matter</b>  | <b>How the matter was addressed in our audit</b>   |
|--|--|
| <p>As of December 31, 2016 the Group has recognized PPE and intangible assets and goodwill for US\$3,001,690 thousand and US\$375,756 thousand, respectively.</p> <p>The annual impairment testing of PPE and intangible assets and goodwill is considered to be a key audit matter due to the complexity of the accounting requirements and the significant judgement required in determining the assumptions to be used to estimate the recoverable amount. The recoverable amount of the Cash Generating Units (CGUs), which is based on the value in use, has been derived from discounted forecast cash flow models. These models use several key assumptions, including estimates of future energy sales volumes and prices, operating costs, growth rates and the weighted-average cost of capital (discount rate).</p> | <p>Our audit procedures in this area included, among others:</p> <ul style="list-style-type: none"> <li>▪ evaluating the trigger events analysis for PPE prepared by Management to each CGUs;</li> <li>▪ involving our own valuation specialist to assist in evaluating the appropriateness of the annual impairment testing; in particular:               <ul style="list-style-type: none"> <li>- discount rates applied to each CGUs;</li> <li>- assumptions applied to key inputs such as energy sales volumes and prices, operating costs, inflation and long-term growth rates, which included comparing these inputs with externally derived data as well as our own assessments based on our knowledge of the client and the industry;</li> </ul> </li> <li>▪ performing our own sensitivity analysis, which included assessing the effect of reasonably possible reductions in growth rates and forecast cash flows;</li> <li>▪ evaluating the proper allocation of intangible assets and goodwill to CGUs; and</li> <li>▪ evaluating the adequacy of the consolidated financial statements disclosures, including disclosures of key assumptions, judgements and sensitivities.</li> </ul> |

**Accounting for Service Concessions Arrangement**

See notes 2.Q *Service Concessions Arrangements* and 13 *Property, Plant and Equipment, Net*.

| <b>Key Audit Matter</b>  | <b>How the matter was addressed in our audit</b>  |
|--|---|
| <p>The distribution entities of the Group in Guatemala have services concession agreements to distribute energy and related services in that country.</p> <p>Due to the nature of the contracts and the judgement involved to determine to appropriate accounting treatment under IFRS, we considered this to be a key audit matter.</p> | <p>Our audit procedures in this area included, among others:</p> <ul style="list-style-type: none"> <li>▪ obtaining the significant contracts and management's analysis of these service concession agreements;</li> <li>▪ evaluating the laws and regulations applicable to these services concession agreements;</li> <li>▪ involving our IFRS specialists to perform our own analysis of the accounting treatment of PPE in accordance with IFRS;</li> <li>▪ evaluating the proper application of IFRS standard applicable to the transaction.</li> <li>▪ evaluating the adequacy of the consolidated financial statements disclosures, including disclosures of key assumptions, judgements and sensitivities.</li> </ul> |

## **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## **Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Lima, Peru

October 25, 2017

Juan José Córdova  
Peruvian Certified Public Accountant  
Registration 01-18869



## INKIA ENERGY LTD. AND SUBSIDIARIES

### Consolidated Statement of Financial Position

For the years ended December 31, 2016, 2015 and 2014

| <i>In thousands of U.S. dollars</i>                                   | <b>Note</b> | <b>2016</b>      | <b>2015</b>      | <b>2014</b>      |
|---|-------------|------------------|------------------|------------------|
| <b>Assets</b>   |             |                  |                  |                  |
| <b>Current assets</b>   |             |                  |                  |                  |
| Cash and cash equivalents   | 6           | 172,695          | 239,109          | 424,178          |
| Short-term deposits and restricted cash                               | 7           | 41,679           | 208,809          | 150,593          |
| Trade receivables   | 8           | 249,753          | 91,967           | 140,098          |
| Other receivables   | 9           | 46,896           | 41,701           | 55,215           |
| Income tax receivable   |             | 11,326           | 3,926            | 3,332            |
| Inventories   | 11          | 91,659           | 50,351           | 55,335           |
| Intercompany balance with parent Company                              | 10          | 51,134           | 43,369           | 35,578           |
| <b>Total current assets</b>   |             | <b>665,142</b>   | <b>679,232</b>   | <b>864,329</b>   |
| <b>Non-current assets</b>   |             |                  |                  |                  |
| Restricted cash   | 7           | 16,540           | 16,371           | 28,351           |
| Trade receivables   | 8           | 10,120           | -                | -                |
| Investment in associate   | 12          | 8,896            | 8,993            | 9,625            |
| Deposits and other receivables, including derivative instruments      |             | 27,593           | 17,843           | 7,672            |
| Income tax receivable and tax claims                                  | 9           | 99,892           | 19,669           | 6,779            |
| Deferred income tax assets  | 18          | 25,104           | 2,693            | 25,743           |
| Property, plant and equipment, net                                    | 13          | 3,001,690        | 2,502,990        | 2,046,116        |
| Intangible assets and goodwill, net                                   | 14          | 375,756          | 146,180          | 138,258          |
| <b>Total non-current assets</b>                                       |             | <b>3,565,591</b> | <b>2,714,739</b> | <b>2,262,544</b> |
| <b>Liabilities and equity</b>   |             |                  |                  |                  |
| <b>Current liabilities</b>  |             |                  |                  |                  |
| Loans from Banks and others   | 15          | 1,328,604        | 1,144,496        | 994,090          |
| Debentures  | 15          | 856,670          | 655,847          | 686,942          |
| Trade payables  | 16          | 44,057           | -                | -                |
| Derivative instruments  | 17          | 14,271           | 35,625           | 21,045           |
| Deferred income tax liabilities                                       | 18          | 186,686          | 99,744           | 114,359          |
| Employee benefits   | 17          | 11,076           | 6,455            | 6,151            |
| Other long term liabilities   | 17          | 44,032           | 20,670           | 17,788           |
| <b>Total non-current liabilities</b>                                  |             | <b>2,485,396</b> | <b>1,962,837</b> | <b>1,840,375</b> |
| <b>Total liabilities</b>  |             | <b>3,241,214</b> | <b>2,447,467</b> | <b>2,180,337</b> |
| <b>Equity</b>   |             |                  |                  |                  |
| Share capital   | 19          | 3                | 3                | 3                |
| Share Premium   |             | 342,773          | 342,773          | 342,773          |
| Capital reserves  |             | (14,035)         | (28,919)         | (20,599)         |
| Employee benefits   |             | (248)            | -                | -                |
| Retained earnings   |             | 468,732          | 454,885          | 432,022          |
| <b>Total equity attributable to the equity holders of the Company</b> |             | <b>797,225</b>   | <b>768,742</b>   | <b>754,199</b>   |
| Non-controlling interest  | 20          | 192,294          | 177,762          | 192,337          |
| <b>Total equity</b>   |             | <b>989,519</b>   | <b>946,504</b>   | <b>946,536</b>   |
| <b>Total liabilities and equity</b>                                   |             | <b>4,230,733</b> | <b>3,393,971</b> | <b>3,126,873</b> |

The notes on pages F-36 to F-129 are part of these consolidated financial statements.

**INKIA ENERGY LTD. AND SUBSIDIARIES**  
Consolidated Statement of Profit or Loss  
For the years ended December 31, 2016, 2015 and 2014

| <i>In thousands of U.S. dollars</i>                         | <i>Note</i> | <b>2016</b>      | <b>2015</b>     | <b>2014</b>     |
|---|-------------|------------------|-----------------|-----------------|
| <b>Continuing operations</b>                                |             |                  |                 |                 |
| Revenue   |             | 1,517,392        | 962,678         | 958,652         |
| Cost of sales   | 13,14 21    | (1,209,562)      | (752,081)       | (794,053)       |
| <b>Gross profit</b>   |             | <b>307,830</b>   | <b>210,597</b>  | <b>164,599</b>  |
| Selling, general and administrative expenses                | 22          | (104,456)        | (59,661)        | (58,043)        |
| Other income  | 24          | 20,415           | 10,490          | 16,883          |
| Other expenses  | 24          | (5,183)          | (6,280)         | (10,806)        |
| <b>Profit from operating activities</b>                     |             | <b>218,606</b>   | <b>155,146</b>  | <b>112,633</b>  |
| Finance income  | 23          | 10,508           | 7,634           | 3,818           |
| Net gain from derivative financial instruments              | 17.B        | 1,555            | 680             | 363             |
| Finance costs   | 23          | (147,135)        | (88,624)        | (80,605)        |
| <b>Finance costs, net</b>                                   |             | <b>(135,072)</b> | <b>(80,310)</b> | <b>(76,424)</b> |
| Share of profit in associate                                | 12          | 623              | 274             | 2,000           |
| Measurement to fair value of pre-existing share             | 4.A         | -                | -               | 2,674           |
| Gain on bargain purchase                                    | 4.D         | -                | -               | 68,210          |
| <b>Profit before income tax and discontinued operations</b> |             | <b>84,157</b>    | <b>75,110</b>   | <b>109,093</b>  |
| Income tax expense  | 18          | (57,083)         | (41,034)        | (33,496)        |
| <b>Profit from continuing operations</b>                    |             | <b>27,074</b>    | <b>34,076</b>   | <b>75,597</b>   |
| <b>Discontinued operations</b>                              |             |                  |                 |                 |
| Profit from discontinued operations, net of tax             | 5           | -                | 3,850           | 128,055         |
| <b>Profit</b>   |             | <b>27,074</b>    | <b>37,926</b>   | <b>203,652</b>  |
| <b>Attributable to</b>                                      |             |                  |                 |                 |
| Inkia's equity holders                                      |             | 13,824           | 25,054          | 188,786         |
| Non-controlling interest                                    | 20          | 13,250           | 12,872          | 14,866          |
| <b>Profit</b>   |             | <b>27,074</b>    | <b>37,926</b>   | <b>203,652</b>  |

The notes on pages F-36 to F-129 are part of these consolidated financial statements.

**INKIA ENERGY LTD. AND SUBSIDIARIES**

Consolidated Statement of Other Comprehensive Income (Loss)

For the years ended December 31, 2016, 2015 and 2014

| <i>In thousands of U.S. dollars</i>                                       | <b>2016</b>   | <b>2015</b>     | <b>2014</b>     |
|---|---------------|-----------------|-----------------|
| Profit  | 27,074        | 37,926          | 203,652         |
| <b>Components of other comprehensive income (loss)</b>                    |               |                 |                 |
| <b>Items that will be subsequently reclassified to profit or loss</b>     |               |                 |                 |
| Exchange differences on translating foreign operations                    | 3,329         | (5,464)         | 55              |
| Exchange difference on Acter disposal                                     | -             | -               | (24,891)        |
| Cash flow hedges – effective portion of changes in fair value             | 20,440        | (9,926)         | (9,889)         |
| Cash flow hedges – reclassified to profit and loss                        | 1,562         | 850             | -               |
| Share of other comprehensive income (loss) of associates                  | 23            | (269)           | (17)            |
| Income tax (expenses) benefit relating to cash flow hedges                | (6,002)       | 3,081           | 2,586           |
|   | <b>19,352</b> | <b>(11,728)</b> | <b>(32,156)</b> |
| <b>Items that will not be subsequently reclassified to profit or loss</b> |               |                 |                 |
| Remeasurement of defined benefit obligation                               | (363)         | -               | -               |
| Income tax on other comprehensive income                                  | 99            | -               | -               |
|   | <b>(264)</b>  | <b>-</b>        | <b>-</b>        |
| <b>Other comprehensive income (loss) for the year, net of tax</b>         | <b>19,088</b> | <b>(11,728)</b> | <b>(32,156)</b> |
| <b>Total comprehensive income for the year</b>                            | <b>46,162</b> | <b>26,198</b>   | <b>171,496</b>  |
| <b>Attributable to</b>  |               |                 |                 |
| Inkia's equity holders  | 28,483        | 16,465          | 158,943         |
| Non-controlling interest  | 17,679        | 9,733           | 12,553          |
| <b>Total comprehensive income for the year</b>                            | <b>46,162</b> | <b>26,198</b>   | <b>171,496</b>  |

The notes on pages F-36 to F-129 are part of these consolidated financial statements.

**INKIA ENERGY LTD. AND SUBSIDIARIES**  
Consolidated Statement of Changes in Equity  
For the years ended December 31, 2016, 2015 and 2014

|  | Attributable to Inkia's equity holders |                |                  |                     |                   |                   |                |                          |                |
|--|--|----------------|------------------|---------------------|-------------------|-------------------|----------------|--------------------------|----------------|
|  | Share capital                          | Share premium  | Hedging reserves | Translation reserve | Employee benefits | Retained earnings | Total          | Non-controlling interest | Total equity   |
| <i>In thousands of U.S. dollars</i>                                  |  |                |                  |                     |                   |                   |                |                          |                |
| <b>Balances as at January 1, 2014</b>                                | 3                                      | 342,773        | (11,788)         | 21,032              | -                 | 275,425           | 627,445        | 138,317                  | 765,762        |
| Comprehensive income for the year                                    | -                                      | -              | -                | -                   | -                 | 188,786           | 188,786        | 14,866                   | 203,652        |
| Profit   | -                                      | -              | -                | -                   | -                 | -                 | -              | -                        | -              |
| Other comprehensive loss   | -                                      | -              | -                | (17)                | -                 | -                 | (17)           | -                        | (17)           |
| Share of other comprehensive income of associates                    | -                                      | -              | -                | 853                 | -                 | -                 | 853            | (798)                    | 55             |
| Exchange differences on translating foreign operations               | -                                      | -              | (5,788)          | -                   | -                 | -                 | (5,788)        | (1,515)                  | (7,303)        |
| Cash flow hedges, net of income tax                                  | -                                      | -              | -                | (24,891)            | -                 | -                 | (24,891)       | -                        | (24,891)       |
| Effect of Acter disposal, note 5                                     | -                                      | -              | -                | (24,891)            | -                 | -                 | (24,891)       | -                        | (24,891)       |
| <b>Total other comprehensive loss</b>                                | -                                      | -              | (5,788)          | (24,055)            | -                 | -                 | (29,843)       | (2,313)                  | (32,156)       |
| <b>Total comprehensive income for the year</b>                       | -                                      | -              | (5,788)          | (24,055)            | -                 | 188,786           | 158,943        | 12,553                   | 171,496        |
| Other  | -                                      | -              | -                | -                   | -                 | -                 | -              | -                        | -              |
| Non-controlling capital contributions                                | -                                      | -              | -                | -                   | -                 | -                 | -              | 19,577                   | 19,577         |
| Distributions to non-controlling shareholders                        | -                                      | -              | -                | -                   | -                 | -                 | -              | (13,910)                 | (13,910)       |
| Business combination   | -                                      | -              | -                | -                   | -                 | -                 | -              | 35,800                   | 35,800         |
| Dividends to Controlling shareholders, note 19                       | -                                      | -              | -                | -                   | -                 | (32,189)          | (32,189)       | -                        | (32,189)       |
| <b>Balances as at December 31, 2014</b>                              | <b>3</b>                               | <b>342,773</b> | <b>(17,576)</b>  | <b>(3,023)</b>      | -                 | <b>432,022</b>    | <b>754,199</b> | <b>192,337</b>           | <b>946,536</b> |
| Comprehensive income for the year                                    | -                                      | -              | -                | -                   | -                 | 25,054            | 25,054         | 12,872                   | 37,926         |
| Profit   | -                                      | -              | -                | -                   | -                 | -                 | -              | -                        | -              |
| Other comprehensive loss   | -                                      | -              | -                | -                   | -                 | (269)             | (269)          | -                        | (269)          |
| Share of other comprehensive income of associates                    | -                                      | -              | -                | (4,129)             | -                 | -                 | (4,129)        | (1,335)                  | (5,464)        |
| Exchange differences on translating foreign operations               | -                                      | -              | (4,191)          | -                   | -                 | -                 | (4,191)        | (1,804)                  | (5,995)        |
| Cash flow hedges, net of income tax                                  | -                                      | -              | (4,191)          | -                   | -                 | -                 | (4,191)        | -                        | (4,191)        |
| <b>Total other comprehensive loss</b>                                | -                                      | -              | (4,191)          | (4,129)             | -                 | (269)             | (8,589)        | (3,139)                  | (11,728)       |
| <b>Total comprehensive income for the year</b>                       | -                                      | -              | (4,191)          | (4,129)             | -                 | 24,785            | 16,465         | 9,733                    | 26,198         |
| Other  | -                                      | -              | -                | -                   | -                 | -                 | -              | -                        | -              |
| Non-controlling capital contributions                                | -                                      | -              | -                | -                   | -                 | -                 | -              | 6,110                    | 6,110          |
| Distributions to non-controlling shareholders                        | -                                      | -              | -                | -                   | -                 | -                 | -              | (12,340)                 | (12,340)       |
| Acquisition of non-controlling interests, note 20                    | -                                      | -              | -                | -                   | -                 | (1,922)           | (1,922)        | (18,078)                 | (20,000)       |
| <b>Balances as at December 31, 2015</b>                              | <b>3</b>                               | <b>342,773</b> | <b>(21,767)</b>  | <b>(7,152)</b>      | -                 | <b>454,885</b>    | <b>768,742</b> | <b>177,762</b>           | <b>946,504</b> |
| Comprehensive income for the year                                    | -                                      | -              | -                | -                   | -                 | 13,824            | 13,824         | 13,250                   | 27,074         |
| Profit   | -                                      | -              | -                | -                   | -                 | -                 | -              | -                        | -              |
| Other comprehensive income (loss)                                    | -                                      | -              | -                | -                   | -                 | 23                | 23             | -                        | 23             |
| Share of other comprehensive income of associates                    | -                                      | -              | -                | -                   | (248)             | -                 | (248)          | (16)                     | (264)          |
| Remeasurement of defined benefit obligation, net of income           | -                                      | -              | -                | 2,718               | -                 | -                 | 2,718          | 611                      | 3,329          |
| Exchange differences on translating foreign operations               | -                                      | -              | 12,166           | -                   | -                 | -                 | 12,166         | 3,834                    | 16,000         |
| Cash flow hedges, net of income tax                                  | -                                      | -              | 12,166           | -                   | -                 | -                 | 12,166         | -                        | 12,166         |
| <b>Total other comprehensive income (loss)</b>                       | -                                      | -              | 12,166           | 2,718               | (248)             | 23                | 14,659         | 4,429                    | 19,088         |
| <b>Total comprehensive income (loss) for the year</b>                | -                                      | -              | 12,166           | 2,718               | (248)             | 13,847            | 28,483         | 17,679                   | 46,162         |
| Other  | -                                      | -              | -                | -                   | -                 | -                 | -              | -                        | -              |
| Non-controlling capital contributions                                | -                                      | -              | -                | -                   | -                 | -                 | -              | 2,400                    | 2,400          |
| Distributions to non-controlling shareholders                        | -                                      | -              | -                | -                   | -                 | -                 | -              | (25,872)                 | (25,872)       |
| Non-controlling interest in respect of business combination, note 20 | -                                      | -              | -                | -                   | -                 | -                 | -              | 20,325                   | 20,325         |
| <b>Balances as at December 31, 2016</b>                              | <b>3</b>                               | <b>342,773</b> | <b>(9,601)</b>   | <b>(4,434)</b>      | <b>(248)</b>      | <b>468,732</b>    | <b>797,225</b> | <b>192,294</b>           | <b>989,519</b> |

The notes on pages F-36 to F-129 are part of these consolidated financial statements.

**INKIA ENERGY LTD. AND SUBSIDIARIES**

## Consolidated Statement of Cash Flows

For the years ended December 31, 2016, 2015 and 2014

| <i>In thousands of U.S. dollars</i>                        | <b>2016</b>      | <b>2015</b>      | <b>2014</b>      |
|--|------------------|------------------|------------------|
| Profit   | 27,074           | 37,926           | 203,652          |
| <b>Adjustments for:</b>                                    |                  |                  |                  |
| Depreciation and amortization                              | 145,043          | 93,795           | 83,002           |
| Finance costs, net   | 135,072          | 80,310           | 76,424           |
| Income tax expense   | 57,083           | 41,034           | 81,810           |
| Loss on disposal of property, plant and equipment          | 2,170            | 3,421            | 7,646            |
| Bad debt expense   | 4,896            | -                | 628              |
| Inventory write off  | 135              | 623              | 1,991            |
| Share of profit in associate                               | (623)            | (274)            | (2,000)          |
| Impairment   | -                | -                | 34,673           |
| Finance costs, net from discontinued operations            | -                | -                | 6,337            |
| Capital gain on Acter sale                                 | -                | -                | (132,246)        |
| Gain on bargain purchase                                   | -                | -                | (68,210)         |
| Recycling of foreign exchange                              | -                | -                | (24,891)         |
| Share of profit in associates from discontinued operations | -                | -                | (11,542)         |
| Measurement to fair value of pre-existing shares           | -                | -                | (2,674)          |
|  | <b>370,850</b>   | <b>256,835</b>   | <b>254,600</b>   |
| <b>Changes in</b>  |                  |                  |                  |
| Trade and other accounts receivable                        | (68,082)         | 27,389           | 23,546           |
| Inventories  | (40,076)         | 4,361            | 11,442           |
| Trade and other accounts payable                           | 26,078           | (13,534)         | (27,841)         |
| Provisions and employee benefits                           | (1,050)          | 305              | (9,930)          |
|  | <b>287,720</b>   | <b>275,356</b>   | <b>251,817</b>   |
| Income tax paid  | (116,413)        | (36,204)         | (52,305)         |
| Dividends received   | 743              | 637              | 5,877            |
| Dividends received from discontinued operations            | -                | 3,850            | 26,350           |
| <b>Net cash provided by operating activities</b>           | <b>172,050</b>   | <b>243,639</b>   | <b>231,739</b>   |
| <b>Cash flows from investing activities</b>                |                  |                  |                  |
| Acquisition of property, plant and equipment               | (225,738)        | (494,917)        | (407,008)        |
| Business combination, net of cash acquired                 | (206,059)        | -                | (69,986)         |
| Acquisition of intangibles                                 | (9,548)          | (16,725)         | (11,347)         |
| Payment of consideration retained                          | (2,204)          | (3,796)          | -                |
| Restricted cash  | 125,831          | (115,328)        | (45,504)         |
| Constitution (liquidation) of short-term deposits          | 50,000           | 69,000           | (116,589)        |
| Collection of interest                                     | 6,062            | 7,779            | 2,732            |
| Value Added Tax  | 8,884            | 2,121            | (13,160)         |
| Proceeds from sales of plant and equipment                 | 421              | 515              | 213              |
| Effect of discontinued operations                          | -                | -                | 359,938          |
| <b>Net cash used in investing activities</b>               | <b>(252,351)</b> | <b>(551,351)</b> | <b>(300,711)</b> |

The notes on pages F-36 to F-129 are part of these consolidated financial statements.

**INKIA ENERGY LTD. AND SUBSIDIARIES**

## Consolidated Statement of Cash Flows

For the years ended December 31, 2016, 2015 and 2014

| <i>In thousands of U.S. dollars</i>                                 | <b>2016</b>     | <b>2015</b>      | <b>2014</b>    |
|---|-----------------|------------------|----------------|
| <b>Cash flows from financing activities</b>                         |                 |                  |                |
| Payment of long term debt   | (378,048)       | (104,215)        | (92,839)       |
| Payment of short term borrowings                                    | (368,957)       | (254,664)        | (182,181)      |
| Payment of interest   | (124,944)       | (74,174)         | (71,477)       |
| Payment of issuance expenses  | (24,210)        | (2,620)          | (9,187)        |
| Payments of dividends to non-controlling interest                   | (23,311)        | (12,340)         | (13,910)       |
| Payment of loan to IC Power   | (12,684)        | (6,929)          | 5,044          |
| Payment of redemption premium                                       | (9,515)         | -                | -              |
| Proceeds of long-term debt  | 540,727         | 226,169          | 564,086        |
| Proceeds of short term borrowings                                   | 401,880         | 378,117          | 190,108        |
| Capital contributions and proceeds from non-controlling             | 9,428           | 6,110            | 19,577         |
| Purchase of non-controlling interest                                | -               | (20,000)         | -              |
| Payment of consent fee  | -               | (400)            | (1,012)        |
| Payment of loans from parent company                                | -               | -                | (167,811)      |
| Payment of dividends to Inkia's equity holders                      | -               | -                | (32,189)       |
| Effect of discontinued operations                                   | -               | -                | (128,709)      |
| <b>Net cash provided by financing activities</b>                    | <b>10,366</b>   | <b>135,054</b>   | <b>79,500</b>  |
| <b>Net increase in cash and cash equivalents</b>                    | <b>(69,935)</b> | <b>(172,658)</b> | <b>10,528</b>  |
| Cash and cash equivalents as at January 1                           | 239,109         | 424,178          | 414,044        |
| Effect of changes in the exchange rate on cash and cash equivalents | 3,521           | (12,411)         | (394)          |
| <b>Cash and cash equivalents as at December 31</b>                  | <b>172,695</b>  | <b>239,109</b>   | <b>424,178</b> |
| <b>Non-cash investing transactions</b>                              |                 |                  |                |
| Acquisition of fixed assets under lease contract                    | -               | -                | (107,688)      |
| Purchase of fixed assets on credit and others                       | (22,405)        | (50,521)         | (9,369)        |

The notes on pages F-36 to F-129 are part of these consolidated financial statements

## INKIA ENERGY LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2016, 2015 and 2014

### 1. Corporate Information

Inkia Energy Ltd (hereinafter “Inkia” or the “Company”) is a holding company incorporated in Bermuda in June 2007 that through its subsidiaries and affiliate, (collectively the “Group”) operates and develops power generation facilities in Latin America and the Caribbean. Inkia has operations in Peru, Chile, Colombia, Dominican Republic, Bolivia, El Salvador, Jamaica, Nicaragua, Guatemala, and investments in Panama, consisting of power generation plants that utilize a range of fuel sources, including natural gas, hydroelectric, heavy fuel oil, diesel and wind. Since January 22, 2016, the Group is also involved in the distribution business, see note 4.

As of January 6, 2015, Inkia was a wholly-owned subsidiary of Israel Corporation (hereinafter “IC” or “the Former Parent Company”) through IC Power Ltd. On January 7, 2015, Israel Corp. transferred all of IC Power Shares to Kenon Holdings Ltd (“Kenon” or “the Parent Company”) as part of its internal reorganization. Kenon is a publicly listed company in both the New York Stock Exchange and the Tel Aviv Stock Exchange.

As a result of Inkia’s acquisition of various assets during the course of 2014 and of the sale of its 21% indirect equity interest in Edegel (one of the largest generator in Peru, in which the Company owned and indirect equity as of September 3, 2014, see note 5), Inkia has an operating capacity of approximately 3,436 MWs as of December 31, 2016 (2,207 MWs as of December 31, 2015 and 2,202 MW as of December 31, 2014, excluding Edegel). The Group, through its operating subsidiaries and associates, provides electricity generation using different technologies such as hydroelectric, natural gas and diesel turbines and heavy fuel oil engines, in Peru, Chile, Colombia, Dominican Republic, Bolivia, El Salvador, Jamaica, Nicaragua and Guatemala.

| Entity  | Country            | Percentage of ownership (Rounded) | Energy used to operate        | Capacity (MW) | Month commenced commercial operation/ Month initially acquired |
|---|--------------------|-----------------------------------|-------------------------------|---------------|--|
| <b>Operating Companies</b>                              |                    |                                   |                               |               |  |
| Kallpa  | Peru               | 75%                               | Natural gas                   | 1,063         | July 2007  |
| Samay I   | Peru               | 75%                               | Natural gas and Diesel        | 616           | May 2016   |
| CDA   | Peru               | 75%                               | Hydroelectric                 | 545           | August 2016  |
| COBEE   | Bolivia            | 100%                              | Hydroelectric and natural gas | 228           | June 2007  |
| Central Cardones  | Chile              | 87%                               | Diesel                        | 153           | December 2011  |
| Nejapa  | El Salvador        | 100%                              | Heavy fuel oil                | 140           | January 2007 - January 2015                                    |
| CEEP  | Dominican Republic | 97%                               | Heavy fuel oil                | 67            | June 2007  |
| JPPC <sup>1</sup>                                       | Jamaica            | 100%                              | Heavy fuel oil                | 60            | June 2007 - May 2014   |
| Kanan   | Panama             | 100%                              | Heavy fuel oil                | 92            | March 2016   |
| Colmito   | Chile              | 100%                              | Diesel and Natural gas        | 58            | October 2013   |
| Corinto   | Nicaragua          | 65%                               | Heavy fuel oil                | 71            | March 2014   |
| Tipitapa  | Nicaragua          | 65%                               | Heavy fuel oil                | 51            | March 2014   |
| Amayo I   | Nicaragua          | 61%                               | Wind                          | 40            | March 2014   |
| Amayo II  | Nicaragua          | 61%                               | Wind                          | 23            | March 2014   |
| Surpetroil  | Colombia           | 60%                               | Natural gas                   | 31            | March 2014   |
| PQP   | Guatemala          | 100%                              | Heavy fuel oil                | 179           | September 2014   |
| <b>Investments</b>                                      |                    |                                   |                               |               |  |
| Pedregal  | Panamá             | 21%                               | Heavy fuel oil                | 54            | June 2007  |
| <b>Total operating capacity as of December 31, 2016</b> |                    |                                   |                               | <b>3,471</b>  |  |

1. Inkia acquired the remaining 84% stake in JPPC in May 2014.

Inkia’s administrative offices are located in Santo Toribio 115, 8th floor, Lima 27, Peru. The address of its registered office is 22 Victoria Street, Hamilton HM 12, Bermuda.

## **2. Significant Accounting Policies**

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. The Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements, unless otherwise stated.

### **A. Basis of preparation**

#### ***i. Compliance with IFRS***

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee applicable to companies reporting under IFRS. The financial statements comply with IFRS as issued by International Accounting Standards Board (IASB).

The consolidated financial statements as of December 31, 2016 have been authorized for issue by the Management of the Company on October 6, 2017.

#### ***ii. Historical cost basis***

The consolidated financial statements have been prepared on the historical cost basis, except for derivative financial instruments. For further information regarding the measurement of these assets and liabilities see note 2 regarding significant accounting policies.

#### ***iii. New standards and interpretations not yet adopted***

Certain new standards and interpretations have been published that are not mandatory for December 31, 2016 and have not early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below:

#### ***IFRS 9 Financial instruments:***

The standard addresses the classification, measurement and recognition of financial assets and financial liabilities and introduces new rules for hedge accounting. In July 2014, the IASB made further changes to the classification and measurement rules and also introduce a new impairment model. The standard is effective for accounting periods beginning on or after January 1, 2018. Early adoption is permitted.

The Group has examined the effects of IFRS 9 in order to determine the qualitative impacts of the implementation. As of 31 December 2016, the Group is not able to determine the quantitative impact. The Group considers that the overall impact of the implementation of IFRS 9 will be not material.

The examination of the potential qualitative impacts was conducted, considering the following three main areas of IFRS 9:

#### ***Classification of financial assets***

There are no material impacts expected concerning the classification and measurement of financial assets due to the types of financial assets held by the Group entities. None of the entities hold complex financial assets or enters in complex financing transaction such as securitization transactions, factoring-arrangements, etc.



***Impairment of financial assets***

In general, the most important financial assets of the Group, trade receivables, do not contain a significant financing component. Therefore, the simplified approach as established in IFRS 9 should be applied. According to IFRS 9, entities are allowed to use a provision matrix as a practical expedient to determine the expected credit losses. Under this approach where it is not required to wait until the default in payments to account for a loss, the matrix should include expectations of changes of credit risk of the customers for the lifetime. Thus, the recognition of losses the first day of the recognition of the receivable (day-one losses) would be expected, based on the fact that all receivable is exposed to credit risk.

The Group expects that the application of IFRS 9 will impact both business lines, but substantially the distribution business due to the underlying characteristics of this business (numerous private customers with different credit characteristics) compared to the generation business with regulated clients and only few non-regulated customers, resulting in:

- Changes to the current matrix, including historical and forward looking information.

IFRS 7, as a consequence of IFRS 9, introduces new disclosure requirements. In general, the requirements are more detailed, compared to the existing notes disclosures relating to an impairment.

***Hedge Accounting***

The Group has not yet decided whether it will continue with the hedge accounting requirements under IAS 39 or will apply the new hedge accounting requirements under IFRS 9. If the Group decides to apply the new hedge accounting requirements, might have to rebalance it hedge assessment on Cardones and Amayo's interest rate swap derivatives, which currently are treated as trading derivatives to fulfill the new effectiveness requirements under IFRS 9. Any resulting gain or loss must be recognized in profit or loss.

***Modification of financial liabilities measured at amortized cost that do not result in de-recognition***

When a financial liability measured at amortized cost is modified without this resulting in de-recognition, a gain or loss should be recognized in profit or loss. Therefore the Group should evaluate the changes to the current accounting policy and should estimate the impacts resulting from the retrospective application from modification gains and losses arising from financial liability from Kallpa bond issuance that are still recognized at the date of initial application of IFRS 9, adjustments might have need to be calculated and recorded through opening retained earnings on transition.

Furthermore, IFRS 7, as a consequence of the new hedge accounting requirements of IFRS 9, introduces more extensive disclosure requirements.

The required hedge accounting disclosures provide information about:

1. An entity's risk management strategy and how it is applied to manage risk;
2. How the entity's hedging activities might affect the amount, timing and uncertainty of its future cash flows;
3. The effect that hedge accounting has had on the entity's financial statements; and
4. Whether the entity is applying the option to designate a credit exposure as measured at fair value through profit or loss.

***IFRS 15 Revenue from contracts with customers:***

The Standard deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers based on a 5-step model. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service.

The standard is effective for accounting periods beginning on or after January 1, 2018. Early adoption is permitted.

The Group has conducted an initial assessment in order to determine the qualitative impacts of the implementation of the new revenue recognition standard. As of December 31, 2016, the Group is not able to determine quantitative impacts, however, under a qualitative point of view it is expected to have impacts in the following aspects, which are described in function of the major topics affected by the new standard and for each business unit.

With respect to the generation business, the Group expects impacts on the following topics:

- Identification of the contract: Treatment of modifications of contracts since some of the Group's contracts are exposed to changes in scope or prices that need to be evaluated to determine if the modification should be considered as a separate contract or part of the original contract.
- Performance obligations: Recognition of revenue of performance obligations that currently are not accounted for separately such as promises to make available capacity or energy on demand, and renewal options that qualify as a material right. On the other hand, recognition of revenue of transmission services paid on behalf of some customers and then reimbursed are expected to not qualify as separate performance obligations, thus, no gross revenue should be recognized due to the fact that the group would be acting as an agent and a netting presentation of payment and reimbursements in the statement of profit or loss is reasonable.

Transaction price: The Group's contracts with customers contain several factors that may affect its cash flow, such as stepped pricing, volume discounts, adjustments based on fuel price or operating conditions of Sistema Eléctrico Interconectado Nacional or SEIN and penalties. All these features may impact the determination of the transaction price, thus, the Group expects the application of a high degree of judgment to estimate the amount of these variable considerations.

- Allocation of the transaction price: For the allocation of the transaction price, the Group expects certain challenges to determine the stand alone selling prices of the several performance obligations. The Group expects to apply significant judgment to determine the stand-alone selling price for the supply of energy and the other performance obligations that are not being separately recognized.
- Recognition of revenue: Apart from the separation of the transaction prices in various performance obligations, the Group expects no significant impact in the timing of the revenue recognition of the major service (energy and capacity supply), as this corresponds to a series of different promises that may be treated as a single performance obligation that may be recognized overtime, similar to the current treatment.
- Other matters: the Group expects an enhancement in the disclosures that relates to revenue. In addition, with respect to transition, the Group plans to evaluate the results of the initial quantification of the impacts of the new standard to take a decision about the transition method to be applied.

With respect to the distribution business, the Group expects impacts on the following topics:

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- Identification of the contract. The Group expects that certain customers' contracts do not qualify as contracts under IFRS 15 since the collectability criteria would not be met. In those cases where the collectability is in doubt, revenue recognition would be deferred until collection.

Treatment of modifications of contracts is already described in the preceding paragraphs above in section for the generation business.

- Performance obligations: Some new performance obligations have been identified, for example, certain administrative activities that the Group carries out on behalf of some customers (municipalities). However, the Group estimate this may be considered as not material obligations.
- Transaction price: The Group identifies variable consideration associated with unbilled energy. Although, this concept is currently recognized as revenue, it is expected to change the method to quantify it. Additionally, considering the collectability criteria are met for those contracts, there is a significant financing component concerning contracts with clients with payment agreements. These agreements allow the clients to pay in arrears (ranging from 8 to 120 months). The practical expedient to not adjust the transaction price for the time value of money cannot be used for payment terms which establish that the period between performance and payment for that performance is more than one year. Another impact is the determination of the discount rate. This rate should reflect the individual credit risk of the specific customer. To date, the discount rate used is that published quarterly by the Regulator (CNEE).
- Allocation of the transaction price: Similar to the generation business.
- Other matters: the Group expects an enhancement in the disclosures that relates to revenue. In addition, with respect to transition, the Group plans to evaluate the results of the initial quantification of the impacts of the new standard to take a decision about the transition method to be applied.

Furthermore, there will be an impact on internal controls as well as processes which the Group is currently evaluating.

The next steps will include the preparation of an implementation plan and further trainings to the employees in order to ensure a successful implementation.

### ***IFRS 16 Leases***

The Standard replaces IAS 17 – Leases and its related interpretations. The standard's instructions annul the existing requirement from lessees to classify leases as operating or finance leases. Instead, for lessees, the new standard presents a unified model for the accounting treatment of all leases according to which the lessee has to recognize an asset and liability in respect of the lease in its financial statements. Similarly, the standard determines new and expanded disclosure requirements from those required at present. The standard will become effective for annual periods as of January 1, 2019, with the possibility of early adoption, so long as the Group has also early adopted IFRS 15.

The Group has not yet completed its analysis of the effects of adopting the standard on the consolidated financial statements. The group will continue to assess the quantitative impacts of the future implementation of IFRS 16 in the next periods.

**B. Basis of consolidation**

**i. Business combinations**

The Group accounts for business combinations using the acquisition method when control is transferred to the Group (see (B) (ii)). The consideration transferred in the acquisition is measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase gain is recognized in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

Any contingent consideration is measured at fair value at the acquisition date. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognized in profit or loss.

**ii. Subsidiaries**

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

The Group has no interests in structured entities as of December 31, 2016 and 2015.

**iii. Non-controlling interest (NCI)**

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date.

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

**iv. Loss of control**

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

**v. Investment in Associates**

Associates are all entities over which the group has significant influence but not control, over the financial and operating policies, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in associates are accounted for using the equity method. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The group's investment in associates includes goodwill identified on acquisition. If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in Other Comprehensive income (OCI) is reclassified to profit or loss where appropriate.

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The Group's share of post-acquisition profit or loss is recognized in the income statement, and its share of post-acquisition movements in OCI is recognized in OCI with a corresponding adjustment to the carrying amount of the investment. When the group's share of losses in an associate equals or exceeds its interest in the associate, including any long-term interests that, in substance, form part of the entity's net investment in the associate, the group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

### **vi. Transactions eliminated on consolidation**

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

### **C. Consolidation of COBEE financial statements**

The Bolivian government under the mandate of Evo Morales has nationalized companies that were privatized during President Gonzalo Sánchez de Lozada's 1993-1997 administration and some other companies that were never owned by the Bolivian government.

As of the date of this report, the Bolivian government has not taken any specific action nor threatened to take any specific action against COBEE. Currently, the Company has full control of COBEE's operations and maintains all the associated economic rights and risks. Therefore, COBEE's financial statements are consolidated in the accompanying consolidated financial statements.

### **D. Segment reporting**

Management evaluated the segment reporting according to the guideline established by IFRS 8 – Operating Segments to disclose information to enable users of its financial statements to evaluate the nature and financial effects of the different business activities in which it engages and the economic environments in which it operates.

Management identify the Chief Operating Decision Maker (CODM) that is composed for group of executives, Inkia Senior Management rather than for a specific individual. The Inkia Senior Management team is formed for the Chief Executive Officer, Chief Financial Officer, Chief Operating Officer – Distribution, Chief Investment Officer – Generation, Chief Operating Officer – Distribution, Chief Investment Officer, Chief Technical Officer and General Legal Counsel. The CODM reviews for the purposes of assessing financial, commercial and operating performance and making resource allocation decisions. The day to day activities are directly handled by the Senior Management.

Inkia's activities are organized primarily around its core businesses: energy generation and distribution (distribution business since January 22, 2016). On that basis the Group has established two major business lines.

The Chief Operating Decision Maker (CODM) reviews net income (loss) for the period as well as Adjusted EBITDA (earnings before taxes, financial expenses, net, depreciation and amortization, excluding share of (profit) loss of associates, gain on bargain purchase, capital gains (excluding capital gains from sales of fixed assets), and profit from discontinued operations, net of tax (excluding dividends received from discontinued operations) for each reportable segment. The CODM uses these performance measures because it believes that this information is the most relevant in evaluating the results of the respective segments relative to other entities that operate in the same industries

The Groups reportable segments are comprised by the legal entities in Peru and Central America for

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the power generation which have similar characteristics.

All other segment include the legal entities in Bolivia, Chile, the Dominican Republic, Jamaica and Colombia. None of these segments met the quantitative thresholds for reportable segments in the years presented.

Also, as a result of Energuate acquisition described in Note 5A, the Company added to the reportable segments the distribution activity of the new acquisition as a separate segment.

Operating segments may be aggregated into a single operating segment when they have characteristics so similar that they can be expected to have essentially the same prospects. Inkia's Management evaluated to do the aggregation considering that the segments have similar characteristics.

Management has identified the following segments: distribution as well as Peru and Central America for Generation. The revenue, net income and assets covered by those segments represent more than 75% of the Company's total revenues, net income and total assets, respectively. Thus information on other operating segments can be combined and disclosed under "Other".

The accounting policies used in the determination of the segment amounts are the same as those used in the preparation of the Group's consolidated financial statement, Inter-segment pricing is determined based on transaction prices occurring in the ordinary course of business.

### **E. Foreign currency translation**

#### ***i. Functional currency***

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

#### ***ii. Transactions and balances***

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

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

However, foreign currency differences arising from the retranslation of the following items are recognized in OCI:

- Qualifying cash flow hedges to the extent the hedges are effective.

#### ***iii. Foreign operations***

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into U.S. Dollars at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into U.S. Dollars at the exchange rates at the dates of the transactions.

Foreign currency differences are recognized in OCI and accumulated in the translation reserve, except to the extent that the translation difference is allocated to NCI.

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When a foreign operation is disposed entirely or partially such that, control or significant influence is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Group disposes a part of its interest in a subsidiary but retains control, then the relevant proportion of the cumulative amount is reattributed to NCI. When the Group disposes of only part of an associate while retaining significant influence, the relevant proportion of the cumulative amount is reclassified to profit or loss.

### **F. Discontinued operations**

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- Represents a separate major line of business or geographic area of operations
- Is part of a single coordinated plan to dispose of a separate major line of business or geographic area of operations; or
- Is a subsidiary acquired exclusively with a view to re-sale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale.

When an operation is classified as a discontinued operation, the comparative statement of profit or loss and OCI is re-presented as if the operation had been discontinued from the start of the comparative year.

### **G. Revenue**

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue comprises the fair value for the sale of electricity, net of value-added-tax, rebates and discounts and after eliminating sales within the Group.

Revenues from the sale of energy are recognized in the period during which the sale occurs. The revenues from the generation business are recorded based upon output delivered and capacity provided at rates specified pursuant to our Power Purchase Agreements (PPAs), or at marginal costs determined on the spot market, if the sales are made on the spot market.

Our revenues from the generation business are determined substantially by long-term, U.S. dollar-linked PPAs. PPAs are usually entered into at prices that are equivalent to, or higher than, the prevailing spot market rates, the majority of which are indexed to the underlying fuel cost of the related long-term supply agreements. Under the terms of the majority of our PPAs, the power purchaser is contractually obligated to purchase its energy requirements, and sometimes capacity and/or ancillary services, from the power generator based upon a base price (denominated either in U.S. Dollars or in the local currency) that is generally adjusted for a combination of some of the following:

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

Many of the prices in our PPAs differentiate between peak and off-peak periods. As of December 31, 2016, the weighted average remaining life of our PPAs based on firm capacity was 9 years.

Revenues from the operation of electric energy distribution and other income from exploitation are measured at the fair value of the consideration received. Estimated customer returns, rebates and other similar allowances are deducted from the revenue recognized.

Revenues from the distribution of electric energy are recognized based on the energy delivered, through invoicing and the estimate of sales from the energy supplied which has not been billed yet at the reporting date.

Revenues from toll services are recognized since the Group acts as a main performer for its clients using the Transmission System.

## **H. Employee benefits**

### ***i. Short-term employee benefits***

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

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

### ***ii. Defined contributions plans***

Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

### ***iii. Termination benefits***

Severance pay is charged to the income statement when there is a clear obligation to pay termination of employees before they reach the customary age of retirement according to a formal, detailed plan, without any reasonable chance of cancellation. The benefits given to employees upon voluntary retirement are charged when the Group proposes a plan to the employees encouraging voluntary retirement, it is expected that the proposal will be accepted and the number of employee acceptances can be estimated reliably.

### ***iv. Defined benefit plans***

The calculation of defined benefit obligation is performed at the end of each reporting period by a qualified actuary using the projected unit credit method. Remeasurements of the defined benefit liability, which comprise actuarial gains and losses and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in OCI. Interest expense and other expenses related to defined benefit plan are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Group recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

## **I. Government Grants**

Government grants related to the construction of distribution projects under the Rural Electrification Program are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received. Government grants are recorded at the value of the grant received and any difference between this value and the actual construction cost is recognized in profit or loss of the year in which the asset is released.

The Group presents such grants as a deduction in arriving at the carrying amount of the property,



plant and equipment. Subsequently, they are recognized in statement of income on a systematic basis over the useful life of the related asset reducing the depreciation expense.

**J. Finance income and finance costs**

The Group's finance income and finance costs include:

- Interest income;
- Interest expense;
- The foreign currency gain or loss on financial assets and financial liabilities;
- The net gain or loss on hedging instruments that are recognized in profit or loss; and
- The reclassification of net gains previously recognized in OCI.

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

**K. Income tax**

Income tax expense comprises current and deferred tax. It is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in OCI.

**i. Current tax**

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

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

**ii. Deferred tax**

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

- Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- Temporary differences related to investments in subsidiaries and associates to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is not probable that they will reverse in the foreseeable future; and
- Taxable temporary differences arising on the initial recognition of goodwill.

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

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

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

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

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

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

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

**iii. Uncertain tax provision**

A provision for uncertain tax positions, including additional tax and interest expenses, is recognized when it is more probable than not that the Group will have to use its economic resources to pay the obligation.

**L. Inventories**

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

**M. Trade receivables**

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

**N. Cash and cash equivalents**

In the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, demand deposit in bank, other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

**O. Property, plant and equipment**

**i. Recognition and measurement**

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

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

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

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

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

**ii. Subsequent costs**

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

**iii. Depreciation**

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognized in profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The following useful lives shown on an average basis are applied across the Group:

|  | <b>Years</b> |
|--|--------------|
| Road   | 20           |
| Buildings  | 5 – 50       |
| Leasehold improvements   | 2            |
| Installation, machinery and equipment                              |              |
| Thermal power plants   | 10 – 35      |
| Hydro-electric   | 70 – 90      |
| Wind power plants  | 25           |
| Distribution technical instruments                                 |              |
| Substations, medium voltage equipment and transf. MV/LV            | 30 – 40      |
| Meters and connections   | 10 – 25      |
| Dams   | 18 – 80      |
| Office furniture and equipment, motor vehicles and other equipment | 3 – 16       |

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

**P. Intangible assets**

***i. Recognition and measurement***

|                          |   |
|--------------------------|---|
| Goodwill                 | Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment; and any impairment loss is allocated to the carrying amount of the equity investee as a whole   |
| Access road and easement | Comprise the disbursement made by the Group in easements and public road to access the site and are recognized and measured at cost less the accumulated amortization and any accumulated impairment loss.  |
| Research and development | Expenditure on research activities is recognized in profit and loss as incurred.<br><br>Development activities involve expenditures incurred in connection with the design and evaluation of future power plant projects before the technical feasibility and commercial viability is fully completed, however the Group intends to and has sufficient resources to complete the development and to use or sell the asset.<br><br>At each reporting date, the Group performs an evaluation of each project in order to identify facts and circumstances that suggest that the carrying amount of the assets may exceed their recoverable amount |
| Concessions              | Intangible assets granted by the Energy and Mining Ministry of Guatemala to DEORSA and DEOCSA to operate in defined geographic areas, and acquired as part of business combination. The Group measures Concessions at cost less accumulated amortization and any accumulated impairment losses.   |
| Customer relationships   | Intangible assets acquired as part of a business combination and are recognized outside of goodwill if the assets are separable or arise from contractual or other legal rights and their fair value can be measured reliably   |
| Other intangible assets  | Other intangible assets, including licenses, software, licenses, patents and trademarks, which are acquired by the Group and have finite useful lives, are measured at cost less accumulated amortization and any accumulated impairment losses.  |

***ii. Subsequent expenditure***

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

***iii. Amortization***

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

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

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|                          |               |
|--------------------------|---------------|
| Customer relationship    | 1 – 12 years  |
| Access road and easement | 80 years      |
| Licenses                 | 20 – 27 years |
| Trademarks               | 10 years      |
| Concession licenses      | 33 years *    |

\* The concessions are amortized over the remaining life of the licenses from the acquisition date of the business combination.

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

**Q. Transfer of assets from customers**

In the distribution industry, an entity may receive from its customer's items of property, plant and equipment that must be used to connect those customers to a network and provide them with ongoing access to supply electricity. Alternatively, an entity may receive cash from customers for the acquisition or construction of such items of property, plant and equipment. In these cases, where the Group determines that the items qualify for recognition as an asset, the transferred assets are recognized as part of the property plant and equipment in the statement of financial position in accordance with IAS 16 and measured the cost on initial recognition at its fair value.

The transfer of an item of property, plant and equipment is an exchange for dissimilar goods or services. Consequently, the Group recognize revenue in accordance with IAS 18. The timing of the recognition of the revenue arising from the transfer will depend on the timing that the assets transfer to the Company. Once the Company has control on the assets and the customers are connected to the distribution network.

**R. Service Concessions Arrangements**

The Group has examined the characteristics, conditions and terms currently in effect under its electric energy distribution license and the guidelines established by IFRIC 12. On the basis of such analysis, the Group concluded that its license is outside the scope of IFRIC 12, primarily because the grantor does not control any significant residual interest in the infrastructure at the end of the term of the arrangement and the possibility of renewal.

The Group accounts for the assets acquired or constructed in connection with the Concessions in accordance with IAS 16 Property, plant and equipment.

**S. Financial instruments**

The Group classifies non-derivative financial assets into the following categories: financial assets at fair value through profit and loss and loans and receivables

The Group classifies non-derivative financial liabilities into the other financial liabilities category.

***i. Non-derivative financial assets and financial liabilities - Recognition and de-recognition***

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

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognized financial asset that is created or retained by the Group is recognized as a separate asset or liability.

The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

***Change in terms of debt instruments***

An exchange of debt instruments having substantially different terms, between an existing borrower and lender is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability at fair value. Furthermore, a substantial modification of the terms of the existing financial liability or part of it, is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

In such cases the entire difference between the amortized cost of the original financial liability and the fair value of the new financial liability is recognized in profit or loss as financing income or expense.

The terms are substantially different if the discounted present value of the cash flows according to the new terms, including any commissions paid, less any commissions received and discounted using the original effective interest rate, is different by at least ten percent from the discounted present value of the remaining cash flows of the original financial liability.

In addition to the aforesaid quantitative criterion, the Group examines, inter alia, whether there have also been changes in various economic parameters inherent in the exchanged debt instruments, therefore, as a rule, exchanges of CPI-linked debt instruments with unlinked instruments are considered exchanges with substantially different terms even if they do not meet the aforementioned quantitative criterion.

Upon the swap of debt instruments with equity instruments, equity instruments issued at the extinguishment and de-recognition of all or part of a liability, are a part of "consideration paid" for purposes of calculating the gain or loss from de-recognition of the financial liability. The equity instruments are initially recognized at fair value, unless fair value cannot be reliably measured – in which case the issued instruments are measured at the fair value of the derecognized liability. Any difference between the amortized cost of the financial liability and the initial measurement amount of the equity instruments is recognized in profit or loss under financing income or expenses.

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

***ii. Non-derivative financial assets – Measurement***

|  |   |
|--|---|
| Financial assets at fair value through profit and loss | A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such on initial recognition. Direct attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein, including any interest or dividend income, are recognized in profit or loss. |
| Loans and receivables                                  | These assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost using the effective interest method, less any impairment losses.   |

**iii. Non-derivative financial liabilities - Measurement**

Non-derivative financial liabilities are initially recognized at fair value less any direct attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortized cost using the effective interest method.

**iv. Derivative financial instruments and hedge accounting**

The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if certain criteria are met.

Derivatives are recognized initially at fair value; any direct attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognized in profit or loss.

**Cash flow hedges**

When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognized in OCI and accumulated in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

The amount accumulated in equity is retained in OCI and reclassified to profit or loss in the same period or periods during which the hedged forecast cash flows affects profit or loss or the hedged item affects profit or loss.

If the forecast transaction is no longer expected to occur, the hedge no longer meets the criteria for hedge accounting, the hedging instrument expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the amount accumulated in equity is reclassified to profit or loss.

**T. Share capital - Ordinary shares**

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

**U. Impairment**

**i. Non-derivative financial assets**

Financial assets not classified as at fair value through profit or loss, including an interest in an equity-account investee, are assessed at each reporting date to determine whether there is objective evidence of impairment. Objective evidence that financial assets are impaired includes:

- Default or delinquency by a debtor;
- Restructuring of an amount due to the Group on terms that the Group would not consider otherwise;
- Indications that a debtor or issuer will enter bankruptcy;
- Adverse changes in the payment status of borrowers or issuers;
- The disappearance of an active market for a security because of financial difficulties; or
- Observable data indicating that there is measurable decrease in expected cash flows from a group of financial assets.

***Evidence of impairment of financial assets***

The Group considers evidence of impairment for trade receivables at both a specific asset and collective level. All individually significant trade receivables are assessed for specific impairment. All individually significant trade receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Trade receivables with similar risk characteristics that are not individually significant are collectively assessed for impairment. In assessing collective impairment, the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

For an investment in an equity security, objective evidence of impairment includes a significant or prolonged decline in its fair value below its cost.

---

|                           |   |
|---------------------------|---|
| Equity- account investees | An impairment loss in respect of an equity-accounted investee is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognized in profit or loss, and is reversed if there has been a favorable change in the estimates used to determine the recoverable amount and only to the extent that the investment's carrying amount, after the reversal of the impairment loss, does not exceed the carrying amount of the investment that would have been determined by the equity method if no impairment loss had been recognized. |
|---------------------------|---|

---

***ii. Non-financial assets***

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

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

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

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

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



**iii. Capitalization of borrowing costs**

Specific and non-specific borrowing costs are capitalized to qualifying assets throughout the period required for completion and construction until they are ready for their intended use. Non-specific borrowing costs are capitalized in the same manner to the same investment in qualifying assets, or portion thereof, which was not financed with specific credit by means of a rate which is the weighted-average cost of the credit sources which were not specifically capitalized. Foreign currency differences from credit in foreign currency are capitalized if they are considered an adjustment of interest costs. Other borrowing costs are expensed as incurred.

Income earned on the temporary investment of specific credit received for investing in a qualifying asset is deducted from the borrowing costs eligible for capitalization.

**V. Guarantee deposits from costumers**

Deposits received from consumers, plus interest accrued and less any outstanding debt for past services, are refundable to the users when they cease using the electric energy service rendered by the Group. The Group has classified these deposits as current liabilities since the Group does not have legal rights to defer these payments in a period that exceed a year. However, the Group does not anticipate making significant payments in the next year.

**W. Energy purchases**

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

**X. Provisions**

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

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

**Y. Leases**

**i. Leased assets**

Leases of property, plant and equipment that transfer to the Group substantially all of the risks and rewards of ownership are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset.

Asset held under other leases are classified as operating leases and are not recognized in the Group's consolidated statement of financial position.

**ii. Lease payments**

Payments made under operating leases, other than conditional lease payments, are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

### **3. Basis of Preparation of Financial Statements**

#### **A. Use of judgments and estimates**

The preparation of accounting estimates used in the preparation of the Group's financial statements requires management of the Company to make assumptions regarding circumstances and events that involve considerable uncertainty. Management of the Company prepares the estimates on the basis of past experience, various facts, external circumstances, and reasonable assumptions according to the pertinent circumstances of each estimate.

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

Information about assumptions, estimation uncertainties and critical judgments that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

- Note 4 - Fair value adjustments for business combination in accordance with IFRS 3, and the measurement of assets, liabilities and goodwill;
- Notes 13 and 14 - Useful life of the property, plant and equipment and intangible assets;
- Note 14 - Key assumptions used for discounted cash flow projections;
- Note 18 - Utilization of tax losses.
- Note 27 - Probability of occurrence and uncertainty of amount of liabilities for contingent liabilities.

#### ***i. Energy purchase provision***

The Group records on a monthly basis the provision of energy purchased not yet billed by estimating the energy received since the last measurement from the supplier. This provision consists in estimating the energy received since the last invoice from the supplier in the frontier spots and valuing it at the prices that the different energy suppliers define in the contract of energy purchase with the Group.

#### ***ii. Energy supplied pending invoicing***

In each monthly close period, the Group records the amount of the accrued revenue not invoiced on the sale of electric energy. This amount consists in estimating the energy delivered since the last measurement date of the consumers and the accounting close period at the tariffs approved by the authorities.

#### ***iii. Immaterial adjustment of comparative data***

During 2015, the Company identified an error on the deferred tax calculation relating to the effect of foreign exchange rate on non-monetary assets in previous years. The Company examined the materiality of this error based on quantitative and qualitative parameters and concluded that the adjustment was immaterial and therefore corrected its financial statements of previous years without reissuing its consolidated financial statements for 2014.

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The effect of the correction on the consolidated statement of financial position:

| <b>December 31, 2014</b>             |             |                    |                    |
|--------------------------------------|-------------|--------------------|--------------------|
| <b>As previously reported in the</b> |             |                    |                    |
| <i>In thousands of U.S. dollars</i>  | <b>past</b> | <b>Adjustments</b> | <b>As restated</b> |
| Deferred tax assets                  | 42,609      | (16,866)           | 25,743             |
| Deferred tax liabilities             | (113,332)   | (1,027)            | (114,359)          |
| Retained earnings                    | (445,424)   | 13,402             | (432,022)          |
| Non-controlling interest             | (196,828)   | 4,491              | (192,337)          |

The effect of the correction on the consolidated statement of profit or loss and other comprehensive income:

| <b>December 31, 2014</b>             |             |                    |                    |
|--------------------------------------|-------------|--------------------|--------------------|
| <b>As previously reported in the</b> |             |                    |                    |
| <i>In thousands of U.S. dollars</i>  | <b>past</b> | <b>Adjustments</b> | <b>As restated</b> |
| Income tax                           | 20,977      | 12,519             | 33,496             |
| Profit                               | 216,171     | (12,519)           | 203,652            |

The aforesaid correction is included in the comparative data of these financial statements by marking the corrected items with “immaterial adjustment”.

#### **4. Business Combination**

##### **4.1 Subsidiaries acquired in 2016**

On December 29, 2015, IC Power Distribution Holdings Pte, Limited (hereinafter - “ICP Distribution”), a wholly owned subsidiary of the Company, entered into an agreement with Deorsa-Deocsa Holdings Ltd. to acquire 100% of the shares of Estrella Cooperatief BA, a holding company that indirectly owned two distribution companies in Guatemala (90.6% of Distribuidora de Electricidad de Occidente S.A.-DEOCSA and 92.68% of Distribuidora de Electricidad de Oriente S.A.-DEORSA) and 100% of two smaller related businesses (Redes Electricas de Centroamerica S.A.-RECSA and Comercializadora Guatemalteca Mayorista de Electricidad S.A.-GUATEMEL), collectively referred as “Energuate” for a purchase price equal to (i) the base purchase price, plus (ii) the deferred payment, and (iii) the final adjustment amount. On January 22, 2016, ICP Distribution closed the acquisition of Estrella Cooperatief BA for a total consideration of US\$ 266,286 thousand which included a base price of US\$ 242,536 thousand paid at the closing date and a deferred payment of US\$ 23,750 thousand paid on April 12, 2016. The consideration agreed is subject to working capital adjustments.

##### **A. Consideration transferred**

The following table summarizes the acquisition-date fair value of each major class of consideration transferred:

| <i>In thousands of U.S. dollars</i>    |                |
|--|----------------|
| Cash consideration                     | 242,536        |
| Deferred payment                       | 23,750         |
| <b>Total consideration transferred</b> | <b>266,286</b> |
| Total consideration transferred        | 266,286        |
| Cash and cash equivalents acquired     | (60,227)       |
| <b>Total</b>                           | <b>206,059</b> |

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**B. Identifiable assets acquired and liabilities assumed**

The following table summarizes the recognized amounts of assets acquired and liabilities assumed at the date of acquisition:

| <i>In thousands of U.S. dollars</i>           | <b>Note</b> |                |
|---|-------------|----------------|
| Property, plant and equipment, net            | 13          | 392,495        |
| Intangibles assets                            | 14          | 195,148        |
| Deferred income tax assets                    | 18          | 20,289         |
| Trade receivables, net                        | 8           | 100,508        |
| Cash and cash equivalents                     | 4           | 60,227         |
| Other assets                                  |             | 22,457         |
| Credit from bank and others                   |             | (288,290)      |
| Deferred income tax liabilities               | 18          | (54,642)       |
| Trade payables                                | 16          | (108,193)      |
| Guarantee deposits from customers (a)         | 17          | (51,072)       |
| Other liabilities                             |             | (39,418)       |
| <b>Total identifiable net assets acquired</b> |             | <b>249,509</b> |

- (a) Deposits in cash received from customers. These deposits bear interests at a weighted average interest rate published by the Guatemalan Central Bank and are refundable to clients when they cease using the electric energy service.

**C. Measurement of fair values**

The Company has measured the value of the acquired assets and liabilities at fair value on January 22, 2016, the date in which the Company gained control over Estrella Cooperatief BA. Additional information regarding the fair value measurement of the main items acquired is as follows:

- Fixed assets were valued considering the market value provided by an appraiser;
- Intangibles were measured based on the valuation of its Concessions;
- Deferred taxes were recorded based on the temporary differences between the carrying amount of the assets and liabilities and their tax basis; and,
- Non-controlling interests were measured as a proportion of the net assets identified on the acquisition date.

**D. Goodwill**

Goodwill arising from the acquisition has been recognized as follows:

| <i>In thousands of U.S. dollars</i>   | <b>Note</b> |               |
|---------------------------------------|-------------|---------------|
| Total consideration transferred       | A           | 266,286       |
| Non-controlling interest              |             | 20,325        |
| Fair value of identifiable net assets | B           | (249,509)     |
| <b>Goodwill*</b>                      |             | <b>37,102</b> |

(\*) *This amount is not deductible for tax purposes and was determined in Quetzales.*

Goodwill is explained by the strategic interest of the Company to expand its presence in distribution business. The goodwill is attributable mainly to the synergies expected to be achieved from integrating this business into the Group.

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### ***Recognition of revenues and profit or loss***

During the period from the acquisition date to December 31, 2016 the revenues and profit contributed by Estrella Cooperatief BA. to the consolidated results are US\$ 515,361 thousand and US\$ 28,842 thousand, respectively. If the acquisition had occurred on 1 January 2016, management estimates that contribution to consolidated revenue would have been US\$ 551,300 thousand (unaudited), and to consolidated profit for the period would have been US\$ 29,656 thousand (unaudited). In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on January 1, 2016.

### **4.2 Subsidiaries acquired in 2014**

During 2014, Inkia acquired the following companies:

#### ***AEI Nicaragua Holdings Ltd.***

On February 18, 2014, Inkia entered into an agreement with AEI Power Ltd. to acquire all of the shares of AEI Nicaragua Holdings Ltd and AEI Jamaica Holdings Ltd for a purchase price of US\$ 54,144 thousand. On March 12, 2014, Inkia took control of AEI Nicaragua Holdings and paid US\$ 36,644 thousand to AEI Power Ltd. in connection with the acquisition. As a result of the post-closing purchase price adjustments, AEI Ltd refunded US\$ 6,523 thousand to Inkia on April 14, 2014, therefore, the final purchase price of AEI Nicaragua Holdings was US\$ 30,121 thousand.

#### ***AEI Jamaica Holdings Ltd.***

On May 30, 2014, Inkia took control of AEI Jamaica Holdings and paid US\$ 17,500 thousand to AEI Power Ltd. in connection with the acquisition. As a result of the post-closing purchase price adjustments, Inkia paid an additional of US\$ 3,177 thousand to AEI Power Ltd. on July 1, 2014; therefore, the final purchase price of AEI Jamaica Holdings was US\$ 20,677 thousand.

As of result of this transaction, Inkia increased its ownership from 15.57% to 100% in Jamaica Private Power Company (a subsidiary of AEI Jamaica Holdings). The measurement to fair value of Inkia's pre-existing share in Jamaica Power Company resulted in a gain of US\$ 2,674 thousand (US\$ 6,044 thousand less US\$ 3,370 thousand carrying amount of such investment at the acquisition date).

#### ***Surpetroil***

On March 12, 2014, Inkia through its subsidiary Samay III signed a share purchase agreement with Yesid Gasca and Adriana Lopez to acquire a 60% stake of Surpetroil SAS, a company involved in power generation, natural gas transport and distribution using Colombia's stranded gas, as well as a 60% stake in 2 companies:

Surenergy SAS ESP (Colombia) and Surpetroil S.A.C. (Peru) for a total purchase price of US\$ 18,000 thousand. On March 28, 2014, Inkia took control of Surpetroil and paid US\$ 12,000 thousand at closing. The remaining US\$ 6,000 thousand has been retained by Inkia to be reinvested by the minority shareholders in new projects.

During 2015 and 2016, Inkia paid US\$ 3,796 thousand and US\$ 2,204 thousand, respectively, to the minority shareholders.

#### ***AEI Guatemala Holdings Ltd.***

On August 13, 2014, Inkia entered into an agreement with AEI Power Ltd. to acquire all of the shares of AEI Guatemala Holdings Ltd for a purchase price of US\$ 29,000 thousand. On September 17, 2014, Inkia completed the acquisition of AEI Guatemala Holdings and paid US\$ 29,000 thousand to AEI Power Ltd.

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On October 22, 2014, Inkia paid an additional of US\$ 5,568 thousand as a result of the post-closing purchase price adjustments, and US\$ 350 thousand for reorganization costs. Therefore, the final purchase price of AEI Guatemala Holdings was US\$ 34,918 thousand.

**A. Identifiable assets acquired and liabilities assumed**

The following table summarizes the recognized amounts of assets acquired and liabilities assumed at the date of acquisition:

| <i>In thousands of U.S. dollars</i>    | <b>Note</b> | <b>AEI Nicaragua</b> | <b>AEI Jamaica</b> | <b>Surpetroil</b> | <b>AEI Guatemala</b> | <b>Total</b>     |
|--|-------------|----------------------|--------------------|-------------------|----------------------|------------------|
| Property, plant and equipment          | 13          | 157,211              | 39,585             | 15,173            | 60,896               | 272,865          |
| Intangible                             | 14          | 20,783               | 3,305              | 5,168             | 925                  | 30,181           |
| Deferred income tax assets             |             | 2,375                | 179                | 201               | 76                   | 2,831            |
| Trade receivables, net                 | 8           | 29,072               | 5,998              | 900               | 31,939               | 67,909           |
| Other assets                           |             | 40,716               | 24,325             | 1,835             | 38,777               | 105,653          |
| Short-term borrowings                  |             | -                    | (1,722)            | (2,361)           | (17,500)             | (21,583)         |
| Long-term debt                         |             | (115,241)            | (10,199)           | (2,390)           | (23,021)             | (150,851)        |
| Deferred income tax liabilities        |             | (33,722)             | (1,102)            | (2,671)           | (7,550)              | (45,045)         |
| Other liabilities                      |             | (16,804)             | (9,532)            | (2,901)           | (29,181)             | (58,418)         |
| Non-controlling interest               |             | (30,618)             | -                  | (5,182)           | -                    | (35,800)         |
| <b>Total net assets</b>                |             | <b>53,772</b>        | <b>50,837</b>      | <b>7,772</b>      | <b>55,361</b>        | <b>167,742</b>   |
| Fair value of pre-existing share       |             | -                    | (6,044)            | -                 | -                    | (6,044)          |
| <b>Total consideration</b>             |             | <b>(30,121)</b>      | <b>(20,677)</b>    | <b>(18,000)</b>   | <b>(34,918)</b>      | <b>(103,716)</b> |
| Gain on bargain purchase               |             | 23,651               | 24,116             | -                 | 20,443               | 68,210           |
| Goodwill *                             |             | -                    | -                  | 10,228            | -                    | 10,228           |
| Cash consideration                     |             | 30,121               | 20,677             | 12,000            | 34,918               | 97,716           |
| Consideration retained by Inkia        |             | -                    | -                  | 6,000             | -                    | 6,000            |
| <b>Total consideration transferred</b> |             | <b>30,121</b>        | <b>20,677</b>      | <b>12,000</b>     | <b>34,918</b>        | <b>97,716</b>    |
| Cash and cash equivalents acquired     |             | (19,310)             | (5,371)            | (168)             | (2,881)              | (27,730)         |
| <b>Net cash flow on acquisition</b>    |             | <b>10,811</b>        | <b>15,306</b>      | <b>11,832</b>     | <b>32,037</b>        | <b>69,986</b>    |

\* This amount is not deductible for tax purposes.

**B. Measurement of fair values**

Inkia has established the value of the acquired assets, liabilities, and contingent liabilities considering the fair value basis on March 12, 2014; March 28, 2014; May 30, 2014; and on September 17, 2014, dates in which Inkia took control of AEI Nicaragua Holdings, Surpetroil, AEI Jamaica Holdings and AEI Guatemala Holdings, respectively. The criteria considered to measure the fair value of the main items were the following:

| <b>Assets acquired</b>        | <b>Valuation technique</b>  |
|-------------------------------|---|
| Property, plant and equipment | Market comparison technique as cost technique: the valuation model considers quoted market prices for similar items when they are available, and depreciated replacement cost when appropriate.               |
| Intangible assets             | Multi-period Excess Earnings Method ("MEEM") considers the present value of net cash flows expected to be generated by the customer relationship, by excluding any cash flows related to contributory assets. |
| Contingent liabilities        | Were determined over the average probability established by third party legal processes considering the tax law on Jamaica.   |
| Deferred tax                  | Was valued over the temporary differences between the accounting and tax basis of the business combination  |
| Non-controlling interest      | Was calculated over a proportional basis of the assets identified on the acquisition date.  |

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**C. Gain of bargain purchase**

After reviewing and analyzing the fair values of the Nicaraguan, Jamaican and Guatemalan assets and compare them to the carrying value, a gain on bargain purchase of US\$ 23,651, US\$ 24,116 and US\$ 20,443, respectively, was determined. The differences between fair value and carrying value are derived in principal:

- Lack of alternative buyers.
- Regions low interest from international power players.

**D. Recognition of revenues and profit or loss**

During the period from the acquisition date to December 31, 2014 the revenues and profit or loss contributed by these acquired companies to the consolidated results are as follows:

| Companies acquired          | Control date       | Revenues       | Profit (loss) |
|-----------------------------|--------------------|----------------|---------------|
| AEI Nicaragua Holdings Ltd  | March 12, 2014     | 124,578        | 5,874         |
| Surpetroil S.A.S.           | March 28, 2014     | 9,263          | 1,759         |
| AEI Jamaica Holdings Ltd.   | May 30, 2014       | 40,752         | (2,242)       |
| AEI Guatemala Holdings Ltd. | September 17, 2014 | 33,302         | (1,028)       |
| <b>Total</b>                |                    | <b>207,895</b> | <b>4,363</b>  |

**5. Discontinued Operation**

On September 3, 2014, Inkia Americas Holdings Ltd. (the "Seller"), and IC Power as guarantor of the Seller, closed the sale of its shares in Inkia Holdings (Acter) Limited ("Acter"), that indirectly holds the equivalent of 39.01% of Generandes Perú S.A., the holding company of Edegel S.A.A. for a total consideration of US\$ 413,000 thousand in cash.

As a consequence of the sale of Acter, Inkia transferred all the following companies to Enersis: Southern Cone Power Ltd., Latin America Holding I Ltd., Latin America Holding II Ltd. and Southern Cone Power Perú S.A.A.

Pursuant to the terms of the Share Purchase Agreement, prior to the consummation of the Acter Disposition, Acter was required to repay the outstanding indebtedness (the "Acter Debt") held with Credit Suisse AG, Cayman Islands Branch. In order to repay the Acter Debt, seller received a short-term loan from IC Power on August 26, 2014 in an amount of US\$ 125,000 thousand (the "Acter Contribution"), and used the proceeds to repay the Acter Debt on August 27, 2014.

On April 30, 2015, Inkia received US\$ 3,850 thousand as a final dividend from Enersis equivalent to the remaining portion on 2014 Generandes earnings as of September 3, 2014.

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**A. Results of discontinued operation**

| <i>In thousands of U.S. dollars</i>                    | <b>2016</b> | <b>2015</b>  | <b>2014</b>    |
|--|-------------|--------------|----------------|
| Selling, general and administrative expenses           | -           | -            | (568)          |
| Dividends received post equity-accounting              | -           | 3,850        | 14,523         |
| Other income   | -           | -            | 72             |
| Financing income                                       | -           | -            | 47             |
| Finance cost   | -           | -            | (6,384)        |
| Share of profit in associates                          | -           | -            | 11,542         |
| Income tax   | -           | -            | (1,049)        |
|  | -           | <b>3,850</b> | <b>18,183</b>  |
| Capital gain on Acter sale                             | -           | -            | 132,246        |
| Recycling of foreign exchange                          | -           | -            | 24,891         |
| Income tax on gain on sale from discontinued Operation | -           | -            | (47,265)       |
| <b>Net gain on sale from discontinued operations</b>   | -           | -            | <b>109,872</b> |
| <b>Profit from discontinued operation, net of tax</b>  | -           | <b>3,850</b> | <b>128,055</b> |

The net income from discontinued operation is 100% attributable to the controlling shareholders of the company.

**B. Cash flows from discontinued operation**

| <i>In thousands of U.S. dollars</i>               | <b>2016</b> | <b>2015</b>  | <b>2014</b>    |
|---|-------------|--------------|----------------|
| Net cash provided by operating activities         | -           | 3,850        | 26,350         |
| Net cash provided by investing activities         | -           | -            | 359,938        |
| Net cash used in financing activities             | -           | -            | (128,709)      |
| <b>Net cash flow from discontinued operations</b> | -           | <b>3,850</b> | <b>257,579</b> |

On September 16, 2014, the Company received the consent to reinvest the Net Cash Proceeds related to the Acter Disposition within 30 months (originally was 365 days) of such asset sale.

As of December 21, 2016, Inkia has fully invested the net cash proceeds from Edegel Sale (US\$ 235 million). Inkia has reinvested pursuant to the terms of such indenture, and acquired Energuate.

**C. Effect of disposal on the financial position of the group**

The net cash proceeds from Acter disposition are as follows:

| <i>In thousands of U.S. dollars</i>             | <b>2014</b>    |
|---|----------------|
| Consideration received                          | 413,000        |
| Transaction costs                               | (5,844)        |
| <b>Total net proceeds</b>                       | <b>407,156</b> |
| Income tax paid                                 | (47,265)       |
| Other   | 47             |
| <b>Net cash proceeds from Acter disposition</b> | <b>359,938</b> |



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The net cash proceeds from Acter disposition which have to reinvest are as follows:

| <i>In thousands of U.S. dollars</i>           | <b>2014</b>    |
|---|----------------|
| Net cash proceeds from Acter disposition      | 359,938        |
| Payment of Inkia's short-term credit facility | (125,000)      |
|   | <b>234,938</b> |

The disposal group comprised assets and liabilities as follows:

| <i>In thousands of U.S. dollars</i>        | <b>2014</b>    |
|--|----------------|
| <b>Assets</b>                              |                |
| Other receivables                          | 104            |
| Income tax receivable                      | 49             |
| Investment (see note 12)                   | 280,113        |
| <b>Total assets of disposal group</b>      | <b>280,266</b> |
| <b>Liabilities</b>                         |                |
| Other payables                             | 5,355          |
| <b>Total liabilities of disposal group</b> | <b>5,355</b>   |
| <b>Net assets of disposal group</b>        | <b>274,911</b> |

**6. Cash and Cash Equivalents**

| <i>In thousands of U.S. dollars</i> | <b>2016</b>    | <b>2015</b>    | <b>2014</b>    |
|-------------------------------------|----------------|----------------|----------------|
| Cash                                | 433            | 72             | 90             |
| Checking accounts (a)               | 171,427        | 233,083        | 391,973        |
| Time deposits (b)                   | 835            | 4,953          | 32,115         |
| Mutual funds (c)                    | -              | 1,001          | -              |
|                                     | <b>172,695</b> | <b>239,109</b> | <b>424,178</b> |

- (a) Checking accounts are freely available and earn interest at market rates ranging from 0.01% to 5.60% p.a.
- (b) Time deposits corresponds to short-term investments made for periods ranging from one day to three months, depending on immediate cash requirements of the Group, and earn interest at short-term deposit rates in US Dollars and other currencies ranging from 0.01% to 4.00% p.a.
- (c) As at December 31, 2015, mutual funds were short-term investments managed by Fondos Sura SAF, an entity located in Peru, with a conservative profile.

## 7. Short-term Deposits and Restricted Cash

| <i>In thousands of U.S. dollars</i> | <b>2016</b>   | <b>2015</b>    | <b>2014</b>    |
|-------------------------------------|---------------|----------------|----------------|
| Restricted cash – current (a)       | 41,679        | 158,809        | 31,277         |
| Short-term deposits (b)             | -             | 50,000         | 119,316        |
|                                     | <b>41,679</b> | <b>208,809</b> | <b>150,593</b> |
| Restricted cash - non-current (a)   | 16,540        | 16,371         | 28,351         |
|                                     | <b>58,219</b> | <b>225,180</b> | <b>178,944</b> |

- (a) Corresponds to amounts held in escrow accounts as collateral for loans and contractual obligations, such as debt service reserve accounts and time deposits that guarantee letters of credit. They earn interest at market interest rates of 0.01% to 6.2%. As at December 31, 2015, it included mainly US\$ 117,395 thousand in IC Power Distribution Holdings Pte. Ltd. for the acquisition of Energuate.
- (b) As at December 31, 2015, corresponded to 180-day time deposits set by Inkia from the proceeds of the Acter sale, see note 5.

## 8. Trade Receivables

| <i>In thousands of U.S. dollars</i> | <b>2016</b>    | <b>2015</b>   | <b>2014</b>    |
|-------------------------------------|----------------|---------------|----------------|
| Open accounts                       | 264,877        | 92,071        | 140,202        |
| Less – allowance for doubtful debts | (5,004)        | (104)         | (104)          |
|                                     | <b>259,873</b> | <b>91,967</b> | <b>140,098</b> |
| Trade receivable – current          | 249,753        | 91,967        | 140,098        |
| Trade receivable – non current (a)  | 10,120         | --            | -              |
|                                     | <b>259,873</b> | <b>91,967</b> | <b>140,098</b> |

- (a) Corresponds to the non-current portion of payment agreements signed with customers by distribution companies. Typically this agreements have a period between 2 to 10 years.

Except for Nicaragua's and CEPP's, trade accounts receivables are non-interest bearing, and are mainly denominated in or linked to U.S dollars. The reduction in trade receivables is mainly explained by an important collection of CEPP's trade receivables and the drop of fuel prices which affected the revenues.

As at December 31, 2016, 2015 and 2014, trade accounts receivable ageing analysis is as follows:

| <i>In thousands of U.S. dollars</i> | <b>Neither past due<br/>nor impaired</b> | <b>Past due not<br/>impaired &lt; 90 days</b> | <b>Past due not<br/>impaired &gt; 90 days</b> | <b>Total</b> |
|-------------------------------------|--|---|---|--------------|
| 2016                                | 199,008                                  | 50,723  | 10,142  | 259,873      |
| 2015                                | 78,196                                   | 12,210  | 1,561   | 91,967       |
| 2014                                | 92,099                                   | 25,427  | 22,572  | 140,098      |

The Group exposure and market risk and impairment losses for Trade and other receivables, are described in note 26.

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The movement of allowance for doubtful debts during the year was as follows:

| <i>In thousands of U.S. dollars</i>                                       | <b>2016</b>  | <b>2015</b> | <b>2014</b> |
|---|--------------|-------------|-------------|
| Balance as at January 1   | 104          | 104         | 104         |
| Impairment loss on trade receivable recognized in the period, (note 22.A) | 4,896        | -           | -           |
| Translation effect  | 4            | -           | -           |
|   | <b>5,004</b> | <b>104</b>  | <b>104</b>  |

**9. Other Receivables**

| <i>In thousands of U.S. dollars</i>                    | <b>2016</b>    | <b>2015</b>   | <b>2014</b>   |
|--|----------------|---------------|---------------|
| Value added tax (a)                                    | 12,327         | 21,492        | 31,147        |
| Insurance claims (b)                                   | 8,809          | 3,944         | 8,040         |
| Prepaid expenses                                       | 4,696          | 7,637         | 9,639         |
| Transmission line sale (c)                             | 4,200          | -             | -             |
| Transactions cost of Energuate                         | 1,903          | -             | -             |
| Selective consumption tax on heavy fuel oil (d)        | 940            | -             | -             |
| Employees  | 546            | 397           | 428           |
| Other receivables                                      | 13,475         | 8,231         | 5,961         |
|  | <b>46,896</b>  | <b>41,701</b> | <b>55,215</b> |
| Income tax receivable and tax claims – non current (e) | 99,892         | 19,669        | 6,779         |
|  | <b>146,788</b> | <b>61,370</b> | <b>61,994</b> |

- (a) The balance corresponds mainly to the VAT incurred in the construction of Cerro del Aguila and Samay I (“Puerto Bravo”) projects. Both projects have the tax benefit of recovering the VAT incurred during the construction stage on a regular basis.
- (b) As of December 31, 2016, it corresponds to the accounts recorded in Samay I and Corinto in connection with their assurance claims for property damage and business by US\$ 8,059 thousand and US\$ 750 thousand, respectively. As of December 31, 2015, it corresponds to the accounts receivables recorded in Amayo II and Cobee in connection with its insurance claims for Business Interruption and for property damage by US\$ 1,615 thousand and US\$ 2,329 thousand, respectively.
- (c) As of December 31, 2016, it corresponds to the sale of transmission line of Corinto and Amayo I to Empresa Nacional de Transmisión Eléctrica – ENATREL.
- (d) During 2016, the Dominican Republic Government, enacted the Decree No. 275-16 which establishes a system of reimbursement of Selective Consumption Tax on fossil fuels and petroleum products to individual or legal entities, including generation companies. The Decree sets out a payment in advance for fuels purchased which will be reimbursed as they are consumed.

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- (e) As at December 31, 2016, 2015 and 2014, the income tax receivable and tax claims-non current distribution is as follows:

| <i>In thousands of U.S. dollars</i>         | <b>2016</b>   | <b>2015</b>   | <b>2014</b>  |
|---|---------------|---------------|--------------|
| Energuate tax claim, note 27.D              | 80,192        | -             | -            |
| Kallpa tax claim, note 27.A                 | 9,709         | 9,550         | -            |
| Income tax credit from PQP                  | 5,694         | 5,815         | 2,443        |
| Income tax credit from Nicaraguan companies | 3,996         | 4,304         | 4,336        |
| Other                                       | 301           | -             | -            |
|   | <b>99,892</b> | <b>19,669</b> | <b>6,779</b> |

**10. Intercompany Balance with Parent Company**

| <i>In thousands of U.S. dollars</i> | <b>2016</b>   | <b>2015</b>   | <b>2014</b>   |
|-------------------------------------|---------------|---------------|---------------|
| IC Power Asia Development (a)       | 47,029        | 43,081        | 35,578        |
| IC Power Ltd.                       | 4,105         | 288           | -             |
| <b>Ending balance</b>               | <b>51,134</b> | <b>43,369</b> | <b>35,578</b> |

The movement of intercompany balances with IC Power is as follows:

| <i>In thousands of U.S. dollars</i>          | <b>2016</b>   | <b>2015</b>   | <b>2014</b>   |
|--|---------------|---------------|---------------|
| Beginning balance                            | 43,369        | 35,578        | 40,000        |
| Proceeds (payments) of IC Power loan         | 100           | 4,984         | (5,044)       |
| Expenses paid by Inkia on behalf of IC Power | 6,989         | 2,232         | -             |
| Interest income                              | 676           | 575           | 622           |
| <b>Ending balance</b>                        | <b>51,134</b> | <b>43,369</b> | <b>35,578</b> |

- (a) These disbursements bear interest at annual rate of 1.50% and are expected to be collected during the following twelve months.

**11. Inventories**

| <i>In thousands of U.S. dollars</i> | <b>2016</b>   | <b>2015</b>   | <b>2014</b>   |
|-------------------------------------|---------------|---------------|---------------|
| Fuel (a)                            | 42,105        | 5,786         | 11,873        |
| Spare parts (b)                     | 49,554        | 44,565        | 43,462        |
|                                     | <b>91,659</b> | <b>50,351</b> | <b>55,335</b> |

- (a) The plants in El Salvador, Nicaragua, Guatemala, Jamaica and Dominican Republic consume heavy fuel, the plant Samay I in Peru and the plants in Chile consume diesel for the generation of electric energy. As of December 31, 2016, US\$ 29,823 thousand corresponds to Samay I's diesel inventory. According to its Concession agreement, Samay I must keep the equivalent of 15 days of fuel autonomy as cold reserve.

These plants must purchase fuel mainly in the international market and import it into the respective countries. The plants must take into consideration demand for the electric energy, available supply and transportation cost and timing when purchasing fuel.

- (b) Corresponds to spare parts held in storage to be used in maintenance work.
- (c) During 2016, the Group recognized inventory write-downs of US\$ 135 thousand that are charged to cost of sales to present its inventories at net realizable value (US\$ 623 thousand during 2015 and US\$ 1,991 thousand during 2014).

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**12. Investment in Associate**

| <i>In thousands of U.S. dollars</i>   | Interest | Beginning<br>balance | Equity<br>share | Cumulative<br>translation | Other            | Dividends<br>received | Total        |
|---------------------------------------|----------|----------------------|-----------------|---------------------------|------------------|-----------------------|--------------|
| <b>Equity accounted Investee 2016</b> |          |                      |                 |                           |                  |                       |              |
| <b>Associates</b>                     |          |                      |                 |                           |                  |                       |              |
| Pedregal                              | 21.22%   | 8,993                | 623             | -                         | 23               | (743)                 | 8,896        |
|                                       |          | <b>8,993</b>         | <b>623</b>      | <b>-</b>                  | <b>23</b>        | <b>(743)</b>          | <b>8,896</b> |
| <b>Equity accounted Investee 2015</b> |          |                      |                 |                           |                  |                       |              |
| <b>Associates</b>                     |          |                      |                 |                           |                  |                       |              |
| Pedregal                              | 21.22%   | 9,625                | 274             | -                         | (269)            | (637)                 | 8,993        |
|                                       |          | <b>9,625</b>         | <b>274</b>      | <b>-</b>                  | <b>(269)</b>     | <b>(637)</b>          | <b>8,993</b> |
| <b>Equity accounted Investee 2014</b> |          |                      |                 |                           |                  |                       |              |
| <b>Associates</b>                     |          |                      |                 |                           |                  |                       |              |
| Generandes                            | 39.00%   | 276,538              | 11,542          | 3,860                     | (280,113)        | (11,827)              | -            |
| Pedregal                              | 21.22%   | 9,847                | 2,000           | -                         | -                | (2,222)               | 9,625        |
|                                       |          | <b>286,385</b>       | <b>13,542</b>   | <b>3,860</b>              | <b>(280,113)</b> | <b>(14,049)</b>       | <b>9,625</b> |

In April 2014, the board of directors of the Company approved the sale of Generandes Perú S.A. Inkia recorded its investment in Generandes Perú S.A. as an associate, applying the equity method until April 30, 2014. Since such date, Inkia has classified this investment as held for sale at the lowest amount between its carrying amount of US\$ 280,113 thousand and its fair value less costs to sell amount of approximately US\$ 407,156 thousand.

On April 30, 2014, Inkia Americas Holdings Ltd. (the "Seller") and IC Power Ltd as guarantor of the Seller, signed a share purchase agreement with Enersis SA (Enersis) for the sale of its shares in Inkia Holdings (Acter) Limited that owns 21.14% indirect equity in Edegel S.A.A. for a sale price of US\$ 413,000 thousand.

On September 3, 2014, Inkia Americas Holdings Ltd. completed the sale of its shares in Inkia Holdings (Acter) Limited, that has directly the equivalent of 39.01% of Generandes Perú S.A., see Note 5.

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**13. Property, Plant and Equipment, Net**

| <i>In thousands of U.S. dollars</i> | Property, Plant and Equipment, Net |                        |                                       |                                     |                                 |              |                |               |               |                  | Total 2016       | Total 2015       | Total 2014       |  |
|-------------------------------------|------------------------------------|------------------------|---------------------------------------|-------------------------------------|---------------------------------|--------------|----------------|---------------|---------------|------------------|------------------|------------------|------------------|--|
|                                     | Land road and buildings            | Leasehold improvements | Installation, machinery and equipment | Distribution technical installments | Office, equipment and computers | Vehicles     | Dams           | Spare parts   | Others        | Work in progress |                  |                  |                  |  |
| <b>Cost</b>                         |                                    |                        |                                       |                                     |                                 |              |                |               |               |                  |                  |                  |                  |  |
| Beginning balance                   | 244,377                            | 3,803                  | 1,409,024                             | -                                   | 11,392                          | 6,778        | 138,310        | 44,724        | 16,134        | 1,249,814        | 3,124,356        | 2,581,968        | 1,766,934        |  |
| Additions                           | 7,479                              | 236                    | 34,403                                | 21,224                              | 961                             | 1,285        | 159            | 20,272        | 1,285         | 164,995          | 252,299          | 557,405          | 558,055          |  |
| Business combination                | 1,540                              | 901                    | -                                     | 369,932                             | 2,838                           | 859          | -              | 7,152         | 1,434         | 7,839            | 392,495          | -                | 272,865          |  |
| Translation difference              | 72                                 | 14                     | 745                                   | 5,692                               | 53                              | 47           | -              | 111           | 26            | 258              | 7,018            | (4,402)          | (2,973)          |  |
| Transfers and reclassifications     | 746,766                            | (810)                  | 632,433                               | -                                   | 14                              | 214          | 26,965         | (2,545)       | (1,100)       | (1,402,127)      | (190)            | (1,633)          | (1,664)          |  |
| Retirements                         | (1,244)                            | -                      | (21,071)                              | (642)                               | (1,264)                         | (541)        | (965)          | (133)         | (555)         | (167)            | (26,582)         | (8,982)          | (11,249)         |  |
| <b>Ending balance</b>               | <b>998,990</b>                     | <b>4,144</b>           | <b>2,055,534</b>                      | <b>396,206</b>                      | <b>13,994</b>                   | <b>8,642</b> | <b>164,469</b> | <b>69,581</b> | <b>17,224</b> | <b>20,612</b>    | <b>3,749,396</b> | <b>3,124,356</b> | <b>2,581,968</b> |  |
| <b>Accumulated depreciation</b>     |                                    |                        |                                       |                                     |                                 |              |                |               |               |                  |                  |                  |                  |  |
| Beginning balance                   | 66,665                             | 1,604                  | 474,144                               | -                                   | 7,679                           | 3,822        | 46,764         | 11,921        | 8,767         | -                | 621,366          | 535,852          | 425,331          |  |
| Additions                           | 11,012                             | 691                    | 97,896                                | 16,023                              | 2,217                           | 1,057        | 1,742          | 762           | 905           | -                | 132,305          | 88,941           | 79,261           |  |
| Impairment                          | -                                  | -                      | -                                     | -                                   | -                               | -            | -              | -             | -             | -                | -                | -                | 34,673           |  |
| Translation difference              | 2                                  | 1                      | 143                                   | 165                                 | 12                              | 24           | -              | -             | 3             | -                | 350              | (554)            | -                |  |
| Transfers and reclassifications     | 542                                | (541)                  | (263)                                 | -                                   | 54                              | 193          | -              | (5)           | 16            | -                | (4)              | 1,157            | (98)             |  |
| Retirements                         | (1,434)                            | -                      | (1,994)                               | (2)                                 | (1,105)                         | (438)        | (121)          | (155)         | (1,062)       | -                | (6,311)          | (4,030)          | (3,315)          |  |
| <b>Ending balance</b>               | <b>76,787</b>                      | <b>1,755</b>           | <b>569,926</b>                        | <b>16,186</b>                       | <b>8,857</b>                    | <b>4,658</b> | <b>48,385</b>  | <b>12,523</b> | <b>8,629</b>  | <b>-</b>         | <b>747,706</b>   | <b>621,366</b>   | <b>535,852</b>   |  |
| <b>Net cost</b>                     | <b>922,203</b>                     | <b>2,389</b>           | <b>1,485,608</b>                      | <b>380,020</b>                      | <b>5,137</b>                    | <b>3,984</b> | <b>116,084</b> | <b>57,058</b> | <b>8,595</b>  | <b>20,612</b>    | <b>3,001,690</b> | <b>2,502,990</b> | <b>2,046,116</b> |  |

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- A. During the period ended December 31, 2016, the Group acquired assets with a cost of US\$ 252,299 thousand, mainly for the construction of Cerro del Aguila and Samay facilities and acquired assets for an amount of US\$ 392,495 thousand in connection with Estrella Corporation BA business combination, see note 4.

During the period ended December 31, 2015, the Group acquired assets with a cost of US\$ 557,405 thousand, mainly for the construction of the Cerro del Aguila, Samay I and Kanan projects.

During the period ended December 31, 2014, the Group acquired assets with a cost of US\$ 558,085 thousand, mainly for the construction of the Cerro del Aguila and Samay I projects, the acquisition of Las Flores power plant, and US\$ 272,865 thousand in connection with AEI Nicaragua Holdings Ltd, AEI Jamaica Holdings Ltd, AEI Guatemala Holdings Ltd and Surpetroil business combinations, see note 4.

- B. In April 2016, Kanan's 92 MW thermal generation project reached its Commercial Operation Date (COD).
- C. In May 2016, the four operating units of Samay I were declared operational. In July 2016, the plant demonstrated above normal operational indicators. Personnel from Samay, Posco (EPC Contractor) and General Electric (GE) inspected the units. Those inspections revealed structural damage to three of the four plant units, as compressor and generators shafts were damaged. All four units were declared unavailable to the system. Additionally, Government entities (Ministry of Energy and Mines and OSINERGMIN) were informed of the force majeure event as well as the Lenders and the Insurance counterparties were informed of the occurrences.

Based on an external appraisal report, the total estimated cost of the identified damaged parts from Units 2, 3 and 4 amounts to US\$ 14.2 million. As of December 31, 2016 Samay I wrote-off those assets (net of depreciation) from Samay's Property, Plant and Equipment balance.

Samay I's management developed a plan to repair the units, and, it was expected that all four units should be operational within the next six months. Samay I's management intends to seek coverage for the costs of the outage, including repair costs and loss of profits, as appropriate, from the EPC contractor, equipment manufacturer and/or the insurance coverage (subject to deductibles), and believes there is a reasonable basis to recover these costs, including for loss of profits. The EPC Contract establishes that the cost of remedying any defects in order to provide Samay with a fully functional plant are to be borne by the EPC Contractor, unless proven by the EPC Contractor that the cause of failure was not attributable to it. In addition, Samay I carries a property damage and business interruption insurance coverage for its assets to protect against all risks of direct physical loss or damage including machinery breakdown, earthquake and other main risks associated with the operation of the plant. The coverage includes (1) property damage with a limit of US\$ 293.5 million and (2) business interruption with a 18-month indemnity period with a limit of US\$ 72.6 million. Samay's management deems that this event is covered by the insurance policy. Therefore, it recorded an account receivable for an original amount of US\$13.4 million equivalent to the value of the damaged parts net of the insurance deductibles (see note 9).

- D. On August 3, 2016, two out of the three units of CDA were declared fully operational. On August 25, 2016, the third generating unit of CDA was declared fully operational, reaching the commercial operation ("COD") of the power plant. With the completion of this unit, CDA is now capable of generating 510 MW as of December 31, 2016.

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- E. When there is any indication of impairment, the Group's entities perform impairment tests for their long lived assets using fair values less cost to sell based on independent appraisals or value in use estimations, with similar assumptions as those described in note 14.D. In September 2014, a subsidiary of Inkia updated its five-year budget; as a result of a downward trend in its results combined with anticipated impacts of recent political changes in the country in which the subsidiary operates, which affects the power generation business therein, and expectations of an increase in operating costs and unchanged electricity prices, which will lead to a decrease in its forecast profitability.

As a result, Inkia considered a potential impairment in this subsidiary and conducted an impairment analysis using the value in use method and a discount rate of 7.6%.

Accordingly, Inkia determined that the book value of the subsidiary's assets exceeded its recoverable amount and therefore recorded an impairment loss of US\$ 34,673 thousand.

- F. The amount of borrowing costs capitalized during 2016 was US\$ 14,350 thousand (US\$ 31,596 thousand during 2015 and US\$ 52,124 thousand during 2014).
- G. Property, plant and equipment include assets acquired through finance leases. At December 31, 2016, 2015 and 2014, the cost and corresponding accumulated depreciation of such assets are as follows:

| <i>In thousands of U.S. dollars</i> | As of December 31, 2016 |                          |                | As of December 31, 2015 |                          |                | As of December 31, 2014 |                          |                |
|-------------------------------------|-------------------------|--------------------------|----------------|-------------------------|--------------------------|----------------|-------------------------|--------------------------|----------------|
|                                     | Cost                    | Accumulated depreciation | Net cost       | Cost                    | Accumulated depreciation | Net cost       | Cost                    | Accumulated depreciation | Net cost       |
| Land and buildings                  | 42,288                  | (6,602)                  | 35,686         | 42,281                  | (5,545)                  | 36,736         | 42,280                  | (4,488)                  | 37,792         |
| Plant and equipment                 | 275,852                 | (117,368)                | 158,484        | 275,674                 | (104,401)                | 171,273        | 279,735                 | (88,886)                 | 190,849        |
| Vehicles                            | 410                     | (46)                     | 364            | -                       | -                        | -              | -                       | -                        | -              |
|                                     | <b>318,550</b>          | <b>(124,016)</b>         | <b>194,534</b> | <b>317,955</b>          | <b>(109,946)</b>         | <b>208,009</b> | <b>322,015</b>          | <b>(93,374)</b>          | <b>228,641</b> |

- H. The composition of the depreciation expense is as follows:

| <i>In thousands of U.S. dollars</i>  | 2016           | 2015          | 2014          |
|--------------------------------------|----------------|---------------|---------------|
| Depreciation charged to results      | 132,148        | 88,718        | 79,004        |
| Depreciation charged to fixed assets | 157            | 223           | 257           |
|                                      | <b>132,305</b> | <b>88,941</b> | <b>79,261</b> |



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**14. Intangible Assets and Goodwill**

The activity of intangible assets and goodwill during 2016, 2015 and 2014 is as follows:

|                                       | Goodwill (d)                 |                | Concession    |              | Customer     |              | Exclusivity    |                | Licenses       |                | Software       |                | Development    |                | Others |  | 2016 |  | 2015 |  | 2014 |  |
|---------------------------------------|------------------------------|----------------|---------------|--------------|--------------|--------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|--------|--|------|--|------|--|------|--|
|                                       | In thousands of U.S. dollars |                |               | s licenses   | (a)          | agreement    |                |                |                |                | cost (b)       |                |                |                |        |  |      |  |      |  |      |  |
| <b>Cost</b>                           |                              |                |               |              |              |              |                |                |                |                |                |                |                |                |        |  |      |  |      |  |      |  |
| Beginning balance                     | 58,010                       | -              | -             | -            | 41,074       | 3,665        | 1,097          | 880            | 55,877         | 880            | 7,713          | 168,316        | 155,296        | 102,955        |        |  |      |  |      |  |      |  |
| Additions                             | -                            | -              | -             | -            | -            | -            | 11             | 89             | 4,703          | 89             | 4,617          | 9,420          | 15,145         | 15,662         |        |  |      |  |      |  |      |  |
| Reclassifications                     | -                            | -              | -             | -            | -            | -            | -              | -              | -              | -              | (161)          | (161)          | (106)          | (1,905)        |        |  |      |  |      |  |      |  |
| Business combination                  | -                            | -              | 189,351       | -            | -            | -            | 5,788          | -              | -              | -              | 8              | 195,147        | -              | 30,181         |        |  |      |  |      |  |      |  |
| Goodwill additions                    | 37,102                       | -              | -             | -            | -            | -            | -              | -              | -              | -              | -              | 37,102         | -              | 10,228         |        |  |      |  |      |  |      |  |
| Effect of variation in exchange rates | 865                          | -              | -             | -            | -            | -            | 87             | (1)            | -              | -              | 31             | 982            | (2,019)        | (1,825)        |        |  |      |  |      |  |      |  |
| <b>Ending balance</b>                 | <b>95,977</b>                | <b>189,351</b> | <b>41,074</b> | <b>6,983</b> | <b>3,665</b> | <b>968</b>   | <b>60,580</b>  | <b>12,208</b>  | <b>168,316</b> | <b>155,296</b> | <b>102,955</b> | <b>168,316</b> | <b>155,296</b> | <b>102,955</b> |        |  |      |  |      |  |      |  |
| <b>Accumulated amortization</b>       |                              |                |               |              |              |              |                |                |                |                |                |                |                |                |        |  |      |  |      |  |      |  |
| Beginning balance                     | -                            | -              | 16,888        | 642          | 541          | 3,112        | 17,038         | 13,040         |                |                |                |                |                |                |        |  |      |  |      |  |      |  |
| Amortization of the period            | -                            | 5,434          | 4,054         | 366          | 134          | 465          | 2,428          | 14             | 12,895         | 5,077          | 3,998          |                |                |                |        |  |      |  |      |  |      |  |
| Effect of movement in exchange rates  | -                            | -              | -             | -            | 24           | (5)          | 19             | -              |                |                |                |                |                |                |        |  |      |  |      |  |      |  |
| Reclassifications                     | -                            | -              | -             | -            | -            | -            | -              | -              | -              | -              | -              | -              | -              | -              |        |  |      |  |      |  |      |  |
| <b>Ending balance</b>                 | <b>-</b>                     | <b>5,434</b>   | <b>20,942</b> | <b>1,008</b> | <b>675</b>   | <b>3,572</b> | <b>22,136</b>  | <b>17,038</b>  | <b>12,895</b>  | <b>5,077</b>   | <b>3,998</b>   | <b>22,136</b>  | <b>17,038</b>  | <b>13,040</b>  |        |  |      |  |      |  |      |  |
| <b>Net book value</b>                 | <b>95,977</b>                | <b>183,917</b> | <b>20,132</b> | <b>2,657</b> | <b>293</b>   | <b>8,636</b> | <b>375,756</b> | <b>146,180</b> | <b>155,296</b> | <b>102,955</b> | <b>138,258</b> | <b>146,180</b> | <b>138,258</b> | <b>138,258</b> |        |  |      |  |      |  |      |  |

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- (a) Intangible assets comprise mainly assets identified as a result of the business combination, such as the acquisition of "customer relationships" and others in the purchase of its subsidiaries.
- (b) Development cost corresponds to expenditures incurred in the design and evaluation of future power plant facilities in the countries in which Inkia currently operates. These projects have different level of advance such as: temporal concessions, environmental impact studies in process and others.

As of December 31, 2016, 2015 and 2014, balance of intangible assets mainly corresponds to cost incurred in the construction and improvements of public access roads in connection with CDA project, and the development costs of two hydroelectrical projects in Peru and two thermal projects in Chile.

- (c) It corresponds to the fair value of DEORSA's and DEOCSA's concessions, which were granted by the MEM in 1998 to DEORSA and DEOCSA to operate in defined geographic areas for a term of 50 years. The remaining useful lives of DEORSA and DEOCSA's concessions to operate in their respective defined geographic areas are each 33 years.
- (d) Goodwill arises from the following Group entities (cash generating unit):

| <i>In thousands of U.S. dollars</i>  | <b>2016</b>   | <b>2015</b>   | <b>2014</b>   |
|--|---------------|---------------|---------------|
| Nejapa Power Company LLC and Compañía de Energía de Centroamerica S.A. de C.V. | 40,693        | 40,693        | 40,693        |
| Kallpa Generación S.A.   | 10,934        | 10,934        | 10,934        |
| Energuate  | 37,651        | -             | -             |
| Surpetroil S.A.C. *  | 6,699         | 6,383         | 8,402         |
| <b>Book value</b>  | <b>95,977</b> | <b>58,010</b> | <b>60,029</b> |

\* Goodwill in Colombia's subsidiary recorded in Colombian pesos and translated into US dollars at the exchange rate at the reporting date.

***Impairment testing***

The recoverable amount of each CGU is based on the estimated value in use using discounted cash flows. The cash flows are derived from the 5-year budget approved by the Board of Directors and its Shareholders.

The key assumptions used in the estimation of the recoverable amount are set below. The values assigned to key assumptions represent management's assessment of future trends in the power sector and have been based on historic data from external and internal sources.

| <b>Discount rate (in percent)</b> | <b>2016</b> | <b>2015</b> | <b>2014</b> |
|-----------------------------------|-------------|-------------|-------------|
| Peru                              | 6.7         | 7.4         | 6.9         |
| Guatemala                         | 8.9         | -           | -           |
| El Salvador                       | 9.8         | 10.0        | 9.2         |
| Colombia                          | 8.2         | 9.2         | 11.1        |
| Terminal value growth rate        | 2.0         | 1.2-2.0     | 1.2-2.0     |

The discount rate is a post-tax measure based on the characteristics of each CGU with a possible debt leveraging of 32% in 2016, of 48% in 2015 and of 43% in 2014.

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The cash flow projections included specific estimates for five years and a terminal growth rate thereafter. The terminal growth rate was determined based on management's estimate of the long term inflation.

In addition to the discount and growth rates, the key assumptions used to estimate future cash flows, based on past experience and current sector forecasts, are as follows:

- Existing power purchase agreements (PPAs) signed and existing number of clients.
- Investment schedule - The Company Management has used the updated investment schedule in countries in which those companies operate, in order that the supply satisfies the demand growth in an efficient manner.
- The production mix of each country was determined using specifically-developed internal forecast models that consider factors such as prices and availability of commodities, forecast demand of electricity, planned construction or the commissioning of new capacity in the country's various technologies.
- The energy distribution profits were determined using specifically developed internal forecast models that consider factors such as forecasted demand, fuel prices, energy purchases, collection rates, percentage of losses, quality service improvement, among others.
- Fuel prices have been calculated based on existing supply contracts and on estimated future prices including a price differential adjustment specific to every product according to local characteristics.
- Assumptions for energy sale and purchase prices and output of generation facilities are made based on complex specifically-developed internal forecast models for each country.
- Demand - Demand forecast has taken into consideration the best economic performance as well as growth forecasts of different sources.
- Technical performance - The forecast takes into consideration that (1) the power plants have an appropriate preventive maintenance that permits their proper functioning and (2) the distribution network has the required capex to expand and perform properly in order to reach the targeted quality levels.

### ***Sensitivity to changes in assumptions***

With regard to the assessment of value in use of the CGUs, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of Nejapa, Kallpa, Energuate and Surpetroil to materially exceed its recoverable amount.

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**15. Credit from Banks and Others**

This note provides information regarding the contractual conditions of the Group's interest bearing loans and credit, which are measured based on amortized cost. Additional information regarding the Group's exposure to interest, foreign currency and liquidity risks, is provided in Note 26 in connection with financial instruments.

|                                       | Nominal annual interest rate | Currency | Maturity  | As at December 31, 2016 |             | As at December 31, 2015 |             | As at December 31, 2014 |             |
|---------------------------------------|------------------------------|----------|-----------|-------------------------|-------------|-------------------------|-------------|-------------------------|-------------|
|                                       |                              |          |           | Current                 | Non-current | Current                 | Non-current | Current                 | Non-current |
| <i>In thousands of U.S. dollars</i>   |                              |          |           |                         |             |                         |             |                         |             |
| <b>Short-term loans from banks:</b>   |                              |          |           |                         |             |                         |             |                         |             |
| <b>IC Power Distribution Holdings</b> |                              |          |           |                         |             |                         |             |                         |             |
| Credit Suisse (a)                     | LIBOR + 4%                   | US\$     | 2017      | 119,487                 | -           | -                       | -           | -                       | -           |
| Samay Interbank                       | 2.90%                        | US\$     | 2017      | 31,945                  | -           | -                       | -           | -                       | -           |
| Energuate                             | LIBOR + 4.75%                | US\$     | 2017      | 18,000                  | -           | -                       | -           | -                       | -           |
| DEOCSA                                | LIBOR + 4.75%                | US\$     | 2017      | 12,000                  | -           | -                       | -           | -                       | -           |
| <b>CDA</b>                            |                              |          |           |                         |             |                         |             |                         |             |
| Banco de Crédito del Perú             | 0.83%                        | US\$     | 2017      | 14,000                  | -           | -                       | -           | -                       | -           |
| <b>PQP</b>                            |                              |          |           |                         |             |                         |             |                         |             |
| Banco Industrial Guatemala            | 4.75%                        | US\$     | 2017      | 6,000                   | -           | -                       | -           | -                       | -           |
| Banco Industrial Guatemala            | 4.75%                        | US\$     | 2015      | -                       | -           | -                       | -           | 10,000                  | -           |
| <b>Cobee</b>                          |                              |          |           |                         |             |                         |             |                         |             |
| Various entities                      | 4.20%/5.50%                  | BOB      | 2016/2017 | 4,499                   | -           | 4,525                   | -           | 12,503                  | -           |
| <b>Nejapa</b>                         |                              |          |           |                         |             |                         |             |                         |             |
| Scotiabank El Salvador                | 5.50%                        | US\$     | 2017      | 4,200                   | -           | 5,000                   | -           | -                       | -           |
| Banco America Central                 | 4.25%                        | US\$     | 2016      | -                       | -           | 1,200                   | -           | -                       | -           |
| <b>Empresa Eléctrica Corinto Ltd.</b> |                              |          |           |                         |             |                         |             |                         |             |
| Banco de América Central (BAC)        | 5.25%                        | US\$     | 2017      | 1,586                   | -           | -                       | -           | -                       | -           |
| <b>CEEP</b>                           |                              |          |           |                         |             |                         |             |                         |             |
| Scotiabank                            | 2.40%                        | US\$     | 2017      | 1,000                   | -           | -                       | -           | -                       | -           |
| BHD Bank                              | 2.53%                        | US\$     | 2017      | 200                     | -           | 3,000                   | -           | 5,000                   | -           |
| <b>Surenergy</b>                      |                              |          |           |                         |             |                         |             |                         |             |
| Banco Davivienda                      | DTF+4.5%                     | COP      | 2017      | 500                     | -           | -                       | -           | -                       | -           |
| <b>Kallpa</b>                         |                              |          |           |                         |             |                         |             |                         |             |
| Banco de Crédito del Perú             | 0.69%                        | US\$     | 2016      | -                       | -           | 30,000                  | -           | -                       | -           |
| Scotiabank Perú                       | 0.63%                        | US\$     | 2016      | -                       | -           | 15,000                  | -           | -                       | -           |
| Banco de Crédito del Perú             | 1.15%                        | US\$     | 2015      | -                       | -           | -                       | -           | 29,107                  | -           |
| <b>Surpetroil</b>                     |                              |          |           |                         |             |                         |             |                         |             |
| Various entities                      | DTF+2.95% 4.15%IBR+4.25%     | COP      | 2016      | -                       | -           | 2,069                   | -           | 1,527                   | -           |
| <b>Cenergica</b>                      |                              |          |           |                         |             |                         |             |                         |             |
| Banco America Central                 | 4.25%                        | US\$     | 2016      | -                       | -           | 700                     | -           | -                       | -           |
| <b>IC Power Chile Inv</b>             |                              |          |           |                         |             |                         |             |                         |             |
| Scotiabank                            | TAB+1.20%                    | CLP      | 2016      | -                       | -           | 489                     | -           | -                       | -           |
| <b>Sub total</b>                      |                              |          |           | <b>213,417</b>          | <b>-</b>    | <b>179,317</b>          | <b>-</b>    | <b>58,137</b>           | <b>-</b>    |

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| In thousands of U.S. dollars                     | Nominal annual interest rate | Currency | Maturity | As at December 31, 2016 |             | As at December 31, 2015 |             | As at December 31, 2014 |             |
|--|------------------------------|----------|----------|-------------------------|-------------|-------------------------|-------------|-------------------------|-------------|
|  |                              |          |          | Current                 | Non-Current | Current                 | Non-Current | Current                 | Non-Current |
| <b>Loans from Banks and others:</b>              |                              |          |          |                         |             |                         |             |                         |             |
| <b>Cerro del Aguila (b)</b>                      |                              |          |          |                         |             |                         |             |                         |             |
| Tranche A  | LIBOR+4.25%                  | US\$     | 2024     | 15,344                  | 320,437     | 4,199                   | 306,064     | -                       | 257,022     |
|  | LIBOR+5.50%                  |          |          | -                       | 180,896     | 2,261                   | 164,803     | -                       | 138,396     |
| Tranche B  | LIBOR+4.25%                  | US\$     | 2024     | -                       | 180,896     | 2,261                   | 164,803     | -                       | 138,396     |
|  | LIBOR+6.25%                  |          |          |                         |             |                         |             |                         |             |
| Tranche 1D                                       | LIBOR+3.60%                  | US\$     | 2024     | 1,760                   | 38,697      | 519                     | 37,827      | -                       | 31,766      |
|  | LIBOR+2.75%                  |          |          |                         |             |                         |             |                         |             |
| Tranche 2D                                       | LIBOR+2.75%                  | US\$     | 2027     | -                       | 21,959      | 280                     | 20,369      | -                       | 17,105      |
|  | LIBOR+3.60%                  |          |          |                         |             |                         |             |                         |             |
| <b>Samay (c)</b>                                 |                              |          |          |                         |             |                         |             |                         |             |
| Sumitomo/HSBC/Bank of Tokyo                      | LIBOR+2.125%                 | US\$     | 2021     | 5,047                   | 302,247     | 3,030                   | 282,369     | -                       | 144,636     |
|  | LIBOR+2.625%                 |          |          |                         |             |                         |             |                         |             |
| <b>Central Cardones (d)</b>                      |                              |          |          |                         |             |                         |             |                         |             |
| Tranche One                                      | LIBOR+1.90%                  | US\$     | 2021     | 3,781                   | 18,228      | 3,535                   | 22,008      | 3,276                   | 25,536      |
| BCI / Banco Itau                                 |                              |          |          |                         |             |                         |             |                         |             |
| Tranche Two                                      | LIBOR+2.75%                  | US\$     | 2021     | -                       | 13,383      | -                       | 17,884      | -                       | 19,384      |
| BCI / Banco Itau                                 |                              |          |          |                         |             |                         |             |                         |             |
| <b>Colmito (e)</b>                               |                              |          |          |                         |             |                         |             |                         |             |
| Banco Bice                                       | 7.90%                        | CLP      | 2028     | 625                     | 16,121      | 524                     | 15,799      | 622                     | 19,176      |
| <b>Consorcio Eólico Amayo, S.A.(f)</b>           |                              |          |          |                         |             |                         |             |                         |             |
| Banco Centroamericano de Integración Económica   | 8.45% - LIBOR+4%             | US\$     | 2023     | 5,307                   | 37,376      | 4,428                   | 42,704      | 4,533                   | 47,147      |
| <b>Consorcio Eólico Amayo (Fase II), S.A.(g)</b> |                              |          |          |                         |             |                         |             |                         |             |
| Various entities                                 | LIBOR+5.75%,<br>8.53%,10.76% | US\$     | 2025     | 3,029                   | 28,250      | 2,930                   | 31,279      | 2,838                   | 34,209      |
| <b>Empresa Energética Corinto, Ltd.</b>          |                              |          |          |                         |             |                         |             |                         |             |
| Banco de América Central (BAC)                   | 8.35%                        | US\$     | 2018     | 3,124                   | 3,402       | 2,865                   | 6,527       | 2,634                   | 9,392       |
| <b>Tipitapa Power Company, Ltd.</b>              |                              |          |          |                         |             |                         |             |                         |             |
| Banco de América Central (BAC)                   | 8.35%                        | US\$     | 2018     | 2,801                   | 3,328       | 2,568                   | 6,130       | 1,951                   | 5,781       |
| <b>Jamaica Private Power Company</b>             |                              |          |          |                         |             |                         |             |                         |             |
| Royal Bank of Canada                             | LIBOR + 5.50%                | US\$     | 2017     | 824                     | -           | 4,011                   | -           | 2,983                   | 3,990       |
| Burmeister & Wain Scandinavian Contractor A/S    | 3.59%                        | US\$     | 2018     | 338                     | 233         | 326                     | 571         | 315                     | 897         |
| <b>PQP (h)</b>                                   |                              |          |          |                         |             |                         |             |                         |             |
| Banco Industrial                                 | LIBOR + 4.50%                | US\$     | 2019     | 2,374                   | 9,632       | 4,268                   | 10,743      | 4,757                   | 17,034      |
| <b>Surpetroil S.A.S.</b>                         |                              |          |          |                         |             |                         |             |                         |             |
| Banco de Occidente S.A.                          | IBR+5.87%                    | COP      | 2018     | 504                     | 375         | -                       | -           | -                       | -           |
| Banco Corpbanca Colombia S.A.                    | DTF + 3.9%                   | COP      | 2015     | -                       | -           | -                       | -           | 135                     | -           |
| Banco Pichincha                                  | 7.33%                        | COP      | 2017     | 100                     | -           | 128                     | 95          | -                       | -           |

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| In thousands of U.S. dollars                    | Nominal annual interest rate | Currency | Maturity  | As at December 31, 2016 |                  | As at December 31, 2015 |                  | As at December 31, 2014 |                |
|---|------------------------------|----------|-----------|-------------------------|------------------|-------------------------|------------------|-------------------------|----------------|
|   |                              |          |           | Current                 | Non-Current      | Current                 | Non-Current      | Current                 | Non-Current    |
| <b>Kanan (l)</b>                                |                              |          |           |                         |                  |                         |                  |                         |                |
| Scotiabank                                      | LIBOR+3.5%                   | US\$     | 2021      | 46,094                  | -                | -                       | -                | -                       | -              |
| <b>Kallpa Generación (l)</b>                    |                              |          |           |                         |                  |                         |                  |                         |                |
| Syndicated Loan – various entities              | LIBOR+6.00%                  | US\$     | 2019      | -                       | -                | 17,384                  | 41,279           | 13,895                  | 58,663         |
| <b>DEORSA (k)</b>                               |                              |          |           |                         |                  |                         |                  |                         |                |
| Syndicated Loan – various banks                 | LIBOR+4.70%                  | US\$     | 2021/2025 | 10,167                  | 67,857           | -                       | -                | -                       | -              |
| Syndicated Loan – various banks                 | LIBOR+4.75%                  | US\$     | 2021/2025 | 4,687                   | 30,653           | -                       | -                | -                       | -              |
| <b>DEOCSA (l)</b>                               |                              |          |           |                         |                  |                         |                  |                         |                |
| Syndicated Loan – various banks                 | LIBOR+4.70%                  | US\$     | 2021/2025 | 16,876                  | 107,488          | -                       | -                | -                       | -              |
| Syndicated Loan – various banks                 | LIBOR+4.75%                  | US\$     | 2021/2025 | 6,215                   | 43,127           | -                       | -                | -                       | -              |
| <b>RECSA (m)</b>                                |                              |          |           |                         |                  |                         |                  |                         |                |
| Banco G&T Continental                           | TAPP+6.63%                   | GTQ      | 2020      | 931                     | 3,722            | -                       | -                | -                       | -              |
|   |                              |          |           | <b>129,928</b>          | <b>1,247,411</b> | <b>53,256</b>           | <b>1,006,451</b> | <b>37,939</b>           | <b>830,134</b> |
| <b>Liabilities in respect of finance leases</b> |                              |          |           |                         |                  |                         |                  |                         |                |
| <b>Kallpa Generación</b>                        |                              |          |           |                         |                  |                         |                  |                         |                |
| Banco de Crédito del Perú (n)                   | 7.15%                        | US\$     | 2023      | 6,624                   | 81,193           | 6,624                   | 87,816           | 6,624                   | 94,440         |
| Banco de Crédito del Perú (o)                   | LIBOR+2.05%                  | US\$     | 2017      | -                       | -                | 8,802                   | 19,865           | 7,140                   | 37,755         |
| Scotiabank Perú (p)                             | 7.57%                        | US\$     | 2018      | -                       | -                | 7,508                   | 30,248           | 6,473                   | 28,667         |
| Banco de Crédito del Perú/ Citibank (q)         | LIBOR+3.00%                  | US\$     | 2016      | -                       | -                | 2,334                   | -                | 8,901                   | 2,335          |
| <b>Surpetroil S.A.S.</b>                        |                              |          |           |                         |                  |                         |                  |                         |                |
| Banco de Occidente S.A.                         | DTF + 3.5%                   | COP      | 2017      | 223                     | -                | 461                     | 116              | 444                     | 759            |
| <b>DEORSA</b>                                   |                              |          |           |                         |                  |                         |                  |                         |                |
| Arrendadora Agromercantil                       | TAPP minus 2.47%             | GTQ      | 2017      | 129                     | -                | -                       | -                | -                       | -              |
|   |                              |          |           | <b>6,976</b>            | <b>81,193</b>    | <b>25,729</b>           | <b>138,045</b>   | <b>29,582</b>           | <b>163,956</b> |
| <b>Sub total</b>                                |                              |          |           | <b>136,904</b>          | <b>1,328,604</b> | <b>78,985</b>           | <b>1,144,496</b> | <b>67,521</b>           | <b>994,090</b> |

# INKIA ENERGY LTD. AND SUBSIDIARIES

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|   | Nominal annual interest rate | Currency | Maturity  | As at December 31, 2016 |                  | As at December 31, 2015 |                  | As at December 31, 2014 |                  |
|---|------------------------------|----------|-----------|-------------------------|------------------|-------------------------|------------------|-------------------------|------------------|
|   |                              |          |           | Current                 | Non-Current      | Current                 | Non-Current      | Current                 | Non-Current      |
| <i>In thousands of U.S. dollars</i>         |                              |          |           |                         |                  |                         |                  |                         |                  |
| <b>Debtentures</b>                          |                              |          |           |                         |                  |                         |                  |                         |                  |
| <b>Cobee</b>                                |                              |          |           |                         |                  |                         |                  |                         |                  |
| Bonds Cobee II                              | 9.40%                        | US\$     | 2015      | -                       | -                | -                       | 6,803            | -                       | -                |
| Bonds Cobee III-1B (r)                      | 6.50%                        | US\$     | 2017      | 1,750                   | -                | 1,750                   | -                | -                       | 3,500            |
| Bonds Cobee III-1C (bolivianos) (r)         | 9.00%                        | BOB      | 2020      | 1,586                   | 4,757            | 6,343                   | -                | -                       | 6,343            |
| Bonds Cobee III-2 (r)                       | 6.75%                        | US\$     | 2017      | 5,000                   | -                | 5,000                   | -                | -                       | 5,000            |
| Bonds Cobee III-3 (bolivianos) (r)          | 7.00%                        | BOB      | 2022      | -                       | 6,160            | 6,160                   | -                | -                       | 6,160            |
| Bonds Cobee IV – 1A (s)                     | 6.00%                        | US\$     | 2018      | -                       | 3,988            | 3,977                   | -                | -                       | 3,967            |
| Bonds Cobee IV – 1B (s)                     | 7.00%                        | US\$     | 2020      | -                       | 3,980            | 3,972                   | -                | -                       | 3,964            |
| Bonds Cobee IV – 1C (bolivianos) (s)        | 7.80%                        | BOB      | 2024      | -                       | 12,030           | 12,023                  | -                | -                       | 12,020           |
| Cobee Bonds- IV Issuance 3 (s)              | 6.70%                        | US\$     | 2019      | -                       | 4,973            | 4,961                   | -                | -                       | 4,950            |
| Cobee Bonds- IV Issuance 4 (bolivianos) (s) | 7.80%                        | BOB      | 2024      | -                       | 15,039           | 15,035                  | -                | -                       | 15,029           |
| Cobee Bonds- IV Issuance 5 (bolivianos) (s) | 5.75%                        | BOB      | 2026      | 1,950                   | 17,697           | -                       | -                | -                       | -                |
| <b>Inkia Energy Ltd</b>                     |                              |          |           |                         |                  |                         |                  |                         |                  |
| Inkia Bonds (t)                             | 8.375%                       | US\$     | 2021      | -                       | 447,904          | -                       | 447,524          | -                       | 447,357          |
| <b>Kallpa Generación</b>                    |                              |          |           |                         |                  |                         |                  |                         |                  |
| Kallpa Bonds (u)                            | 8.50%                        | US\$     | 2022      | -                       | -                | 13,650                  | -                | 10,207                  | 149,105          |
| Kallpa Bonds (v)                            | 4.88%                        | US\$     | 2026      | -                       | 325,970          | -                       | -                | -                       | -                |
| <b>Cepp</b>                                 |                              |          |           |                         |                  |                         |                  |                         |                  |
| Cepp Bonds (w)                              | 6.00%                        | US\$     | 2019      | -                       | 9,945            | -                       | 9,924            | -                       | 24,755           |
|   |                              |          |           | <b>10,286</b>           | <b>852,443</b>   | <b>15,400</b>           | <b>652,124</b>   | <b>17,010</b>           | <b>682,150</b>   |
| <b>Cobee</b>                                |                              |          |           |                         |                  |                         |                  |                         |                  |
| Cobee Bonds (Premium)                       |                              |          | 2017-2024 | 331                     | 4,227            | -                       | 3,723            | -                       | 4,792            |
| <b>Subtotal</b>                             |                              |          |           | <b>10,617</b>           | <b>856,670</b>   | <b>15,400</b>           | <b>655,847</b>   | <b>17,010</b>           | <b>686,942</b>   |
| <b>Total</b>                                |                              |          |           | <b>360,938</b>          | <b>2,185,274</b> | <b>273,702</b>          | <b>1,800,343</b> | <b>142,668</b>          | <b>1,681,032</b> |

DTF: "Depósitos a Término Fijo". Fixed-term deposits rate calculated by Colombia's Central Bank.

TAB: "Tasa Activa Bancaria". Short-term credits average interest rate calculated by Chile's Bank's Association

IBR: "Indicador Bancario de Referencia". Bank Indicator of Reference calculated by Colombia's Central Bank.

TRE: "Tasa de Referencia". Weighted average for time deposits rates, calculated by Bolivia's Central Bank.

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**Short-term loans from banks**

- A. *Credit Suisse* - On December 29, 2015, IC Power Distribution Holdings Pte. Ltd. ("ICP Distribution"), together with certain of its subsidiaries, executed a one-year secured credit agreement with Credit Suisse AG in an aggregate principal amount of US\$ 120,000 thousand to finance a portion of the acquisition of Estrella Cooperatief B.A. (note 4). The loan under this facility bears interest on a quarterly basis at LIBOR plus a margin of 4% per annum and was secured with the shares of Estrella Cooperatief B.A. On December 21, 2016, ICP Distribution extended the maturity of this loan to June 21, 2017.

As of December 31, 2016, the outstanding principal amount under this facility was US\$ 119,487 thousand. (US\$ 117,334 thousand as of December 31, 2015).

**Loans from banks and others**

- B. In August 2012, CDA, as borrower, Sumitomo Mitsui Banking Corporation, as administrative agent, Sumitomo Mitsui Banking Corporation, as SACE agent, the Bank of Nova Scotia, as Offshore Collateral Agent, Scotiabank Perú, S.A.A., as onshore collateral agent, and certain financial institutions, as lenders, entered into a senior secured syndicated credit facility for an aggregate principal amount not to exceed US\$ 591,000 thousand to finance the construction of CDA's project. Loans under this facility will be disbursed in three tranches.

The loans under this credit agreement are secured by CDA's power plant and related assets, comprise three tranches and bear interest payable on quarterly basis in arrears at a rate of LIBOR plus a margin. The margin applicable to each tranche is as follows:

| Tranche | Amount*<br>(US\$) | From August                      |                        |                                    |                                 |
|---------|-------------------|----------------------------------|------------------------|------------------------------------|---------------------------------|
|         |                   | From July 2014<br>to August 2017 | 2017<br>to August 2020 | From August 2020<br>to August 2023 | From August 2023<br>to maturity |
| A       | 341,843           | 4.25%                            | 4.75%                  | 5.25%                              | 5.50%                           |
| B       | 184,070           | 4.25%                            | 5.00%                  | 5.75%                              | 6.25%                           |
| D       | 65,000            | 2.75%                            | 3.25%                  | 3.60%                              | 3.60%                           |

\* Up to

Tranche A loans under this facility, in an aggregate principal amount of up to US\$ 341,843 thousand, bear interest at the rate of LIBOR plus 4.25% per annum, increasing over time beginning on the date after the interest payment date occurring after August 17, 2017 to LIBOR plus 5.50% per annum from the date after the interest payment date occurring after August 17, 2023 through maturity. Principal of the Tranche A loans will be payable in 33 quarterly installments commencing on the first quarterly payment date occurring after the project acceptance by CDA. Tranche A loans will be guaranteed by Corporación Financiera de Desarrollo S.A. (COFIDE).

Tranche B loans under this facility, in an aggregate principal amount of up to US\$ 184,070 thousand, bear interest at the rate of LIBOR plus 4.25% per annum, increasing over time beginning on the date after the interest payment date occurring after August 17, 2017 to LIBOR plus 6.25% per annum from the date after the interest payment date occurring after August 17, 2023 through maturity. Principal of the Tranche B loans are payable on August 17, 2024. Tranche B loans are guaranteed by COFIDE.



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Tranche D loans under this facility, in an aggregate principal amount of up to US\$ 65,000 thousand, are divided in two parts: Tranche 1D, in an aggregate principal amount of up to US\$ 42,250 thousand and Tranche 2D, in an aggregate principal amount of up to US\$ 22,750 thousand. Both parts bear interest at the rate of LIBOR plus 2.75% per annum, increasing over time beginning on the date after the interest payment date occurring after August 17, 2017 to LIBOR plus 3.60% per annum from the date after the interest payment date occurring after August 17, 2023 through maturity. Principal of Tranche 1D and Tranche 2D will be payable in 33 and 12 quarterly installments, respectively. Tranche 1D payments will commence on the first quarterly payment date occurring after the project acceptance by CDA and Tranche 2D payments will commence 33 quarters after project acceptance by CDA. All Tranche D loans are secured by a credit insurance policy provided by SACE S.p.A. – Servizi Assicurativi del Commercio Estero, or SACE.

On August 17, 2013 CDA entered into interest rate swap closings: 100% of Tranche A was swapped at a fixed all-in interest rate of 7.2450% until August 2024 and 50% of Tranche B was swapped at a fixed all-in interest rate of 5.3777% until February 2016.

CDA has received proceeds from these facilities in the aggregate amount of US\$ 590,913 thousand (US\$ 43,913 thousand, US\$ 85,000 thousand and US\$ 319,000 thousand during 2016, 2015 and 2014, respectively). As of December 31, 2016, the outstanding balance under this Syndicated loan was US\$ 587,072 thousand. This amount is shown net of US\$ 7,980 thousand of transaction costs.

- C. In December 2014, Samay I S.A. signed a project finance credit agreement with: The Bank of Tokyo-Mitsubishi, Sumitomo Mitsui Banking Corporation and HSBC Bank in order to finance US\$ 311,000 thousand, approximately 82% of the total cost of the project. This loan bears interest at the rate of LIBOR plus 2.125% per annum, increasing to LIBOR plus 2.375% in December 2017 and to LIBOR plus 2.625% in December 2020 through maturity in December 2021. On December 18, 2014 Samay entered into an interest rate swap closing at a fixed all-in interest rate of 2.919% (Libor at 0.794 plus 2.125%) for 40% of total notional and only during the construction period. On September 16, 2015 Samay entered into an interest rate swap closing at a fixed all-in interest rate of 4.2343% for 93% of total notional beginning after the construction period. As of December 31, 2016, Samay has received proceeds from this facility in the aggregate amount of US\$ 311,000 thousand (US\$ 20,000 thousand, US\$ 138,000 thousand and US\$ 153,000 thousand, during 2016, 2015 and 2014, respectively). This amount is shown net of US\$ 3,720 thousand of transaction costs.
- D. In connection with Inkia's acquisition of Central Cardones in December 2011, Inkia consolidated the amounts outstanding under Central Cardones's credit agreement entered with Banco de Crédito e Inversiones and Banco Itaú Chile. The loans under this credit agreement were issued in two tranches of US\$ 37,296 thousand and US\$ 20,884 thousand, respectively. Loans under the first tranche bear interest at the rate of LIBOR plus 1.9% per annum, and the principal of this tranche is payable in 20 semi-annual installments through maturity in August 2021. Interest rate under these loans is swapped at an all-in rate of 6.80%. Loans under the second tranche bear interest at the rate of LIBOR plus 2.75%, increasing to LIBOR plus 3.75% per annum in March 2017. Interest is payable semi-annually, and the loan matures in August 2021. As of December 31, 2016, the outstanding principal amount under these loans was US\$ 35,392 thousand (US\$ 43,427 thousand as of December 31, 2015 and US\$ 48,196 thousand as of December 31, 2014).

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- E. In January 2014, Colmito Spa signed a credit agreement with Banco Bice in an aggregate amount of Chilean pesos 12,579,160 thousand (US\$ 22,600 thousand). This loan bears an interest rate of 7.90% in Chilean pesos and is paid semiannually until final maturity in December 2028. In February 2014, Colmito entered into a cross currency swap closing at a fixed interest rate of 6.025% in U.S. Dollars. As of December 31, 2016, the outstanding balance under this loan was US\$ 16,746 thousand (US\$ 16,323 thousand as of December 31, 2015 and US\$ 19,798 thousand as of December 31, 2014)).

As of result of the business combinations in 2014 described in note 4, Inkia assumed the following main long-term loans:

- F. *Consorcio Eolico Amayo S.A.* – In October 2007, Amayo I entered into a 15 year US\$ 71,250 thousand loan agreement with Banco Centroamericano de Integración Económica (CABEI). This loan is secured by a first degree mortgage over all the improvements executed on Amayo I's project site, cessation of all the project contracts and the creation and maintenance of a reserve account for US\$ 2,400 thousand, to be controlled by CABEI. Part of this loan (US\$ 50,343 thousand) bears an interest rate of 8.45% and the other part (US\$ 20,907 thousand) an interest rate of LIBOR+4%, and is payable in quarterly installments until final maturity in February 2023. As of December 31, 2016, the outstanding balance under this loan was US\$ 42,683 thousand (US\$ 47,132 thousand as of December 31, 2015 and US\$ 51,680 thousand as of December 31, 2014).
- G. *Consorcio Eolico Amayo (Fase II) S.A.* – In November 2010, Amayo II entered into a 15 year US\$ 45,000 thousand loan agreement with Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V (FMO) Banco Centroamericano de Integración Económica (CABEI). This syndicated loan is secured by a list of guarantees. Loans under this credit agreement bear interest rates of 10.76%, 8.53% and LIBOR+5.75%. Loans with variable interest rate are swapped at an all-in rate of 8.31% until December 2019 and 8.25% from December 2019 until September 2022. All three loans are payable in quarterly installments until final maturity in September 2025. As of December 31, 2016, the outstanding balance under this loan was US\$ 31,279 thousand (US\$ 34,209 thousand as of December 31, 2015 and US\$ 37,047 thousand as of December 31, 2014).
- H. *Puerto Quetzal Power LLC* – On March 26, 2012, Puerto Quetzal Power LLC ("PQP") signed a loan agreement with seven financial institutions for an amount of US\$ 35,000 thousand. The loan was payable in quarterly installments until October 2019. Interest was accrued at LIBOR plus 4.5% annually. PQP entered into an interest rate swap contract to fix its interest at a rate of 6.0% per annum. The loan was secured by a pledge of substantially all of the assets of PQP and Poliwatt Ltd ("Poliwatt"), including PQP and its subsidiaries shares. As of December 31, 2016, the outstanding balance under this loan was nil (US\$ 15,011 thousand as of December 31, 2015 and US\$ 21,791 thousand as of December 31, 2014). In November 2016 this loan was refinanced.

On November 17 2016, PQP signed a loan agreement with Banco Industrial in an aggregate principal amount of US\$ 12,200 thousand. The loan is payable in quarterly installments until final maturity in December 31, 2021. Interest is accrued at LIBOR plus 4.50% per annum, with a floor of 1.50%. As of December 31, 2016 the outstanding principal amount under this loan was US\$12,200 thousand (US\$ 12,006 thousand, net of transaction costs).

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- I. On January 15, 2016, Kanan Overseas I received a 60-day bridge loan in the aggregate amount of US\$ 61,000 thousand from Bank of Nova Scotia, as part of the three Credit Facilities approved. These proceeds were used to repay US\$ 50,000 thousand of an intercompany loan with Inkia Energy Ltd.; reimburse costs and expenses incurred in the project; and purchase fuel, raw material and other expenses. The original expiration of this loan was extended up to May 31, 2016.

On May 23, 2016 this loan was replaced by a US\$ 55,000 thousand 5-year credit facility and by a US\$ 6,000 thousand short term loan. The credit facility bears interest on a quarterly basis at Libor 3M plus a margin of 3.00% with a floor of 3.5%. Scheduled amortizations of principal are payable quarterly commencing in June 2016 through maturity in March 2021. The loans are guaranteed by all of Kanan's assets. As of December 31, 2016 the outstanding balance under this loan was US\$ 46,094 thousand.

- J. *Kallpa Syndicated Loan* - In November 2009, Kallpa entered into a secured credit agreement in the aggregate amount of US\$ 105,000 thousand to finance capital expenditures related to Kallpa's combined-cycle plant. The loans under this credit agreement are secured by Kallpa's combined-cycle plant substantially all of Kallpa's other assets, including Kallpa's revenues under its PPAs. The loan under this credit agreement bears interest payable monthly in arrears at a rate of LIBOR plus a margin of 5.50% per annum through November 2012, 5.75% per annum from November 2012 through November 2015 and 6.00% from November 2015 through maturity in October 2019. Scheduled amortizations of principal are payable monthly commencing in February 2013 through maturity in October 2019. As of December 31, 2015, the outstanding balance under this credit agreement was US\$ 58,663 thousand (US\$ 72,558 thousand as of December 31, 2014).

As result of the Kallpa's issuance of its US\$350,000 thousand 4.875% senior unsecured notes executed in May 2016, Kallpa repaid the US\$53,707 thousand outstanding under the syndicated loan in full.

As of result of the business combinations described in note 4, Inkia assumed the following long-term loans this year:

- K. *DEORSA* - In May 2011, DEORSA entered into a Q.313,636 thousand (approximately US\$ 41,026 thousand) and US\$90,453 thousand, 10-year syndicated secured loan agreement with a syndicate including Banco Agromercantil de Guatemala, S.A., as the manager of the guarantee and administrative agent, and certain financial institutions to refinance DEORSA's existing indebtedness, and to finance DEORSA's working capital requirements. The U.S. Dollar denominated loans under this agreement bear interest at a fixed rate of 6.00% for the first two years and at a rate of 90-day US LIBOR plus 4.70% per annum through maturity on May 19, 2021. Guatemalan Quetzales denominated loans under this agreement bear interest at a variable interest rate calculated by the weighted average rate (TASA Activa Promedio Ponderada), or TAPP rate, less 5.6%, per annum. Scheduled amortizations of the aggregate principal amount outstanding under this agreement (generally 2.81%) are payable in quarterly installments through maturity.

In April 2015, the loan agreement was amended and the amounts available under the facility were increased by Q. 69,750 thousand (approximately US\$ 37,355 thousand) and US\$ 21,000 thousand to fund, among other things, DEORSA's operating and investment activities, repayment of certain outstanding indebtedness, and general corporate purposes. The U.S. Dollar-denominated loans under the additional facility bear interest at a rate of 90-day US LIBOR plus 4.70% per annum (with a floor rate of 5.90%) for the first year and at a rate of 90-day US LIBOR plus 4.75% per annum (with a floor rate of 6.0%) through maturity on February 19, 2025. Guatemalan Quetzales-denominated loans under the additional facility

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bears interest at a variable interest rate calculated by the weighted average rate (TASA Activa Promedio Ponderada), less 6.10%, per annum. Scheduled amortizations of the aggregate principal amount outstanding under the additional facility are payable in quarterly installments commencing in May 2018 through maturity.

In August 2016, DEORSA amended the loan agreement, to renew two tranches that had originally expired. The amounts available under the facility were increased by Q. 37,200 thousand (approximately US\$ 4,953 thousand) and US\$ 11,200 thousand. The U.S. Dollar-denominated loan under the additional facility bears interest at a rate of LIBOR + 4.75% (with a floor rate of 6.00%). The Guatemalan Quetzales-denominated loan under the additional facility bears interest at a rate of the TAPP rate less 6.10%. Scheduled amortizations of the aggregate principal amount under the additional facility are payable in quarterly instalments commencing in May 2018 through maturity in February 2025.

As of December 31, 2016, the outstanding balance under this loan was US\$ 113,364 thousand.

- L. *DEOCSA* - In May 2011, DEOCSA entered into a Q.415,963 thousand (approximately US\$ 54,411 thousand) and US\$ 150,147 thousand, 10-year syndicated secured loan agreement with a syndicate including Banco Agromercantil de Guatemala, S.A., as the manager of the guarantee and administrative agent, and certain financial institutions, as lenders, to refinance DEOCSA's existing indebtedness and to finance DEOCSA's working capital requirements. The U.S. Dollar denominated loans under this agreement bear interest at a fixed rate of 6.00% for the first two years and at a rate of 90-day U.S. LIBOR plus 4.70% per annum through maturity on May 19, 2021. Guatemalan Quetzales denominated loans under this agreement bear interest at a variable interest rate calculated by the TAPP rate, less 5.6%, per annum. Scheduled amortizations of the aggregate principal amount outstanding under this agreement (generally 2.81%) are payable in quarterly installments through maturity.

In April 2015, the loan agreement was amended and the amounts available under the facility were increased by Q.104,625 thousand (approximately US\$ 51,102 thousand) and US\$ 31,500 thousand to fund, among other things, DEOCSA's operating and investment activities, repayment of certain outstanding indebtedness, and general corporate purposes. The U.S. Dollar-denominated loans under the additional facility bears interest at a rate of 90-day US LIBOR plus 4.70% per annum (with a floor rate of 5.90%) for the first year and at a rate of 90-day US LIBOR plus 4.75% per annum (with a floor rate of 6.0%) through maturity on February 19, 2025. Guatemalan Quetzales-denominated loans under the additional facility bear interest at a variable interest rate calculated by the weighted average rate (TASA Activa Promedio Ponderada), less 6.10%, per annum. Scheduled amortizations of the aggregate principal amount outstanding under the additional facility are payable in quarterly installments commencing in May 2018 through maturity.

In August 2016, DEOCSA amended the loan agreement, to renew two tranches that had originally expired. The amounts available under the facility were increased by Q. 55,800 thousand (approximately US\$ 7,430 thousand) and US\$ 16,800 thousand. The U.S. Dollar-denominated loan under the additional facility bears interest at a rate of LIBOR + 4.75% (with a floor rate of 6.00%). The Guatemalan Quetzales-denominated loan under the additional facility bears interest at a rate of the TAPP rate less 6.10%. Scheduled amortizations of the aggregate principal amount under the additional facility are payable in quarterly instalments commencing in May 2018 through maturity in February 2025.

As of December 31, 2016, the outstanding balance under this loan was US\$ 173,706 thousand.

- M. *RECSA* – In November 2013, RECSA entered into a Q 35,000 thousand (approximately

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US\$ 4,442 thousand) credit agreement with Banco G&T Continental. The loan is payable in semiannual installments until November 2020. Interest is accrued at TAPP rate less 6.63% per annum. As of December 31, 2016, the outstanding balance under this loan was US\$ 4,653 thousand.

### Liabilities in respect of finance leases

- N. *Citibank Perú and Banco de Crédito del Perú* - In March 2006, Kallpa entered into a capital lease agreement with Citibank del Perú S.A., Citileasing S.A. and Banco de Crédito del Perú under which the lessors provided financing for the construction of the Kallpa I facility at Chilca in an aggregate amount of US\$ 56,000 thousand. Under the lease agreements, Kallpa made monthly payments beginning in December 2007 until the expiry of the lease in March 2016. These leases were secured by the assets of Kallpa in Peru. The lease bore an interest rate of 90 day LIBOR plus 3.00%. In March 2016, upon expiration of these leases, Kallpa executed its option to purchase the property related to the Kallpa I plant for a nominal cost. These leases were secured by substantially purchase the property related to the Kallpa I plant for a nominal cost. These leases were secured by substantially

As of December 31, 2015, the aggregate outstanding principal amount under this lease was US\$ 2,334 thousand (US\$ 11,236 thousand as of December 31, 2014).

- O. *Banco de Crédito del Perú* - In December 2007, Kallpa entered into a capital lease agreement with Banco de Crédito del Perú under which the lessor provided financing for the construction of the Kallpa II turbine in an aggregate amount of US\$ 81,500 thousand. Under the lease agreement, Kallpa made monthly payments beginning in December 2009 until the repayment of the lease (May 2016). These leases were secured by the assets of Kallpa in Peru. The lease bore an interest rate of 90 day LIBOR plus 2.05%. Kallpa entered into an interest rate swap to fix the interest rate at an all-in rate of 6.55%.

As result of the Kallpa's issuance of its US\$ 350,000 thousand 4.875% senior unsecured notes executed in May 2016, Kallpa repaid the US\$ 26,507 thousand outstanding under this lease in full.

As of December 31, 2015, the aggregate outstanding principal amount under this lease was US\$ 28,667 thousand (US\$ 35,140 thousand as of December 31, 2014).

- P. *Scotiabank* - In October 2008, Kallpa entered into a capital lease agreement with Scotiabank Perú under which the lessor provided financing for the construction of the Kallpa III turbine in an aggregate amount of US\$ 88,000 thousand. Under the lease agreement, Kallpa made monthly payments beginning in September 2010 until the repayment of the lease (May 2016). As of December 31, 2015, the aggregate outstanding principal amount under this lease was US\$ 37,756 thousand (US\$ 44,895 thousand as of December 31, 2014) and bore a fixed interest rate of 7.57% p.a.

As result of the Kallpa's issuance of its US\$ 350,000 thousand 4.875% senior unsecured notes executed in May 2016, Kallpa repaid the US\$ 35,355 thousand outstanding under this lease in full.

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- Q. In April 2014, Kallpa entered into a capital lease agreement with Banco de Crédito del Perú for US\$ 107,688 thousand in order to finance the acquisition of the 193MW single turbine natural gas fired plant Las Flores from Duke Energy. Under the lease agreement, Kallpa makes quarterly payments beginning in July 2014 until the expiry of the lease in October 2023. The lease bears a fixed interest rate of 7.15% p.a. As of December 31, 2016, the aggregate outstanding principal amount under this lease was US\$ 87,816 thousand (US\$ 94,440 thousand as of December 31, 2015 and US\$ 101,064 thousand as of December 31, 2014).

### Debentures

- R. *Bonds Cobee III* - In February 2010, COBEE approved a bond program under which it is permitted to offer bonds in aggregate principal amounts of up to US\$ 40,000 thousand in multiple series. On March 12, 2010, COBEE issued and sold in the Bolivian market three series of notes in the aggregate principal amount of US\$ 13,844 thousand.

The aggregate gross proceeds of these notes, which were issued at a premium, were US\$ 17,251 thousand. The Series A Notes, in the aggregate principal amount of US\$ 4,000 thousand pay interest semi-annually at the rate of 5.00% per annum through maturity in February 2014. Principal on these notes is payable at maturity. The Series B Notes, in the aggregate principal amount of US\$ 3,500 thousand, pay interest semi-annually at the rate of 6.50% per annum through maturity in February 2017. Principal on these notes will be paid in two equal annual installments commencing in February 2016. The Series C Notes, in the principal amount of Bs. 44.2 million (US\$ 6,343 thousand), pay interest semi-annually at the rate of 9.00% per annum through maturity in January 2020. Principal on these notes will be paid in four equal annual installments commencing in February 2017.

In April 2012, COBEE issued and sold two additional series of notes in the aggregate principal amount of US\$ 11,160 thousand. The aggregate gross proceeds of these notes, which were issued at premium, were US\$ 12,919 thousand. COBEE will amortize the premium reducing the interest expense related to these notes. The first series of these notes, in the aggregate of US\$ 5,000 thousand pays interest semi-annually at the rate of 6.75% per annum through final maturity in April 2017. Principal on these notes is payable at maturity. The second series of these notes in the aggregate principal amount of Bs. 43 million (US\$ 6,160 thousand), pays interest semi-annually at the rate of 7% per annum through maturity in February 2022. These funds were used mainly to pay a tranche of Bolivian bonds due in June 2012.

- S. *Bonds Cobee IV* - In May 2013, COBEE approved a bond program under which COBEE is permitted to offer bonds in aggregate principal amount of up to US\$ 60,000 thousand in multiple series. In February 2014, COBEE issued and sold three series of notes in the aggregate principal amount of US\$ 19,934 thousand. The aggregate gross proceeds of these notes, which were issued at a premium, were US\$ 20,617 thousand. The Series A Notes, in the aggregate principal amount of US\$ 3,967 thousand pay interest semi-annually at the rate of 6.0% per annum through maturity in January 2018. The Series B Notes, in the aggregate principal amount of US\$ 3,964 thousand pay interest semi-annually at the rate of 7.0% per annum through final maturity in January 2020. The Series C Notes, in the aggregate principal amount of Bs. 84 million (US\$ 12,020 thousand) pay interest semi-annually at the rate of 7.8% per annum through maturity in January 2024.

In November 2014, COBEE issued and sold two series of notes in the aggregate principal amount of US\$ 20,086 thousand. The aggregate gross proceeds of these notes, which were issued at a premium, were US\$ 22,100. The first series of these Notes, in the aggregate principal amount of US\$ 4,950 thousand pay interest semi-annually at the rate of 6.70% per annum through maturity in October 2019. The second series of these notes in the aggregate principal amount of Bs. 105 million (US\$ 15,029 thousand) pay interest semi-annually at the rate of 7.80% per annum through maturity in October 2024.

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In October 2016, COBEE issued and sold the last series of notes approved under the bond program in the aggregate principal amount of Bs.138 million (US\$ 19,845 thousand). The aggregate gross proceeds of the notes, which were issued at a premium, were Bs. 152 million (US\$ 21,740). These Notes pay interest semi-annually at the rate of 5.75% per annum through maturity in August 2026.

- T. *Inkia Bonds* - On April 4, 2011, Inkia issued senior unsecured notes for an aggregate principal amount of US\$ 300,000 thousand in the international capital market under the rule 144A Regulation S. These notes accrue interest at a rate of 8.375% and will be payable semi-annually with final maturity in April 2021 and were recognized initially at fair value plus any directly attributable transaction costs. The proceeds from this issue were used mainly to finance Inkia's equity contribution in the construction of Cerro del Aguila Project and to repurchase all of the Inkia Bonds.

On September 9, 2013, Inkia reopened its 8.375% senior notes due 2021 for an aggregate principal amount of US\$ 150,000 thousand. The new notes have terms and conditions identical to the initial US\$ 300,000 thousand notes issued on April 4, 2011 and were issued at 104.75% plus accrued interest from April 4, 2013, resulting in gross proceeds of US\$ 157,125 thousand plus US\$ 5,653 thousand of accrued interest. The proceeds from this issue will be used mainly for working capital and general corporate purposes. Subsequent to initial recognition, these notes are measured at amortized cost using the effective interest method. As of December 31, 2016, the outstanding principal amount under these notes was US\$ 447,904 thousand (US\$ 447,524 thousand as of December 31, 2015 and US\$ 447,357 thousand as of December 31, 2014).

On September 5, 2014, Inkia requested the consents to its bondholders regarding certain proposed amendments to the Indenture: (i) Perform the IC split without being required to repurchase the bonds at a price equal to 101% of the aggregate principal; (ii) Request the repayment of the US\$ 150,000 thousand Credit Suisse/IC Power/Inkia Loan from the net proceeds of the Edegel sale; and (iii) Extend the investment period of the net proceeds from the Edegel sale from 12 to 30 months.

On September 16, 2014, Inkia received the consents from holders of a majority of its outstanding US\$ 450,000 thousand Senior Notes due 2021 and paid US\$ 1,012 thousand in fees related to obtain these consents.

- U. *Kallpa Bonds due 2022* - In November 2009, Kallpa issued US\$ 172,000 thousand aggregate principal amount of its 8.5% Bonds due 2022. Holders of these bonds are required to make subscription payments under a defined payment schedule during the 21 months following the date of issue. The proceeds of these bonds were used for capital expenditures related to Kallpa's combined-cycle plant. Interest on these bonds accrues based on the principal received by Kallpa and is payable quarterly. Principal amortization payments under these bonds in amounts varying between 0.25% and 5.00% of the outstanding principal amount of these bonds commenced in May 2014 and will continue until maturity in May 2022. These bonds are secured by Kallpa's combined-cycle plant and related assets. As of December 31, 2015, the aggregate outstanding principal amount of these bonds was US\$ 149,105 (US\$ 159,312 thousand as of December 31, 2014).

In May 2016, in connection with Kallpa's issuance of its US\$ 350,000 thousand 4.875% senior unsecured notes due May 2026, Kallpa repaid the outstanding amounts under the bonds (US\$ 142,760 thousand).

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- V. Kallpa Bonds due 2026 - In May 2016, senior notes for an aggregate principal amount of US\$ 350,000 thousand in the international capital market under the rule 144A Regulation S. The notes were issued under-par (99.258%) and interest accrues biannually in May and November of each year at a rate of 4.875%. Principal will be fully paid at maturity. The net proceeds from this issue in the amount of US\$347,403 thousand were used to repay in full the outstanding balance of: (i) the finance lease agreements (Kallpa II and Kallpa III); (ii) the Kallpa bonds due 2022, (iii) the syndicated loan and (iv) the US\$ 45,000 thousand short-term loans. The remainder of the proceeds were used for general corporate purposes. As a result of the redemption premium paid in respect of the Kallpa bonds due 2022 that did qualify as a debt extinguishment Kallpa recorded a US\$ 9,515 finance expense, see note 23. As of December 31, 2016, the outstanding amount of these notes was US\$ 325,970 million (net of transaction costs).
- W. In December 2010, CEPP approved a program bond offering under which CEPP is permitted to offer bonds in aggregate principal amount of up to US\$ 25,000 thousand in multiple series. In 2011 and 2010, CEPP issued and sold US\$ 20,326 thousand and US\$ 4,674 thousand of its 7.75% Bonds. CEPP used the proceeds of this offering to finance its continuing operations and repay intercompany debt. Interest on these bonds is payable monthly and principal of these bonds is due at maturity in May 2014. During the first quarter of 2014, CEPP issued and sold US\$ 25,000 thousand of its 6.00% Bonds due in January and March 2019. Part of these funds was used to prepay US\$ 15,000 thousand of its 7.75% Bonds outstanding due in May 2014. In October 2015, US\$ 15,000 thousand in CEPP's bonds were repurchased. As of December 31, 2016, the outstanding principal amount net of transaction costs under these notes was US\$ 9,945 thousand (US\$ 9,924 thousand as of December 31, 2015 and US\$ 24,755 thousand as of December 31, 2017).



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- X. As at December 31, 2016, 2015 and 2014, the main covenants that the Company and certain Group entities must comply with during the term of the debts are as follows:

| Covenant                  |                               |                                |                  |  |                       |
|---------------------------|-------------------------------|--------------------------------|------------------|--|-----------------------|
| Group entities            | Shareholder equity            | Debt service to coverage ratio | Collateral ratio | Maximum leverage                                   | Interest rate hedging |
| Kaliba Generación S.A.    | Not required                  | Not less than 1.20             | Not required     | No more than 3.0                                   | Required              |
| Samay                     | Not required                  | Not less than 1.64             | Not required     | Not required                                       | Not required          |
| CDA                       | Not required                  | Not less than 1.20             | Not required     | Not required                                       | Not required          |
| COBEE (Bonds)             | Not required                  | Not less than 1.20             | Not required     | Debt to capital no more than 1.2                   | Not required          |
| Cardones (Chile)          | Not required                  | Not less than 1.10             | Not required     | Not required                                       | Not required          |
| Colmito (Chile)           | Not required                  | Not less than 1.15             | Not required     | Not required                                       | Not required          |
| JPPC (Jamaica)            | Not required                  | Not less than 1.10             | Not required     | Debt to capital no more than 40%                   | Not required          |
| Amayo I (Nicaragua)       | Not required                  | Not less than 1.25             | Not required     | Not required                                       | Not required          |
| Amayo II (Nicaragua)      | Not required                  | Not less than 1.20             | Not required     | Financial debt to Net Worth not in excess of 70:30 | Not required          |
| Corinto (Nicaragua)       | Not required                  | Not required                   | Not required     | Maximum debt to EBITDA of 2.5                      | Not required          |
| Tipitapa (Nicaragua)      | Not required                  | Not required                   | Not required     | Maximum debt to EBITDA of 2.75.                    | Not required          |
| CEPP (Dominican Republic) | Not less than US\$ 21 million | Not less than 2.50             | Not required     | Maximum debt to EBITDA of 3.5                      | Not required          |
| Enegrade (Guatemala)      | >= US\$ 40 million            | Not less than 1.30             | Not required     | Maximum debt to EBITDA of 3.5                      | Not required          |
| Nejapa (El Salvador)      | Not required                  | >=1.50                         | Not required     | <=3.0  | Not required          |
| Kanan (Panama)            | Not required                  | Not less than 1.25             | Not required     | Maximum debt to EBITDA of 3.5                      | Not required          |

Other than with respect to the covenants referred to above, and the restrictions set forth in Note 20, there are no significant restrictions on the ability of the Company's subsidiaries to repay loans or advances or to transfer funds to the Company.  
Compliance with the covenants referred to above is overseen by the Group's Management. As of December 31, 2016:

- Kanan (Panama) does not comply with their debt service to coverage ratio and maximum leverage. Kanan holds a waiver but dated January 2017, therefore, its financial debt has been classified as current liability.
- Corinto (Nicaragua) does not comply with the maximum leverage ratio, but Corinto holds a waiver from Banco de America Central thus not requiring to classify its debt as current liability, and
- JPPC holds a waiver from Sagico Bank signed in June 2016 up to December 2016 and complies with its debt service to coverage ratio and maximum leverage, therefore, it is not required to reclassify its debt as current liability.

Inkia has to comply only with incurrence ratios when it plans to issue new debt (unconsolidated interest coverage ratio >2.0, unconsolidated net leverage <4.0).  
As of December 31, 2016, 2015 and 2014, the company has complied with the covenants.

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The table below presents the contractual amortization schedule of the non-current portion of the long-term debt as of December 31, 2016 and 2015:

| <i>In thousands of U.S. dollars</i> | <b>2016</b>      | <b>2015</b>      | <b>2014</b>      |
|-------------------------------------|------------------|------------------|------------------|
| 2016                                |                  | -                | 90,927           |
| 2017                                | -                | 111,839          | 124,759          |
| 2018                                | 126,680          | 128,278          | 117,162          |
| 2019                                | 146,083          | 159,068          | 159,808          |
| 2020                                | 162,690          | 149,117          | 133,110          |
| 2021 and thereafter                 | 1,749,821        | 1,252,041        | 1,055,266        |
|                                     | <b>2,185,274</b> | <b>1,800,343</b> | <b>1,681,032</b> |

**16. Trade Payables**

| <i>In thousands of U.S. dollars</i> | <b>2016</b>    | <b>2015</b>    | <b>2014</b>   |
|-------------------------------------|----------------|----------------|---------------|
| Trade payable— current              | 252,956        | 109,703        | 87,946        |
| Trade payable – non current         | 44,057         | -              | -             |
|                                     | <b>297,013</b> | <b>109,703</b> | <b>87,946</b> |

**17. Other Payables**

| <i>In thousands of U.S. dollars</i>                      | <b>2016</b>    |                    | <b>2015</b>    |                    | <b>2014</b>    |                    |
|--|----------------|--------------------|----------------|--------------------|----------------|--------------------|
|  | <b>Current</b> | <b>Non-current</b> | <b>Current</b> | <b>Non-current</b> | <b>Current</b> | <b>Non-current</b> |
| <i>Other payables including derivative instruments:</i>  |                |                    |                |                    |                |                    |
| Other payables (a)                                       | 24,865         | -                  | 55,478         | -                  | 49,740         | -                  |
| Interest payable (a)                                     | 21,817         | -                  | 19,826         | -                  | 16,929         | -                  |
| Consideration retained related to Surpetroil acquisition | -              | -                  | 2,204          | -                  | 6,000          | -                  |
| Accruals   | 16,869         | -                  | 7,429          | -                  | 14,953         | -                  |
| Fair value of derivatives (d)                            | 10,719         | 14,271             | 12,560         | 35,625             | 16,186         | 21,045             |
| Dividends payable to non-controlling interest            | 2,893          | -                  | -              | -                  | -              | -                  |
|  | <b>77,163</b>  | <b>14,271</b>      | <b>97,497</b>  | <b>35,625</b>      | <b>103,808</b> | <b>21,045</b>      |
| <i>Income tax payable:</i>                               |                |                    |                |                    |                |                    |
| Income tax   | 6,984          | -                  | 2,245          | -                  | 4,014          | -                  |
|  | <b>6,984</b>   | <b>-</b>           | <b>2,245</b>   | <b>-</b>           | <b>4,014</b>   | <b>-</b>           |
| <i>Guarantee deposits from customers</i>                 |                |                    |                |                    |                |                    |
| Guarantee deposits from customers, note 4(b)             | 56,833         | -                  | -              | -                  | -              | -                  |
|  | <b>56,833</b>  | <b>-</b>           | <b>-</b>       | <b>-</b>           | <b>-</b>       | <b>-</b>           |
| <i>Employee benefits:</i>                                |                |                    |                |                    |                |                    |
| Retirement and severance (b)                             | -              | 11,076             | -              | 6,455              | -              | 6,151              |
|  | <b>-</b>       | <b>11,076</b>      | <b>-</b>       | <b>6,455</b>       | <b>-</b>       | <b>6,151</b>       |
| <i>Other long term liabilities:</i>                      |                |                    |                |                    |                |                    |
| Deferred income  | 944            | 531                | 1,483          | 1,464              | 1,526          | 2,936              |
| Dismantling liability                                    | -              | 18,940             | -              | 14,649             | -              | 2,311              |
| Accruals (c)   | -              | 12,639             | -              | 3,299              | -              | 10,072             |
| Loan from Energia del Pacifico                           | -              | 7,028              | -              | -                  | -              | -                  |
| Withholding tax on earnings                              | -              | 1,226              | -              | 1,258              | -              | 2,469              |
| Others   | -              | 3,668              | -              | -                  | -              | -                  |
|  | <b>944</b>     | <b>44,032</b>      | <b>1,483</b>   | <b>20,670</b>      | <b>1,526</b>   | <b>17,788</b>      |
|  | <b>141,924</b> | <b>69,379</b>      | <b>101,225</b> | <b>62,750</b>      | <b>109,348</b> | <b>44,984</b>      |

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A. The terms and conditions of the above financial liabilities are as follows:

- As of December 31, 2015 and 2014 it corresponds mainly to payables related to CDA in the amount of US\$ 36,025 and US\$ 29,697 thousand, respectively.
- Interest payable is normally settled quarterly throughout the year.

B. The discount rate assumptions at the reporting date were as follow:

| <i>In percentages</i>                             | 2016 | 2015 | 2014 |
|---|------|------|------|
| Compañía de Energía de Centroamerica S.A. de C.V. | 7.32 | 7.32 | -    |
| IC Power Nicaragua S.A.                           | 8.30 | 8.28 | 8.28 |
| PQP   | 7.27 | 7.89 | -    |
| DEORSA, DEOCSA and RECSA                          | 8.08 | -    | -    |

C. Corresponds to provision related to contingencies (note 28).

D. As of December 31, 2016, 2015 and 2014, the derivatives maintained by the Group are as follow:

| <i>In thousands of U.S. dollars</i> | Notional amount | Fair value      |                 |                 |
|-------------------------------------|-----------------|-----------------|-----------------|-----------------|
|                                     |                 | 2016            | 2015            | 2014            |
| <b>Hedge derivatives (i)</b>        |                 |                 |                 |                 |
| Interest rate swap (a)              | 67,500          | -               | -               | (607)           |
| Interest rate swap (b)              | 384,093         | (17,509)        | (30,979)        | (23,514)        |
| Interest rate swap (c)              | 100,683         | -               | (196)           | (718)           |
| Interest rate swap (d)              | 124,400         | (2,955)         | (9,004)         | (351)           |
| Interest rate swap (e)              | 15,553          | (2,401)         | (3,880)         | (2,523)         |
| Exchange rate swap (f)              | 158,270         | -               | (850)           | (5,402)         |
|                                     |                 | <b>(22,865)</b> | <b>(44,909)</b> | <b>(33,115)</b> |
| <b>Trading derivatives (ii)</b>     |                 |                 |                 |                 |
| Interest rate swap (g)              | 42,000          | (1,950)         | (2,994)         | (3,769)         |
| Interest rate swap (h)              | 14,500          | -               | (7)             | (29)            |
| Interest rate swap (i)              | 8,443           | (175)           | (275)           | (318)           |
|                                     |                 | <b>(24,990)</b> | <b>(48,185)</b> | <b>(37,231)</b> |

**i. Hedge derivatives**

|     | Entity  | Financing                        | Underlying item             | Description        | Fixed rate               | Expiration |
|-----|---------|----------------------------------|-----------------------------|--------------------|--------------------------|------------|
| (a) | Kallpa  | Kallpa II Lease                  | Libor plus 2.05%            | 83% Kallpa II debt | 6.55%                    | May 2015   |
| (b) | CDA     | Syndicated                       | Libor plus 4.25%            | 100% - Tranche A   | 7.25-8.50%               | Aug 2024   |
| (c) | CDA     | Syndicated                       | Libor plus 4.25%            | 50% - Tranche B    | 5.38%                    | Feb 2016   |
| (d) | Samay I | Syndicated (during construction) | Libor plus 2.125%           | 93% total debt     | 4.23%                    | Dec 2021   |
| (e) | Colmito | Loan                             | 7.90% in Chilean Pesos      | 69% total debt     | 6.025% in US\$           | Jun 2028   |
| (f) | CDA     | EPC payments in Soles            | Spot exchange rate in Soles | S/ 403 million     | S/ 2.546 for each US\$ 1 | Jan 2016   |

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**ii. Trading derivatives**

The Group has three additional interest swap agreements that are accounted for as trading derivatives because these derivatives were already in place when Inkia took control of the subsidiaries:

|     | <b>Entity</b> | <b>Financing</b> | <b>Underlying item</b> | <b>Description</b>  | <b>Fixed rate</b> | <b>Expiration</b> |
|-----|---------------|------------------|------------------------|---------------------|-------------------|-------------------|
| (g) | Cardones      | Syndicated       | Libor plus 1.9%        | 100% - Tranche I    | 6.80%             | Aug 2021          |
| (h) | JPPC          | Loan             | Libor plus 5.5%        | 71%                 | 6.46%             | Mar 2017          |
| (i) | Amayo II      | Syndicated       | Libor plus 5.75%       | 84% - BCIE facility | 8.31%             | Dec 2019          |
|     | Amayo II      | Syndicated       | Libor plus 5.75%       | 49% - BCIE facility | 8.25%             | Sep 2022 (*)      |

\* starts in Dec 2019

The gain arising from the volatility of the fair value of these interest rate swaps is shown in Note 23. During 2016, 2015 and 2014, the Group recorded gains of US\$ 2,180 thousand, US\$ 3,400 thousand and US\$ 133 thousand, respectively.

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**18. Deferred Income Tax**

A. The components of deferred tax assets and liabilities recorded are the following:

|  | As of<br>December<br>31, 2013 | Statement<br>of income | Impact of<br>change in<br>tax rate | Equity       | Translation<br>Reserve | Business<br>Combination | As of<br>December<br>31, 2014 | Statement<br>of income | Equity       | Translation<br>Reserve | Reclassificati<br>on | As of<br>December<br>31, 2015 |
|--|-------------------------------|------------------------|------------------------------------|--------------|------------------------|-------------------------|-------------------------------|------------------------|--------------|------------------------|----------------------|-------------------------------|
| <b>Deferred income tax assets</b>      |                               |                        |                                    |              |                        |                         |                               |                        |              |                        |                      |                               |
| Derivative instruments                 | 8,781                         | (2,190)                | -                                  | 2,481        | -                      | -                       | 9,072                         | (205)                  | 2,619        | -                      | (8,785)              | 2,701                         |
| Tax loss carry forward                 | 15,007                        | 930                    | 4,972                              | -            | -                      | 34                      | 20,943                        | 6,910                  | -            | -                      | (20,706)             | 7,147                         |
| Retirement and severance benefits      | 358                           | 21                     | -                                  | -            | -                      | 76                      | 455                           | 146                    | -            | -                      | -                    | 601                           |
| Property, plant and equipment          | 43                            | 6,661                  | 32                                 | -            | -                      | 81                      | 6,817                         | 92                     | -            | -                      | (5,818)              | 1,091                         |
| Inventories                            | -                             | 607                    | -                                  | -            | -                      | -                       | 607                           | 73                     | -            | -                      | (607)                | 73                            |
| Intangibles                            | -                             | -                      | -                                  | -            | -                      | -                       | -                             | -                      | -            | -                      | (44)                 | (44)                          |
| Non-monetary items                     | (5,341)                       | (11,411)               | -                                  | -            | -                      | -                       | (16,752)                      | (7,802)                | -            | -                      | 15,612               | (8,942)                       |
| Others                                 | 1,456                         | 596                    | (27)                               | -            | (64)                   | 2,640                   | 4,601                         | (34)                   | -            | -                      | (4,501)              | 66                            |
|  | <b>20,304</b>                 | <b>(4,786)</b>         | <b>4,977</b>                       | <b>2,481</b> | <b>(64)</b>            | <b>2,831</b>            | <b>25,743</b>                 | <b>(820)</b>           | <b>2,619</b> | <b>-</b>               | <b>(24,849)</b>      | <b>2,693</b>                  |
| <b>Deferred income tax liabilities</b> |                               |                        |                                    |              |                        |                         |                               |                        |              |                        |                      |                               |
| Property, plant and equipment          | (72,908)                      | 16,901                 | (1,818)                            | -            | 152                    | (30,483)                | (88,156)                      | 31,221                 | -            | 69                     | 5,818                | (51,048)                      |
| Intangibles                            | (2,450)                       | 1,173                  | (11)                               | -            | -                      | (9,072)                 | (10,360)                      | 1,503                  | -            | -                      | 44                   | (8,813)                       |
| Derivative instruments                 | (1,790)                       | -                      | -                                  | 105          | -                      | -                       | (1,685)                       | 1,790                  | 462          | -                      | 8,785                | 9,352                         |
| Inventories                            | -                             | -                      | -                                  | -            | -                      | -                       | -                             | (470)                  | -            | -                      | 607                  | 137                           |
| Tax loss carry forward                 | -                             | -                      | -                                  | -            | -                      | -                       | -                             | (72)                   | -            | -                      | 20,706               | 20,634                        |
| Undistributed profits                  | -                             | -                      | -                                  | -            | -                      | -                       | -                             | (2,681)                | -            | -                      | -                    | (2,681)                       |
| Non-monetary items                     | 2,370                         | (11,027)               | -                                  | -            | -                      | (4,841)                 | (13,498)                      | (41,501)               | -            | -                      | (15,612)             | (70,611)                      |
| Others                                 | -                             | 4                      | (17)                               | -            | 2                      | (649)                   | (660)                         | (521)                  | -            | (34)                   | 4,501                | 3,286                         |
|  | <b>(74,778)</b>               | <b>7,051</b>           | <b>(1,846)</b>                     | <b>105</b>   | <b>154</b>             | <b>(45,045)</b>         | <b>(114,359)</b>              | <b>(10,731)</b>        | <b>462</b>   | <b>35</b>              | <b>24,849</b>        | <b>(99,744)</b>               |
| <b>Net effect</b>                      | <b>(54,474)</b>               | <b>2,265</b>           | <b>3,131</b>                       | <b>2,586</b> | <b>90</b>              | <b>(42,214)</b>         | <b>(88,616)</b>               | <b>(11,551)</b>        | <b>3,081</b> | <b>35</b>              | <b>-</b>             | <b>(97,051)</b>               |

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|  | As of<br>December<br>31, 2014 | Statement of<br>income | Equity       | Translation<br>Reserve | Reclassification | As of<br>December<br>31, 2015 | Statement<br>of income | Equity         | Business<br>combination | Impact of<br>change in tax<br>rate | Translation<br>Reserve | Reclassificatio<br>n | As of<br>December<br>31, 2016 |
|--|-------------------------------|------------------------|--------------|------------------------|------------------|-------------------------------|------------------------|----------------|-------------------------|------------------------------------|------------------------|----------------------|-------------------------------|
| Deferred income tax assets                 | 9,072                         | (205)                  | 2,619        | -                      | (8,785)          | 2,701                         | -                      | (1,815)        | 123                     | -                                  | -                      | (1,009)              | -                             |
| Derivative instruments                     | 20,943                        | 6,910                  | -            | -                      | (20,706)         | 7,147                         | 2,346                  | -              | -                       | (117)                              | -                      | (6,760)              | 2,616                         |
| Tax loss carry forward                     | 455                           | 146                    | -            | -                      | -                | 601                           | 117                    | -              | 748                     | -                                  | -                      | 116                  | 1,582                         |
| Retirement and severance benefits          | 6,817                         | 92                     | -            | -                      | (5,818)          | 1,091                         | (136)                  | -              | (35,469)                | -                                  | -                      | (57)                 | (34,571)                      |
| Property, plant and equipment              | 607                           | 73                     | -            | -                      | (607)            | 73                            | (11)                   | -              | -                       | -                                  | -                      | 14                   | 76                            |
| Inventories                                | -                             | -                      | -            | -                      | (44)             | (44)                          | (6)                    | -              | 25,021                  | -                                  | -                      | (4,409)              | 20,562                        |
| Intangibles                                | -                             | -                      | -            | -                      | -                | -                             | 4,803                  | -              | 28,605                  | -                                  | 473                    | -                    | 33,881                        |
| Trade receivables – Distribution companies | (16,752)                      | (7,802)                | -            | -                      | 15,612           | (8,942)                       | (1,735)                | -              | -                       | (827)                              | -                      | 11,558               | 54                            |
| Non-monetary items                         | 4,601                         | (34)                   | -            | -                      | (4,501)          | 66                            | 492                    | -              | 1,261                   | -                                  | -                      | (915)                | 904                           |
| Others                                     | <b>25,743</b>                 | <b>(820)</b>           | <b>2,619</b> | <b>-</b>               | <b>(24,849)</b>  | <b>2,693</b>                  | <b>5,870</b>           | <b>(1,815)</b> | <b>20,289</b>           | <b>(944)</b>                       | <b>473</b>             | <b>(1,462)</b>       | <b>25,104</b>                 |
| Deferred income tax liabilities            | (88,156)                      | 31,221                 | -            | 69                     | 5,818            | (51,048)                      | (25,546)               | -              | (5,987)                 | (3,813)                            | (516)                  | 57                   | (86,853)                      |
| Property, plant and equipment              | (10,360)                      | 1,503                  | -            | -                      | 44               | (8,813)                       | (2,495)                | -              | (47,338)                | -                                  | 322                    | 4,409                | (53,915)                      |
| Intangibles                                | -                             | -                      | -            | -                      | -                | -                             | 169                    | 61             | -                       | -                                  | 15                     | (116)                | 129                           |
| Retirement and severance benefits          | (1,685)                       | -                      | 462          | -                      | 8,785            | 9,352                         | (123)                  | (4,187)        | -                       | -                                  | -                      | 1,009                | 6,051                         |
| Derivative instruments                     | -                             | (470)                  | -            | -                      | 607              | 137                           | 13                     | -              | -                       | -                                  | -                      | (14)                 | 136                           |
| Inventories                                | -                             | (72)                   | -            | -                      | 20,706           | 20,634                        | 9,589                  | -              | -                       | (88)                               | 14                     | 6,760                | 36,909                        |
| Tax loss carry forward                     | -                             | (2,681)                | -            | -                      | -                | (2,681)                       | (822)                  | -              | (1,317)                 | -                                  | -                      | -                    | (4,820)                       |
| Undistributed profits                      | (13,498)                      | (41,501)               | -            | -                      | (15,612)         | (70,611)                      | 925                    | -              | -                       | (8,212)                            | -                      | (11,558)             | (89,456)                      |
| Non-monetary items                         | (660)                         | (521)                  | -            | (34)                   | 4,501            | 3,286                         | 844                    | -              | -                       | 78                                 | 10                     | 915                  | 5,133                         |
| Others                                     | <b>(114,359)</b>              | <b>(10,731)</b>        | <b>462</b>   | <b>35</b>              | <b>24,849</b>    | <b>(99,744)</b>               | <b>(17,446)</b>        | <b>(4,126)</b> | <b>(54,642)</b>         | <b>(12,035)</b>                    | <b>(155)</b>           | <b>1,462</b>         | <b>(186,686)</b>              |
| <b>Net effect</b>                          | <b>(88,616)</b>               | <b>(11,551)</b>        | <b>3,081</b> | <b>35</b>              | <b>-</b>         | <b>(97,051)</b>               | <b>(11,576)</b>        | <b>(5,941)</b> | <b>(34,353)</b>         | <b>(12,979)</b>                    | <b>318</b>             | <b>-</b>             | <b>(161,582)</b>              |

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B. The table below presents the components of the income tax expense shown in the consolidated profit or loss corresponding for the years 2016, 2015 and 2014:

| <i>In thousands of U.S. dollars</i> | <b>2016</b>   | <b>2015</b>   | <b>2014</b>   |
|-------------------------------------|---------------|---------------|---------------|
| <b>Continuing operations:</b>       |               |               |               |
| Current                             | 32,528        | 29,483        | 38,892        |
| Deferred                            | 24,555        | 11,551        | (5,396)       |
|                                     | <b>57,083</b> | <b>41,034</b> | <b>33,496</b> |

C. The table below presents the reconciliation of the effective income tax rate for the years 2016, 2015 and 2014 to the tax rate computed using applicable statutory blended rates:

| <i>In thousands of U.S. dollars</i>  | <b>2016</b>   |            | <b>2015</b>   |            | <b>2014</b>   |            |
|--|---------------|------------|---------------|------------|---------------|------------|
| <b>Profit before tax</b>   | 84,157        |            | 75,110        |            | 109,093       |            |
| Approximated weighted average tax rate for operating companies   | 25,435        | 30%        | 25,384        | 34%        | 33,982        | 31%        |
| Permanent non-deductible expenses  | 6,906         | 8%         | 3,874         | 5%         | 2,341         | 2%         |
| Expenses incurred by holding companies in jurisdictions with nil incomes tax   | 13,607        | 16%        | 6,569         | 9%         | 10,929        | 10%        |
| Exempt income <sup>(a)</sup>   | (754)         | (1%)       | (5,509)       | (7%)       | (219)         | -          |
| Differences between the measurement base of income reported for tax purposes and the income reported in the financial statements arising from the translation of non- monetary assets <sup>(b)</sup>     | 810           | 1%         | 49,303        | 66%        | 22,438        | 21%        |
| Difference between the measurement base of income reported for tax purposes and the income reported in the financial statements arising from the exchange differences from monetary items <sup>(c)</sup> | (2,231)       | (3%)       | (36,751)      | (49%)      | (13,898)      | (13%)      |
| Tax losses and other tax benefits for the period regarding which deferred taxes were not created   | 1,902         | 2%         | -             | -          | -             | -          |
| Impact of change in tax rate   | 12,979        | 15%        | -             | -          | (3,131)       | (3%)       |
| Other differences  | (1,383)       | (2%)       | (1,743)       | (2%)       | 2,924         | 3%         |
| <b>Permanent tax exempt income:</b>  |               |            |               |            |               |            |
| Share of profit in associate   | (188)         | -          | (93)          | -          | (623)         | (1%)       |
| Bargain gain on purchase   | -             | -          | -             | -          | (21,247)      | (19%)      |
|  | <b>57,083</b> | <b>68%</b> | <b>41,034</b> | <b>55%</b> | <b>33,496</b> | <b>31%</b> |

- (a) US\$ 754 thousand of exempt income in Amayo II in Nicaragua in 2016 (US\$ 5,509 thousand in 2015 and US\$ 219 thousand in 2014, including Amayo I and Amayo II).
- (b) Deferred tax related to the effect of foreign exchange rate on non-monetary assets.
- (c) Exchange differences arising from monetary liabilities reflected only in the taxable income for tax purposes.

Current income tax from operations in El Salvador includes income tax from the consolidation of Nejapa Power Branch and Cenergica. Income tax rate in El Salvador is 30% for the years ended December 31, 2016, 2015 and 2014. In addition, a 5% to 25% withholding tax is applicable depending on whether the payments are to countries with preferential tax regimes or nil taxes. Currently, Nejapa's and Cenergica's parent company is domiciliated in Panama and therefore is subject to 5% withholding tax.

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In the Dominican Republic, Compañía de Electricidad de Puerto Plata (CEPP) was subject to a greater income tax rate on taxable income of 28% in 2014 and 27% from 2015 onwards or 1% of taxable assets. During 2015 and 2014, CEPP qualified to pay income tax on the basis of taxable income; and a 10% withholding tax on dividend distribution.

In Bolivia the company has 25% income tax and a 12.5% withholding tax on the Bolivian branch profits credited to the shareholder.

In December 2014, a tax reform Law was enacted in Peru. Among other changes, the Law decreased corporate income tax rates and increases withholding tax rates on dividends. The corporate income tax rate was reduced from 30% in 2014 to: 28%, in 2015 and 2016, to 27%, in 2017 and 2018 and to 26% starting 2019. The withholding tax rates was increased from 4.1% in 2014 to: 6.8% in 2015 and 2016, 8.0% in 2017 and 2018; and 9.3% starting 2019. CDA and Samay I have signed tax stability agreements that expire in 2022 and 2024, respectively. Only after these tax agreements expire, CDA and Samay I will be affected by the changes in income tax and withholding tax rates described above. On December 27, 2016, Kallpa waived to its tax stability agreement that originally expired in 2020. In December 2016, a new tax reform was enacted, which among other items, supersedes the changes introduced in 2014 related to the corporate income tax and withholding tax rates. Effectively on January 01, 2017 onwards, the corporate income tax and withholding tax rates in Peru will be 29.5% and 5% respectively.

In September 2014, a tax reform in Chile was enacted, which makes substantial changes to the Chilean tax system, including two alternative mechanisms for computing shareholder-level income taxation beginning on January 1, 2017 (accrued income and cash-basis methods), additional corporate tax rate increases, and other substantial modifications. The selection should be made before the end of 2016 and it remains in effect for 5 years.

In Chile, the loss carry forward have not expiration date.

As a result, the corporate income tax rate increased gradually from 20% in 2013 to: 21% in 2014; 22.5% in 2015; 24% in 2016; and will be increase to 25% in 2017 for shareholders on the accrued income method, and 25.5% in 2017 for shareholders on the cash-basis method. Starting 2018 onwards, the income tax rate will be 25% for shareholders on the accrued income method and 27% for shareholders on the cash-basis method.

In January 2016, a new tax reform was enacted that simplifies the tax reformed published in September 2014. Some types of tax payers are restricted to one of the two regimes, but tax payers eligible for either regime must opt into their preferred regime before December 31, 2016. Cardones and Colmito elected the cash-basis method.

Under the corporate income tax rules, applicable until the end of 2016, business income in Chile is subject to a 24% corporate income tax rate, but such income also is subject to income tax on a cash basis when distributed to the shareholders, at rates that vary depending on whether the shareholder is a resident or a nonresident. Nonresident shareholder are subject to a 35% withholding tax on dividends. The corporate tax paid may be used as a credit against the liability of the shareholders, resulting in an overall income tax rate of 35% on distributed profits for nonresident shareholders.

Starting in 2017, Chilean taxpayers subject to corporate income tax will be subject to one of the following two tax regimes:

- The fully integrated regime, under which shareholders will be taxed on their share of the profits that area accrued annually by Chilean entity. The combined income tax rate under the regime will be 35%.



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- The partially integrated regime, under which shareholders will be taxed when profits are distributed. The combined income tax rate under the regime generally will be 44.45%; however, foreign shareholders that are resident in a country that has concluded a tax treaty with Chile will be entitled to a full tax credit, and thus may benefit from a combined rate of 35%.

In Nicaragua, Empresa Energética Corinto and Tipitapa Power Company are subject to 25% income tax, based on a Foreign Investment Agreement signed in June 2000, which protect the companies from any unfavorable changes in the tax Law. In addition, Consorcio Eólico Amayo Fase II is tax exempt from income tax payments up to a period of seven years since the beginning of operations of the plants, in accordance with Law No.532 for Electric Power Generation with Renewable Sources Incentive. Consorcio Eólico Amayo S.A. is subject to an income tax rate of 30% since March 2016 when its tax exemption from income tax payments expired. In addition, a 10% to 17% withholding tax is applicable depending on whether the payments are to countries with preferential tax regimes or nil taxes.

In Guatemala, PQP, DEOCSA, DEORSA and Guatemel was subject to a 25% income tax rate applied over their taxable income in 2016 (in 2015). Proposed legislation to raise the income tax rate to 28% was put forward, but the bill did not go through for the 2016 year. Recsa is subject to a 7% income tax rate over its income. In addition, a 5% withholding tax on dividend distributions.

In January 2013, a tax reform was enacted in Colombia, which established an income tax rate of 25%, except for those contributors that by express disposition handle special rates, not less than 3% of the net worth of the shareholders' equity on the last day of the immediately previous taxable period. In addition, a 9% equity income tax (CREE) was created as a contribution to generate employment and social investment. During December 2016, the CREE rate was blended within the corporate income tax rate, which implied a hike to 34% for 2017 and 33% for 2018 and subsequent years. In addition, taxpayers reporting taxable income higher than \$800 million (Colombian pesos) will pay an additional 6% and 4% income tax rate for the years 2017 and 2018, respectively.

### ***Deferred tax liability on undistributed earnings***

Subsidiaries pay dividends on quarterly basis as long as they are in compliance with covenants derived from the borrowings agreements described in note 15(x). Deferred tax is recognized for temporary differences related to undistributed earnings in subsidiaries that will reverse it in the foreseeable future. During 2016, the Company recorded an expense of US\$ 822 thousand (US\$ 2,681 thousand in 2015) in connection with this timing difference.

Distributions of the earnings of foreign subsidiaries are subject to the withholding taxes imposed by the foreign subsidiaries' jurisdictions of incorporation. The Company does not have funds designated for, or subject to, permanent reinvestment in any country in which it operates.

## **19. Share Capital and Reserves**

The capital stock amount to US\$ 3 thousands and comprises 300,000 ordinary shares issued at US\$ 0.01 par value each.

In accordance with the local laws that regulate the operations of the Group's operating entities, a reserve of up to a certain limit of their share capital is required to be established through annual transfers of profit.

In 2014, Inkia paid dividends to IC Power Ltd. in the amount of US\$ 32,189 thousand. No dividends were paid during 2016 and 2015.

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**20. Non-controlling Interest**

The following tables summarize the information relating to each of Inkia's subsidiaries that has non-controlling interest. 2016

2016

| <i>In thousands of U.S. dollars</i>                | <b>Kallpa<br/>Generación S.A.</b> | <b>Cerro del<br/>Aguila S.A.</b> | <b>Samay I S.A.</b> | <b>Nicaragua<br/>Energy<br/>Holdings (a)</b> | <b>Others</b>  | <b>Intra-Group<br/>eliminations and<br/>purchase price<br/>adjustments</b> | <b>Total</b>   |
|--|-----------------------------------|----------------------------------|---------------------|--|----------------|--|----------------|
| <b>NCI percentage</b>                              | <b>25.10%</b>                     | <b>25.10%</b>                    | <b>25.10%</b>       | <b>35.42%</b>                                | -              | -  | -              |
| Current assets                                     | 108,246                           | 53,843                           | 75,485              | 41,630                                       | 163,624        | -  | -              |
| Non-current assets                                 | 611,928                           | 949,440                          | 380,947             | 144,313                                      | 881,227        | -  | -              |
| Current liabilities                                | (55,323)                          | (85,935)                         | (73,846)            | (26,053)                                     | (327,836)      | -  | -              |
| Non-current liabilities                            | (511,277)                         | (618,219)                        | (311,030)           | (100,834)                                    | (544,750)      | -  | -              |
| <b>Net assets</b>                                  | <b>153,574</b>                    | <b>299,129</b>                   | <b>71,556</b>       | <b>59,056</b>                                | <b>172,265</b> | -  | -              |
| <b>Carrying amount of NCI</b>                      | <b>38,547</b>                     | <b>75,081</b>                    | <b>17,961</b>       | <b>20,918</b>                                | <b>20,695</b>  | <b>19,092</b>  | <b>192,294</b> |
| Revenues   | 438,475                           | 49,646                           | 40,000              | 90,017                                       | 605,173        | -  | -              |
| Profit   | 35,820                            | 9                                | 548                 | 7,511  | 38,222         | -  | -              |
| OCI  | -                                 | 10,449                           | 4,825               | -  | -              | -  | -              |
| <b>Net income attributable to NCI</b>              | <b>8,991</b>                      | <b>2</b>                         | <b>138</b>          | <b>2,660</b>                                 | <b>2,742</b>   | <b>(1,283)</b>   | <b>13,250</b>  |
| <b>OCI attributable to NCI</b>                     | <b>-</b>                          | <b>2,623</b>                     | <b>1,211</b>        | <b>-</b>                                     | <b>480</b>     | <b>115</b>   | <b>4,429</b>   |
| Cash flow operating activities                     | 114,838                           | 25,627                           | (1,276)             | 17,737                                       | -              | -  | -              |
| Investing activities                               | (16,082)                          | (69,370)                         | (60,468)            | (931)  | -              | -  | -              |
| Dividends paid to NCI                              | (16,943)                          | -                                | -                   | (4,004)                                      | (2,364)        | -  | (23,311)       |
| Financing activities                               | (88,911)                          | 62,823                           | 47,088              | (26,440)                                     | -              | -  | -              |
| Effect of changes in the exchange rate             | 198                               | 369                              | 373                 | (348)  | -              | -  | -              |
| <b>Net increase (decrease) in cash equivalents</b> | <b>(6,900)</b>                    | <b>19,449</b>                    | <b>(14,283)</b>     | <b>(13,986)</b>                              | -              | -  | -              |

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2015

| <i>In thousands of U.S. dollars</i>                | Kallpa<br>Generación<br>S.A. |                 | Cerro del<br>Agulla S.A. |               | Samay I S.A.   |        | Nicaragua<br>Energy<br>Holdings (a) |   | Others |   | Intra-Group<br>eliminations<br>and purchase<br>price<br>adjustments | Total          |
|--|------------------------------|-----------------|--------------------------|---------------|----------------|--------|-------------------------------------|---|--------|---|---|----------------|
|  | 25.10%                       | 25.10%          | 25.10%                   | 25.10%        | 25.10%         | 35.42% |                                     |   |        |   |   |                |
| <b>NCI percentage</b>                              |                              |                 |                          |               |                |        |                                     |   |        |   |   |                |
| Current assets                                     | 92,120                       | 23,841          | 47,766                   | 43,390        | 39,619         | -      | -                                   | - | -      | - | -   | -              |
| Non-current assets                                 | 638,325                      | 847,015         | 344,052                  | 172,917       | 273,264        | -      | -                                   | - | -      | - | -   | -              |
| Current liabilities                                | (188,291)                    | (25,909)        | (36,075)                 | (22,044)      | (27,253)       | -      | -                                   | - | -      | - | -   | -              |
| Non-current liabilities                            | (356,900)                    | (556,277)       | (289,560)                | (121,142)     | (159,449)      | -      | -                                   | - | -      | - | -   | -              |
| <b>Net assets</b>                                  | <b>185,254</b>               | <b>288,670</b>  | <b>66,183</b>            | <b>73,121</b> | <b>126,181</b> |        |                                     |   |        |   |   |                |
| <b>Carrying amount of NCI</b>                      | <b>46,499</b>                | <b>72,456</b>   | <b>16,612</b>            | <b>25,899</b> | <b>15,407</b>  |        |                                     |   |        |   |   | <b>177,762</b> |
| Revenues   | 447,679                      | -               | -                        | 111,428       | 91,134         | -      | -                                   | - | -      | - | -   | -              |
| Profit   | 44,088                       | (8,579)         | (4,047)                  | 14,469        | 15,475         | -      | -                                   | - | -      | - | -   | -              |
| OCI  | (53)                         | (1,079)         | (6,057)                  | -             | -              | -      | -                                   | - | -      | - | -   | -              |
| <b>Profit (loss) attributable to NCI</b>           | <b>11,066</b>                | <b>(2,153)</b>  | <b>(1,016)</b>           | <b>5,125</b>  | <b>235</b>     |        |                                     |   |        |   |   | <b>12,872</b>  |
| <b>OCI attributable to NCI</b>                     | <b>(13)</b>                  | <b>(271)</b>    | <b>(1,520)</b>           | <b>-</b>      | <b>(1,335)</b> |        |                                     |   |        |   |   | <b>(3,139)</b> |
| Cash flow operating activities                     | 120,438                      | -               | -                        | 42,481        | -              | -      | -                                   | - | -      | - | -   | -              |
| Investing activities                               | (13,589)                     | (180,771)       | (236,207)                | (5,088)       | -              | -      | -                                   | - | -      | - | -   | -              |
| Dividends paid to NCI                              | (7,530)                      | -               | -                        | (4,401)       | (409)          | -      | -                                   | - | -      | - | -   | (12,340)       |
| Financing activities                               | (91,084)                     | 95,000          | 138,000                  | (26,140)      | -              | -      | -                                   | - | -      | - | -   | -              |
| Effect of changes in the exchange rate             | (5,334)                      | (2,929)         | (3,266)                  | (489)         | -              | -      | -                                   | - | -      | - | -   | -              |
| <b>Net increase (decrease) in cash equivalents</b> | <b>2,901</b>                 | <b>(88,700)</b> | <b>(101,473)</b>         | <b>6,363</b>  | <b>-</b>       |        |                                     |   |        |   |   | <b>-</b>       |

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| <i>In thousands of U.S. dollars</i>                | Kallpa          |                | Cerro del      |               | Samay I S.A.  |                | Nejapa           |                | Nicaragua   |          | Intra-Group |  |
|--|-----------------|----------------|----------------|---------------|---------------|----------------|------------------|----------------|-------------|----------|-------------|--|
|  | Generación S.A. | Aguila S.A.    | Samay I S.A.   | Company Ltd.  | Holdings (a)  | Others         | eliminations and | purchase price | adjustments | Total    |             |  |
| <b>NCI percentage</b>                              | 25.10%          | 25.10%         | 25.10%         | 29.00%        | 35.42%        |                |                  |                |             |          |             |  |
| Current assets                                     | 82,313          | 128,242        | 138,153        | 46,395        | 52,850        | 70,432         | -                | -              | -           | -        | -           |  |
| Non-current assets                                 | 645,927         | 645,303        | 102,554        | 19,872        | 172,240       | 279,204        | -                | -              | -           | -        | -           |  |
| Current liabilities                                | (151,661)       | (25,138)       | (18,713)       | (9,179)       | (23,376)      | (33,497)       | -                | -              | -           | -        | -           |  |
| Non-current liabilities                            | (405,360)       | (461,108)      | (144,679)      | (639)         | (131,327)     | (206,178)      | -                | -              | -           | -        | -           |  |
| <b>Net assets</b>                                  | <b>171,219</b>  | <b>287,299</b> | <b>77,315</b>  | <b>56,449</b> | <b>70,387</b> | <b>109,961</b> | -                | -              | -           | -        | -           |  |
| <b>Carrying amount of NCI</b>                      | <b>42,976</b>   | <b>72,112</b>  | <b>19,407</b>  | <b>16,370</b> | <b>24,931</b> | <b>13,140</b>  | <b>3,401</b>     | <b>192,337</b> |             |          |             |  |
| Revenues   | 436,673         | -              | -              | 131,396       | 124,578       | 111,644        | -                | -              | -           | -        | -           |  |
| Profit   | 53,090          | (4,447)        | (1,419)        | 3,502         | 4,472         | 11,687         | -                | -              | -           | -        | -           |  |
| OCI  | 1,150           | (6,938)        | (245)          | -             | -             | (1,995)        | -                | -              | -           | -        | -           |  |
| <b>Profit (loss) attributable to NCI</b>           | <b>13,326</b>   | <b>(1,116)</b> | <b>(356)</b>   | <b>1,016</b>  | <b>1,584</b>  | <b>860</b>     | <b>(448)</b>     | <b>14,866</b>  |             |          |             |  |
| <b>OCI attributable to NCI</b>                     | <b>289</b>      | <b>(1,742)</b> | <b>(62)</b>    | <b>-</b>      | <b>-</b>      | <b>(798)</b>   | <b>-</b>         | <b>(2,313)</b> |             |          |             |  |
| Cash flow operating activities                     | 116,915         | -              | -              | 6,621         | 16,605        | -              | -                | -              | -           | -        | -           |  |
| Investing activities                               | (26,259)        | (247,724)      | (88,644)       | (567)         | 19,522        | -              | -                | -              | -           | -        | -           |  |
| Dividends paid to NCI                              | (7,530)         | -              | -              | -             | (5,687)       | (693)          | -                | -              | -           | -        | (13,910)    |  |
| Financing activities                               | (71,452)        | 296,868        | 195,135        | (38)          | (14,758)      | -              | -                | -              | -           | -        | -           |  |
| Effect of changes in the exchange rate             | (824)           | -              | (265)          | -             | 411           | -              | -                | -              | -           | -        | -           |  |
| <b>Net increase (decrease) in cash equivalents</b> | <b>10,850</b>   | <b>49,144</b>  | <b>106,226</b> | <b>6,016</b>  | <b>16,093</b> | <b>-</b>       | <b>-</b>         | <b>-</b>       | <b>-</b>    | <b>-</b> | <b>-</b>    |  |

(a) Includes Empresa Energética Corinto, Tipitapa Power Company, Centrans Energy Holdings (Amayo) and Arctas Amayo (Fase II).

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### **Restrictions on assets and liabilities**

During 2015 and 2014, CDA had restrictions to transfer cash to parent company related to checking accounts (escrow) to comply with the payments and liabilities for the project cost.

In August 2016, CDA reaching the Commercial Operation Date ("COD") of the power plant, consequently these restrictions are solved.

As of December 31, 2016, subsidiaries have no restrictions to transfer cash or other assets to the parent company as long as each subsidiary is in compliance with the covenants derived from the borrowing agreements described in the note 15(x).

### **Non-Controlling Interest acquisition**

On December 31, 2014 Crystal Power Company ("Crystal") and Inkia reached a settlement agreement in application of which Inkia bought the shares of Crystal in Nejapa Holdings for a consideration of US\$ 20,000 thousand which became effective on January 6, 2015.

As a result of this agreement, Inkia increased its indirect holdings in Nejapa Power LLC from 70.85% to 100%. The difference between the consideration paid and the book value of US\$ 1,922 thousand has been recorded as part of the Company's shareholders' equity, in the retained earnings category.

## **21. Cost of Sales**

| <i>In thousands of U.S. dollars</i>              | <b>2016</b>      | <b>2015</b>    | <b>2014</b>    |
|--|------------------|----------------|----------------|
| <i>Energy and capacity purchases (a)</i>         | 495,536          | 134,721        | 150,435        |
| <i>Fuel, gas and lubricants (b)</i>              | 295,075          | 328,140        | 365,739        |
| <i>Depreciation and amortization, Note 13,14</i> | 132,998          | 85,482         | 75,735         |
| <i>Transmission costs</i>                        | 119,345          | 98,915         | 85,887         |
| <i>Personnel expenses</i>                        | 49,705           | 31,310         | 26,979         |
| <i>Maintenance expenses</i>                      | 39,750           | 37,227         | 25,758         |
| <i>Third party services</i>                      | 34,781           | 10,268         | 7,727          |
| <i>Regulatory expenses</i>                       | 9,369            | 5,445          | 5,469          |
| <i>Insurance</i>                                 | 9,263            | 9,847          | 10,157         |
| <i>Plant unavailability</i>                      | 6,946            | -              | -              |
| <i>Intermediation fees (c)</i>                   | 4,670            | 6,223          | 1,067          |
| <i>Impairment, Note 13.E</i>                     | -                | -              | 34,673         |
| <i>Other operating expenses</i>                  | 12,124           | 4,503          | 4,427          |
|  | <b>1,209,562</b> | <b>752,081</b> | <b>794,053</b> |

- (a) In 2016, it includes energy purchases of US\$ 355,554 thousand incurred by distribution companies.
- (b) Fuel cost is primarily heavy fuel oil consumed by the thermal plants in El Salvador, the Dominican Republic, Jamaica, Nicaragua and Guatemala.
- (c) Intermediation fees are related to supply contracts between Kallpa and some distribution companies.

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**22. Selling, General and Administrative Expenses**

| <i>In thousands of U.S. dollars</i>  | <b>2016</b>    | <b>2015</b>   | <b>2014</b>   |
|--------------------------------------|----------------|---------------|---------------|
| Payroll and related expenses         | 43,693         | 29,249        | 23,198        |
| Third party services                 | 14,030         | 4,908         | 3,313         |
| Depreciation and amortization        | 12,045         | 8,313         | 7,267         |
| Consultant and professional services | 10,902         | 7,860         | 6,605         |
| Legal fees                           | 4,944          | 3,065         | 10,511        |
| Bad debt expenses (a)                | 4,896          | -             | 628           |
| Local taxes                          | 2,794          | 1,897         | 1,621         |
| Community goodwill                   | 1,026          | 1,252         | 1,743         |
| Other expenses                       | 10,126         | 3,117         | 3,157         |
|                                      | <b>104,456</b> | <b>59,661</b> | <b>58,043</b> |

- (a) As of December 21, 2016, it corresponds mainly to de bad debt expense of the distributions clients of Energuate (note 8.C).

**23. Finance Income and Costs**

| <i>In thousands of U.S. dollars</i>                   | <b>2016</b>    | <b>2015</b>   | <b>2014</b>   |
|---|----------------|---------------|---------------|
| <b>Finance income</b>                                 |                |               |               |
| Interest income from investments (a)                  | 3,482          | 2,444         | 1,056         |
| Interest income on commercial operations              | 2,827          | 4,615         | 2,140         |
| Interest income from ICPAD loan                       | 676            | -             | -             |
| Foreign currency income, net                          | 3,523          | -             | -             |
| Interest income from IC Power Loan, note 10           | -              | 575           | 622           |
|   | <b>10,508</b>  | <b>7,634</b>  | <b>3,818</b>  |
| <b>Finance costs</b>                                  |                |               |               |
| Interest expenses on loans and bonds (b)              | 128,304        | 72,326        | 74,027        |
| Redemption premium, expense note 15 (v)               | 9,515          | -             | -             |
| Interest expense on guarantee deposits from customers | 4,232          | -             | -             |
| Interest on loans from parent company (c)             | -              | -             | 3,158         |
| Consent fee on Inkia bonds, note 15(n)                | -              | -             | 1,012         |
| Finance expense in respect of employee benefit        | 727            | --            | -             |
| Other finance costs                                   | 4,296          | 3,885         | 1,944         |
| Interest expenses on commercial operations            | 61             | -             | -             |
| Foreign exchange losses, net                          | -              | 12,413        | 464           |
|   | <b>147,135</b> | <b>88,624</b> | <b>80,605</b> |
| <b>Total finance costs, net</b>                       | <b>136,627</b> | <b>80,990</b> | <b>76,787</b> |

- (a) Interest income is related to interest earned for the Company; funds held in money market accounts and time deposits.
- (b) Interest expenses on loans and bonds are related to debt held by the Group entities, see note 15.

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**24. Other Income and Expenses**

| <i>In thousands of U.S. dollars</i>  | <b>2016</b>   | <b>2015</b>   | <b>2014</b>   |
|--|---------------|---------------|---------------|
| Insurance claims (a)   | 2,525         | 6,917         | 7,452         |
| Early termination fee compensation (b)   | 7,398         | 550           | -             |
| Delay of contract compensation (c)   | 3,377         | -             | -             |
| Transfers of assets from Customers   | 1,593         | -             | -             |
| Dividend incomes from other companies  | -             | -             | 3,655         |
| EPC constructor compensation   | -             | -             | 1,990         |
| Release of contingency accrual (d)   | 1,205         | 545           | -             |
| Reimbursement of capital investment in lieu of income taxes                                | -             | 380           | -             |
| Other  | 4,317         | 2,098         | 3,786         |
| <b>Total other income</b>  | <b>20,415</b> | <b>10,490</b> | <b>16,883</b> |
| Disposal of fixed assets   | 20,273        | 4,952         | 7,964         |
| Gain on sale of fixed assets   | (18,103)      | (1,531)       | (213)         |
| <b>Net loss on sale and disposal of fixed assets</b>                                       | <b>2,170</b>  | <b>3,421</b>  | <b>7,751</b>  |
| Expiration of ISO credit tax   | 1,325         | -             | -             |
| Provision for tax contingencies  | -             | 1,056         | -             |
| Net loss on sale of spare parts  | -             | 956           | 1,627         |
| Expenses related to Sainani and Santa Rosa's incident not covered by the insurance company | -             | -             | 996           |
| Other  | 1,688         | 847           | 432           |
| <b>Total other expenses</b>  | <b>5,183</b>  | <b>6,280</b>  | <b>10,806</b> |

- (a) Includes early termination fee compensation received by Kallpa from Coelvisac and Compañía Minera Raura in 2016 and 2015, respectively.
- (b) Includes compensation received by distribution companies for delays in the start of its PPAs.
- (c) Corresponds mainly to Consorcio Eólico Amayo (Fase II) and COBEE claims in relation to three wind towers damaged and Sainani plant, respectively.
- (d) Comprises Energuate and JPPC holdings release of part of its contingency accruals in 2016 and 2015, respectively.

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### 25. Segment information

#### A. Operating Segments and Presentation of Segment Financial Data

The Group is involved in two business lines: power generation and distribution.

The Chief Operating Decision Maker (CODM) reviews net income (loss) for the period as well as EBITDA (earnings before taxes, financial expenses, net and depreciation and amortization for each reportable segment. The CODM uses these performance measures because it believes that this information is the most relevant in evaluating the results of the respective segments relative to other entities that operate in the same industries

The Groups reportable segments are comprised by the legal entities in Peru and Central America for the power generation which have similar characteristics.

All other segment include the legal entities in Bolivia, Chile, the Dominican Republic, Jamaica and Colombia. None of these segments met the quantitative thresholds for reportable segments in the years presented.

Also, as a result of Energuate acquisition described in Note 5A, the Company added to the reportable segments the distribution activity of the new acquisition as a separate segment.

#### B. Information about reportable segment

There were no intersegment material revenues as of December 31, 2016, 2015 and 2014.

#### Major customers

As of December 31, 2016, 2015 and 2014, the Group does not have any customers with revenue that constituted 10 percent or more to total consolidated revenue nor material intersegment revenue for the year ended.

#### Information based on countries

The Group's revenues by country are as follows:

| <i>In thousands of US dollars</i> | 2016             | 2015           | 2014           |
|-----------------------------------|------------------|----------------|----------------|
| Peru                              | 528,121          | 447,679        | 436,673        |
| Guatemala                         | 570,509          | 108,440        | 33,302         |
| Nicaragua                         | 90,017           | 111,428        | 124,578        |
| Bolivia                           | 40,237           | 42,738         | 41,325         |
| Chile                             | 33,761           | 42,164         | 49,325         |
| Others                            | 254,747          | 210,229        | 273,449        |
|                                   | <b>1,517,392</b> | <b>962,678</b> | <b>958,652</b> |

The Group's non-current assets (a) by country are as follows:

- i. Mainly composed of property, plant and equipment and intangible assets.

| <i>In thousands of US dollars</i> | 2016             | 2015             | 2014             |
|-----------------------------------|------------------|------------------|------------------|
| Peru                              | 1,941,428        | 1,830,771        | 1,397,340        |
| Guatemala                         | 549,325          | 59,794           | 50,635           |
| Nicaragua                         | 144,254          | 156,782          | 151,940          |
| Bolivia                           | 116,968          | 117,999          | 115,826          |
| Chile                             | 131,154          | 132,055          | 129,157          |
| Others                            | 657,249          | 414,485          | 391,581          |
|                                   | <b>3,540,378</b> | <b>2,711,886</b> | <b>2,236,479</b> |



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The tables below provide the measurement of each reportable segment, as follows:

| <i>In thousands of U.S. dollars</i>                                      | Distribution Companies | Peruvian entities | Central America entities | All other segments (b) | Adjustments (a) | Total            |
|--|------------------------|-------------------|--------------------------|------------------------|-----------------|------------------|
| <b>For the year ended December 31, 2016</b>                              |                        |                   |                          |                        |                 |                  |
| Revenue  | 508,628                | 528,121           | 326,281                  | 156,704                | (2,342)         | 1,517,392        |
| Cost of sales  | (417,762)              | (382,192)         | (289,378)                | (132,314)              | 12,084          | (1,209,562)      |
| <b>Gross profit</b>  | <b>90,866</b>          | <b>145,929</b>    | <b>36,903</b>            | <b>24,390</b>          | <b>9,742</b>    | <b>307,830</b>   |
| Selling, general and administrative expenses                             | (35,966)               | (23,455)          | (15,892)                 | (29,209)               | 66              | (104,456)        |
| Other income, net  | 7,599                  | 6,852             | 340                      | 441                    | -               | 15,232           |
| <b>Profit (loss) from operating activities</b>                           | <b>62,499</b>          | <b>129,326</b>    | <b>21,351</b>            | <b>(4,378)</b>         | <b>9,808</b>    | <b>218,606</b>   |
| Finance income, including net gain from derivative financial instruments | 6,688                  | 1,501             | 769                      | 2,656                  | 449             | 12,063           |
| Finance cost   | (21,722)               | (64,694)          | (13,311)                 | (47,408)               | -               | (147,135)        |
| <b>Finance costs, net</b>  | <b>(15,034)</b>        | <b>(63,193)</b>   | <b>(12,542)</b>          | <b>(44,752)</b>        | <b>449</b>      | <b>(135,072)</b> |
| Share of profit in associated company                                    | -                      | -                 | -                        | 623                    | -               | 623              |
| <b>Income before taxes from continuing operations</b>                    | <b>47,465</b>          | <b>66,133</b>     | <b>8,809</b>             | <b>(48,507)</b>        | <b>10,257</b>   | <b>84,157</b>    |
| Income tax expense   | (12,471)               | (33,088)          | (4,805)                  | (5,182)                | (1,537)         | (57,083)         |
| <b>Net income (loss) for the period</b>                                  | <b>34,994</b>          | <b>33,045</b>     | <b>4,004</b>             | <b>(53,689)</b>        | <b>8,720</b>    | <b>27,074</b>    |
| Segment assets   | 599,809                | 2,165,703         | 493,506                  | 1,192,384              | (229,565)       | 4,221,837        |
| Investment in associate  | -                      | -                 | -                        | 8,896                  | -               | 8,896            |
| Segment liabilities  | 542,223                | 1,635,912         | 245,862                  | 859,183                | (41,966)        | 3,241,214        |
| <b>Adjusted EBITDA</b>   | <b>81,013</b>          | <b>189,637</b>    | <b>59,848</b>            | <b>33,121</b>          | <b>30</b>       | <b>363,649</b>   |

| <i>In thousands of U.S. dollars</i>                                      | Peruvian entities | Central America entities | All other segments (b) | Adjustments (a) | Total           |
|--|-------------------|--------------------------|------------------------|-----------------|-----------------|
| <b>For the year ended December 31, 2015</b>                              |                   |                          |                        |                 |                 |
| Revenue  | 447,679           | 336,544                  | 178,455                | -               | 962,678         |
| Cost of sales  | (328,453)         | (285,348)                | (147,666)              | 9,386           | (752,081)       |
| <b>Gross profit</b>  | <b>119,226</b>    | <b>51,196</b>            | <b>30,789</b>          | <b>9,386</b>    | <b>210,597</b>  |
| Selling, general and administrative expenses                             | (18,663)          | (13,124)                 | (28,017)               | 143             | (59,661)        |
| Other income, net  | 1,115             | 1,220                    | 1,875                  | -               | 4,210           |
| <b>Profit from operating activities</b>                                  | <b>101,678</b>    | <b>39,292</b>            | <b>4,647</b>           | <b>9,529</b>    | <b>155,146</b>  |
| Finance income, including net gain from derivative financial instruments | 962               | 1,209                    | 6,210                  | (67)            | 8,314           |
| Finance costs  | (42,432)          | (11,482)                 | (34,710)               | -               | (88,624)        |
| <b>Finance cost, net</b>   | <b>(41,470)</b>   | <b>(10,273)</b>          | <b>(28,500)</b>        | <b>(67)</b>     | <b>(80,310)</b> |
| Share of profit in associated company                                    | -                 | -                        | 274                    | -               | 274             |
| <b>Income before taxes from continuing operations</b>                    | <b>60,208</b>     | <b>29,019</b>            | <b>(23,579)</b>        | <b>9,462</b>    | <b>75,110</b>   |
| Income tax expense   | (29,621)          | (5,938)                  | (3,963)                | (1,512)         | (41,034)        |
| <b>Net income (loss) from continuing operations the period</b>           | <b>30,587</b>     | <b>23,081</b>            | <b>(27,542)</b>        | <b>7,950</b>    | <b>34,076</b>   |
| Net income from discontinued operations                                  | -                 | -                        | 3,850                  | -               | 3,850           |
| <b>Net income (loss) for the period</b>                                  | <b>30,587</b>     | <b>23,081</b>            | <b>(23,692)</b>        | <b>7,950</b>    | <b>37,926</b>   |
| Segment assets   | 1,985,256         | 454,816                  | 1,169,578              | (224,672)       | 3,384,978       |
| Investment in associate  | -                 | -                        | 8,993                  | -               | 8,993           |
| Segment liabilities  | 1,498,066         | 287,332                  | 755,089                | (93,020)        | 2,447,467       |
| <b>Adjusted EBITDA</b>   | <b>152,084</b>    | <b>60,695</b>            | <b>40,012</b>          | <b>-</b>        | <b>252,791</b>  |

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| <i>In thousands of U.S. dollars</i>                                      | Peruvian entities | Central<br>America<br>entities | All other<br>segments (b) | Adjustments (a) | Total           |
|--|-------------------|--------------------------------|---------------------------|-----------------|-----------------|
| <b>For the year ended December 31, 2014</b>                              |                   |                                |                           |                 |                 |
| Revenue  | 436,673           | 307,618                        | 214,361                   | -               | 958,652         |
| Cost of sales  | (314,381)         | (277,454)                      | (211,448)                 | 9,230           | (794,053)       |
| <b>Gross profit</b>  | <b>122,292</b>    | <b>30,164</b>                  | <b>2,913</b>              | <b>9,230</b>    | <b>164,599</b>  |
| Selling, general and administrative expenses                             | (17,302)          | (8,956)                        | (32,108)                  | 323             | (58,043)        |
| Other income, net  | 3,224             | 60                             | 3,311                     | (518)           | 6,077           |
| <b>Profit (loss) from operating activities</b>                           | <b>108,214</b>    | <b>21,268</b>                  | <b>(25,884)</b>           | <b>9,035</b>    | <b>112,633</b>  |
| Finance income, including net gain from derivative financial instruments | 308               | 649                            | 20,188                    | (16,964)        | 4,181           |
| Finance cost   | (34,882)          | (8,530)                        | (53,572)                  | 16,379          | (80,605)        |
| <b>Finance cost, net</b>   | <b>(34,574)</b>   | <b>(7,881)</b>                 | <b>(33,384)</b>           | <b>(585)</b>    | <b>(76,424)</b> |
| Share of profit in associated  | -                 | -                              | 2,000                     | -               | 2,000           |
| Gain on bargain purchase   | -                 | -                              | 68,210                    | -               | 68,210          |
| Measurement to fair value of pre-existing share                          | -                 | -                              | 2,674                     | -               | 2,674           |
| <b>Income before taxes from continuing operations</b>                    | <b>73,640</b>     | <b>13,387</b>                  | <b>13,616</b>             | <b>8,450</b>    | <b>109,093</b>  |
| Income tax expense   | (29,331)          | (4,759)                        | 1,576                     | (982)           | (33,496)        |
| <b>Net income from continuing operations</b>                             | <b>44,309</b>     | <b>8,628</b>                   | <b>15,192</b>             | <b>7,468</b>    | <b>75,597</b>   |
| Net income from discontinued operations                                  | -                 | -                              | 128,055                   | -               | 128,055         |
| <b>Net Income for the period</b>   | <b>44,309</b>     | <b>8,628</b>                   | <b>143,247</b>            | <b>7,468</b>    | <b>203,652</b>  |
| Segment assets   | 1,738,775         | 451,782                        | 1,163,284                 | (236,593)       | 3,117,248       |
| Investment in associate  | -                 | -                              | 9,625                     | -               | 9,625           |
| Segment liabilities  | 1,210,058         | 273,879                        | 717,763                   | (21,363)        | 2,180,337       |
| <b>Adjusted EBITDA</b>   | <b>153,844</b>    | <b>39,741</b>                  | <b>51,584</b>             | <b>(338)</b>    | <b>244,831</b>  |

- (a) Adjustments to cost of sales correspond to the eliminations of the depreciation effect of revaluated assets on a stand-alone basis due as these assets are measured under the cost method for consolidation purposes.
- (b) In addition to the results of certain of our generation assets, the Other segment also includes expenses and other adjustments relating to our headquarters and intermediate holding companies, including purchase price allocations recorded in connection with our acquisition of Energuate in 2016. However, as the Other segment is primarily composed of the financial results of certain of our generation assets and their related holding companies, we analyze the results of our Other segment within our discussion of the results of our generation business

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### 26. Financial Risk Management Objectives and Financial Instruments

The Group's principal financial assets are comprised of cash and cash equivalents, short term deposits and restricted cash, trade receivables, other trade receivables, deposits and other receivables. Financial liabilities comprise trade and other payables, short-term loans interest bearing borrowings, guarantee deposits from customers and derivatives. The main purpose of these financial instruments is to raise funding for the Group's operations. The benchmark rate for floating rate assets and liabilities is based on LIBOR. With the exception of CEPP and Nicaraguan entities, none of Inkia's or the Group's trade receivables earns interest.

The Group is exposed to market risk, credit risk and liquidity risk. The Group's senior management oversees the management of these risks, together with the capital requirement as explained in further detail below.

#### A. Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it, in the light of changes in economic conditions. In special circumstances Inkia provides contingent security in the form of parent-level credit support to the underlying businesses where required.

The Group includes within net debt, credit from banks and others, trade and other payables, less cash and cash equivalents. Adjusted capital includes equity attributable to the equity holders of the parent, plus non-controlling interest, less the net unrealized hedging reserve; plus loans from parent company.

| <i>In thousands of U.S. dollars</i>               | 2016             | 2015             | 2014             |
|---|------------------|------------------|------------------|
| Credit from bank and others                       | 2,546,212        | 2,074,045        | 1,823,700        |
| Trade payables                                    | 297,013          | 109,703          | 87,946           |
| Other payables                                    | 154,470          | 163,975          | 154,332          |
| Guarantee deposits from customers                 | 56,833           | -                | -                |
| Less cash and cash equivalents                    | (172,695)        | (239,109)        | (424,178)        |
| <b>Net debt</b>                                   | <b>2,881,833</b> | <b>2,108,614</b> | <b>1,641,800</b> |
| Equity  | 989,519          | 946,504          | 964,536          |
| Hedging reserve                                   | 9,601            | 21,767           | 17,576           |
| <b>Adjusted capital</b>                           | <b>999,120</b>   | <b>968,271</b>   | <b>982,112</b>   |
| <b>Debt to adjusted capital ratio at year end</b> | <b>2.88</b>      | <b>2.18</b>      | <b>1.67</b>      |

The debt facilities utilized are basically long-term and include financial covenants which must be satisfied in order to distribute excess cash to the shareholders and/or holding companies.

Within the Group, each Company maintains a prudent level of debt and may continue to raise additional debt in the future. The debt could be taken for further expanding the Group or for remitting to the ultimate shareholder, Israel Corporation as a return of capital on the shareholder loan.

#### B. Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: interest rate risk, currency risk and other price risk, such as equity risk. Financial instruments affected by market risk include loans and borrowings, deposits, available - for - sale investments, and derivative financial instruments. The sensitivity analyses in the following sections relate to the position as of December 31, 2016, 2015 and 2014.

The sensitivity analyses have been prepared on the basis that the amount of net debt, the ratio of fixed to floating interest rates of the debt and derivatives and the proportion of financial instruments in

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foreign currencies are all constant and on the basis of the hedge designations in place as of December 31, 2016, 2015 and 2014, respectively.

The analysis excludes the impact of movements in market variables on the carrying value provision, non-financial assets and liabilities of foreign operations.

The following assumptions have been made in calculating the sensitivity analysis:

- The sensitivity of the consolidated income statement is the effect of the changes in interest rates on the net interest income for one year, based on the floating rate non- trading financial assets and financial liabilities held at December 31, 2016, 2015 and 2014, respectively, including the effect of hedging instruments.
- The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets, including the effect of any associated hedges, and swaps designated as cash flow hedges as of December 31, 2016, 2015 and 2014, respectively, for the effects of the assumed changes in interest rates. The total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve.

### C. Derivatives

Within the Group, CDA, Cardones, Samay, Colmito, JPPC and Amayo II have entered into interest rate swaps to mitigate their interest rate risk on specific loans. The description of the swaps maintained by the Group is detailed in note 17.C.

### D. Interest rate risk

Interest rate risk is the risk that the Group could suffer financial loss due to changes in the value of an asset or liability or in the value of future cash flows due to interest rate volatility. Any financial asset or liability on which interest is paid or received will be subject to interest rate risk. The Group's exposure to the risk of changes in market interest rate relates primarily to the Group's long term borrowings with floating interest rates. To manage this, the Group enters into interest rate swap arrangements as described in the previous paragraph. The Group manages the interest rate risk on the long term borrowings of its operating businesses to minimize the exposure to floating interest rates. The table below displays the amount of fixed rate and floating rate debt of the Group as of December 31, 2016, 2015 and 2014:

#### *Interest rate exposure*

December 31, 2016

| <i>In thousands of U.S. dollars</i>                   | Fixed Rate | Floating Rate | Non-Interest | Total     | Weighted average interest rate at 31.12.16 |
|---|------------|---------------|--------------|-----------|--|
| <b>Financial Assets</b>                               |            |               |              |           |  |
| Cash & Cash Equivalents                               | 133,989    | 10,737        | 27,969       | 172,695   | 0.70%                                      |
| Short-term deposits and restricted cash               | 23,132     | 9,430         | 25,657       | 58,219    | 0.54%                                      |
| Trade receivables                                     | -          | -             | 259,873      | 259,873   | -  |
| Other receivables                                     | -          | -             | 29,325       | 29,325    | -  |
| Deposits and other receivables, excluding derivatives | -          | -             | 28,324       | 28,324    | -  |
| Loans to parent company                               | 51,134     | -             | -            | 51,134    | 1.50%                                      |
| <b>Financial liabilities</b>                          |            |               |              |           |  |
| Short term loans                                      | 63,430     | 149,987       | -            | 213,417   | 5.60%                                      |
| Trade payables  | -          | -             | 297,013      | 297,013   | -  |
| Other payables excluding derivatives                  | -          | -             | 49,681       | 49,681    | -  |
| Guarantee deposits from customers                     | -          | 56,833        | -            | 56,833    | -  |
| Debentures  | 867,287    | -             | -            | 867,287   | 6.46%                                      |
| Loans from banks and others(*)                        | 83,917     | 1,293,422     | -            | 1,377,339 | 5.84%                                      |
| Liabilities in respect of finance leases              | 87,817     | 352           | -            | 88,169    | 7.14%                                      |

December 31, 2015

| <i>In thousands of U.S. dollars</i> | Fixed Rate | Floating | Non- | Total | Weighted |
|-------------------------------------|------------|----------|------|-------|----------|
|-------------------------------------|------------|----------|------|-------|----------|

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|  |         | Rate    | Interest |           | average<br>interest rate<br>at 31.12.15 |
|--|---------|---------|----------|-----------|---|
| <b>Financial Assets</b>                                  |         |         |          |           |   |
| Cash & Cash Equivalents                                  | 130,949 | 24,149  | 84,011   | 239,109   | 0.49%                                   |
| Short-term deposits and restricted cash                  | 76,017  | 5,214   | 127,578  | 208,809   | 0.47%                                   |
| Trade receivables  | -       | -       | 91,967   | 91,967    | -                                       |
| Other receivables  | -       | -       | 12,859   | 12,859    | -                                       |
| Deposits and other receivables,<br>excluding derivatives | -       | -       | 18,415   | 18,415    | -                                       |
| Loans to parent company                                  | 43,369  | -       | -        | 43,369    | 1.50%                                   |
| <b>Financial liabilities</b>                             |         |         |          |           |   |
| Short term loans   | 59,425  | 119,892 | -        | 179,317   | 3.68%                                   |
| Trade payables   | -       | -       | 109,703  | 109,703   | -                                       |
| Other payables excluding derivatives                     | -       | -       | 79,803   | 79,803    | -                                       |
| Debentures   | 671,247 | -       | -        | 671,247   | 8.08%                                   |
| Loans from banks and others(*)                           | 78,274  | 981,433 | -        | 1,059,707 | 5.39%                                   |
| Liabilities in respect of finance leases (**)            | 132,195 | 31,579  | -        | 163,774   | 7.09%                                   |

December 31, 2014

| <i>In thousands of U.S. dollars</i>                      | Fixed Rate | Floating<br>Rate | Non-<br>Interest | Total   | Weighted<br>average<br>interest rate<br>at 31.12.14 |
|--|------------|------------------|------------------|---------|---|
| <b>Financial Assets</b>                                  |            |                  |                  |         |   |
| Cash & Cash Equivalents                                  | 119,529    | 21,685           | 282,964          | 424,178 | 0.75%   |
| Short-term deposits and restricted cash                  | 120,100    | 4,997            | 25,496           | 150,593 | 0.77%   |
| Trade receivables  | -          | -                | 140,098          | 140,098 | -   |
| Other receivables  | -          | -                | 47,217           | 47,217  | -   |
| Deposits and other receivables,<br>excluding derivatives | -          | -                | 5,709            | 5,709   | -   |
| Loans to parent company                                  | -          | -                | 35,578           | 35,578  | -   |
| <b>Financial liabilities</b>                             |            |                  |                  |         |   |
| Short term loans   | 56,610     | 1,527            | -                | 58,137  | 4.93%   |
| Trade payables   | -          | -                | 87,946           | 87,946  | -   |
| Other payables excluding derivatives                     | -          | -                | 86,461           | 86,461  | -   |
| Debentures   | 703,952    | -                | -                | 703,952 | 8.05%   |
| Loans from banks and others(*)                           | 68,007     | 800,066          | -                | 868,073 | 5.93%   |
| Liabilities in respect of finance leases (**)            | 145,959    | 47,579           | -                | 193,538 | 6.91%   |

(\*) At December 31, 2016 out of US\$ 1,293,422 thousand, US\$ 971,372 thousand is hedged for interest rate risk (in 2015, out of US\$ 981,433 thousand; US\$ 922,547 thousand is hedged and in 2014, out of US\$ 800,066 thousand; US\$ 656,309 thousand is hedged).

(\*\*) At December 31, 2015 out of US\$ 31,579 thousand, US\$ 0 thousand is hedged for interest rate risk (in 2014, out of US\$ 47,579 thousand; US\$ 35,140 thousand is hedged).

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The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings in a period of a year considering the effect of the interest rate swaps):

| <i>In thousands of U.S. dollars</i>  | Increase/decrease in<br>basic points | Effect on profit before<br>tax |
|--|--------------------------------------|--------------------------------|
| <b>December 31, 2016</b>   |                                      |                                |
| Interest bearing borrowings (*)  | (+)(-) 100                           | (+)(-) 2,966                   |
| <b>December 31, 2015</b>   |                                      |                                |
| Interest bearing borrowings (*)  | (+)(-) 100                           | (+)(-) 2,490                   |
| <b>December 31, 2014</b>   |                                      |                                |
| Interest bearing borrowings (*)  | (+)(-) 100                           | (+)(-) 2,314                   |
| (*) <i>These floating rate borrowings with interest rate swaps have not been considered.</i> |                                      |                                |

**E. Liquidity risk**

Liquidity risk is the risk that the Group will not have sufficient funds to meet liabilities. The Group monitors its risk of shortage of funds through use of cash forecasts which identify the liquidity requirements of the Group. These are reviewed regularly to ensure sufficient financial headroom exists for at least a 6 month period.

The maturity profile of the interest bearing liabilities (including contractual interest payments) and derivatives (based on projected outflows (\*)) are as follows:

| <i>In thousands of U.S. dollars</i>     | Credit from<br>banks and others | Interest rate<br>swaps |
|---|---------------------------------|------------------------|
| <b>December 31, 2016</b>                |                                 |                        |
| Financial Liabilities: Maturity profile |                                 |                        |
| Due within one year, but not on demand  | 363,554                         | 10,713                 |
| Due within one to two years             | 131,428                         | 6,358                  |
| Due within two to three years           | 149,653                         | 3,132                  |
| Due within three to four years          | 166,456                         | 1,406                  |
| Due within four to five years           | 884,533                         | 343                    |
| Due after five years                    | 894,652                         | 3,038                  |
| <b>Total</b>                            | <b>2,590,276</b>                | <b>24,990</b>          |
| <b>December 31, 2015</b>                |                                 |                        |
| Financial Liabilities: Maturity profile |                                 |                        |
| Due within one year, but not on demand  | 277,862                         | 12,560                 |
| Due within one to two years             | 111,909                         | 10,555                 |
| Due within two to three years           | 128,101                         | 7,673                  |
| Due within three to four years          | 160,439                         | 5,694                  |
| Due within four to five years           | 148,644                         | 4,087                  |
| Due after five years                    | 1,269,481                       | 7,616                  |
| <b>Total</b>                            | <b>2,096,436</b>                | <b>48,185</b>          |
| <b>December 31, 2014</b>                |                                 |                        |
| Financial Liabilities: Maturity profile |                                 |                        |
| Due within one year, but not on demand  | 144,284                         | 16,186                 |
| Due within one to two years             | 92,154                          | 8,642                  |
| Due within two to three years           | 125,064                         | 4,422                  |
| Due within three to four years          | 117,323                         | 2,562                  |
| Due within four to five years           | 160,057                         | 1,570                  |
| Due after five years                    | 1,222,073                       | 3,849                  |
| <b>Total</b>                            | <b>1,860,955</b>                | <b>37,231</b>          |

(\*) Considers only cash settlements.

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The following tables indicate the periods in which the cash flows associated with derivatives that are cash flow hedges are expected to occur:

| <i>In thousands of U.S. dollars</i> | Fair Value      | Expected cash flow | 0-1 years       | 2 years        | 3-5 years       | More than 5 years |
|-------------------------------------|-----------------|--------------------|-----------------|----------------|-----------------|-------------------|
| <b>December 31, 2016</b>            |                 |                    |                 |                |                 |                   |
| Interest rate swaps:                |                 |                    |                 |                |                 |                   |
| Liabilities                         | 22,865          | 22,865             | 9,930           | 5,788          | 4,192           | 2,955             |
|                                     | <b>22,865</b>   | <b>22,865</b>      | <b>9,930</b>    | <b>5,788</b>   | <b>4,192</b>    | <b>2,955</b>      |
| <b>December 31, 2015</b>            |                 |                    |                 |                |                 |                   |
| Interest rate swaps:                |                 |                    |                 |                |                 |                   |
| Liabilities                         | (44,059)        | (44,059)           | (10,630)        | (9,474)        | (16,514)        | (7,441)           |
| FX Forward:                         |                 |                    |                 |                |                 |                   |
| Liabilities                         | (850)           | (850)              | (850)           | -              | -               | -                 |
|                                     | <b>(44,909)</b> | <b>(44,909)</b>    | <b>(11,480)</b> | <b>(9,474)</b> | <b>(16,514)</b> | <b>(7,441)</b>    |
| <b>December 31, 2014</b>            |                 |                    |                 |                |                 |                   |
| Interest rate swaps:                |                 |                    |                 |                |                 |                   |
| Liabilities                         | (27,713)        | (27,713)           | (10,105)        | (7,018)        | (7,164)         | (3,426)           |
| FX Forward:                         |                 |                    |                 |                |                 |                   |
| Liabilities                         | (5,402)         | (5,402)            | (4,763)         | (639)          | -               | -                 |
|                                     | <b>(33,115)</b> | <b>(33,115)</b>    | <b>(14,868)</b> | <b>(7,657)</b> | <b>(7,164)</b>  | <b>(3,426)</b>    |

The following table indicates the periods in which the cash flows associated with derivatives that are cash flow hedges are expected to occur, and impact the consolidated profit or loss:

| <i>In thousands of U.S. dollars</i> | Fair Value     | Expected cash flow | 0-1 years      | 2 years        | 3-5 years      | More than 5 years |
|-------------------------------------|----------------|--------------------|----------------|----------------|----------------|-------------------|
| <b>December 31, 2016</b>            |                |                    |                |                |                |                   |
| Interest rate swaps:                |                |                    |                |                |                |                   |
| Liabilities                         | 2,125          | 2,125              | 783            | 570            | 688            | 84                |
|                                     | <b>2,125</b>   | <b>2,125</b>       | <b>783</b>     | <b>570</b>     | <b>688</b>     | <b>84</b>         |
| Interest rate swaps:                |                |                    |                |                |                |                   |
| Assets                              | 111            | 111                | 2              | 40             | 22             | 47                |
|                                     | <b>111</b>     | <b>111</b>         | <b>2</b>       | <b>40</b>      | <b>22</b>      | <b>47</b>         |
| <b>December 31, 2015</b>            |                |                    |                |                |                |                   |
| Interest rate swaps:                |                |                    |                |                |                |                   |
| Liabilities                         | (3,276)        | (3,276)            | (1,080)        | (1,081)        | (940)          | (175)             |
|                                     | <b>(3,276)</b> | <b>(3,276)</b>     | <b>(1,080)</b> | <b>(1,081)</b> | <b>(940)</b>   | <b>(175)</b>      |
| Interest rate swaps:                |                |                    |                |                |                |                   |
| Assets                              | 161            | 161                | 1              | 23             | 73             | 64                |
|                                     | <b>161</b>     | <b>161</b>         | <b>1</b>       | <b>23</b>      | <b>73</b>      | <b>64</b>         |
| <b>December 31, 2014</b>            |                |                    |                |                |                |                   |
| Interest rate swaps:                |                |                    |                |                |                |                   |
| Liabilities                         | (4,116)        | (4,116)            | (1,318)        | (985)          | (1,390)        | (423)             |
|                                     | <b>(4,116)</b> | <b>(4,116)</b>     | <b>(1,318)</b> | <b>(985)</b>   | <b>(1,390)</b> | <b>(423)</b>      |
| Interest rate swaps:                |                |                    |                |                |                |                   |
| Assets                              | 322            | 322                | 8              | 46             | 209            | 59                |
|                                     | <b>322</b>     | <b>322</b>         | <b>8</b>       | <b>46</b>      | <b>209</b>     | <b>59</b>         |

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**F. Credit risk**

Counterparty credit risk is the risk that the financial benefits of contracts with a specific counterparty will be lost if a counterparty defaults on its obligations under the contract. This includes any cash amounts owed to the Group by those counterparties, less any amounts owed to the counterparty by the Group where a legal right of set-off exist and also includes the fair values of contracts with individual counterparties which are included in the financial statements. The maximum exposure to credit risk at each reporting date is the carrying value of each class of financial assets mentioned in this note.

**G. Power generation**

Counterparty credit exposures arise in the normal course of operations as a result of the potential for a customer defaulting on its payable balance. In the case of power generation customers, credit risk is managed by analyzing credit worthiness and financial strength during the negotiation of power purchase agreements and during the life of the contract.

Where the creditworthiness of the customer is deemed to be below standard, various contractual agreements and structures are negotiated (such as letters of credit, liquidity facilities, government guarantees) to provide the required credit support. For the distribution business, commercial customer's credit risk is managed by analyzing a company's creditworthiness and financial strength both before power sales commence and during the business relationship.

**H. Interest rate swap counterparties**

Counterparty credit exposures are monitored by individual counterparty and by category of credit rating. The majority of significant exposures are with counterparties with credit ratings "A" or better.

**I. Currency exposures**

Foreign exchange risk arises when certain transaction are denominated in a currency that is not the entity's functional currency. The following table shows the Group's currency exposures that give rise to exchange rate gains and losses that are recognized in the consolidated income statement. Such exposures comprise those monetary assets and liabilities of Group companies that are not denominated in their functional currency.

| <i>In thousands of U.S. dollars</i>               | <b>Total</b>       | <b>US\$</b>        | <b>Quetzales</b> | <b>Other currencies</b> |
|---|--------------------|--------------------|------------------|-------------------------|
| <b>December 31, 2016</b>                          |                    |                    |                  |                         |
| Cash and cash equivalents                         | 172,695            | 150,358            | 12,310           | 10,027                  |
| Short-term deposits and restricted cash           | 58,219             | 32,091             | 4,797            | 21,331                  |
| Trade receivables                                 | 259,873            | 87,209             | 92,653           | 80,011                  |
| Other receivables                                 | 29,325             | 23,113             | 2,517            | 3,695                   |
| Deposits and other receivables                    | 26,706             | 10,294             | 5,253            | 11,159                  |
| <b>Total</b>                                      | <b>546,818</b>     | <b>303,065</b>     | <b>117,530</b>   | <b>126,223</b>          |
| Short term loans                                  | 213,417            | 178,419            | 29,999           | 4,999                   |
| Trade payables                                    | 297,013            | 168,535            | 106,290          | 22,188                  |
| Other payables, excluding derivatives instruments | 49,681             | 33,008             | 6,947            | 9,726                   |
| Guarantee deposits from customers                 | 56,833             | -                  | 56,833           | -                       |
| Loans from bank and others, and debentures        | 2,332,795          | 1,924,366          | 291,853          | 116,576                 |
| <b>Total</b>                                      | <b>2,949,739</b>   | <b>2,304,328</b>   | <b>491,922</b>   | <b>153,489</b>          |
| Net monetary position                             | (2,402,921)        | (2,001,263)        | (374,392)        | (27,266)                |
| Derivative instruments                            | (24,879)           | (24,879)           | -                | -                       |
| <b>Net position</b>                               | <b>(2,427,800)</b> | <b>(2,026,142)</b> | <b>(374,392)</b> | <b>(27,266)</b>         |



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| <i>In thousands of U.S. dollars</i>               | <b>Total</b>       | <b>US\$</b>        | <b>Other<br/>currencies</b> |
|---|--------------------|--------------------|-----------------------------|
| <b>December 31, 2015</b>                          |                    |                    |                             |
| Cash and cash equivalents                         | 239,109            | 199,866            | 39,243                      |
| Short-term deposits and restricted cash           | 208,809            | 203,611            | 5,198                       |
| Trade receivables                                 | 91,967             | 51,511             | 40,456                      |
| Other receivables                                 | 12,859             | 8,333              | 4,526                       |
| Deposits and other receivables                    | 18,415             | 550                | 17,865                      |
| <b>Total</b>                                      | <b>571,159</b>     | <b>463,871</b>     | <b>107,288</b>              |
| Short term loans                                  | 179,317            | 172,234            | 7,083                       |
| Trade payables                                    | 109,703            | 89,304             | 20,399                      |
| Other payables, excluding derivatives instruments | 79,803             | 68,420             | 11,383                      |
| Loans from bank and others, and debentures        | 1,894,728          | 1,835,372          | 59,356                      |
| <b>Total</b>                                      | <b>2,263,551</b>   | <b>2,165,330</b>   | <b>98,221</b>               |
| Net monetary position                             | (1,692,392)        | (1,701,459)        | 9,067                       |
| Derivative instruments                            | (48,024)           | (48,024)           | -                           |
| <b>Net position</b>                               | <b>(1,740,416)</b> | <b>(1,749,483)</b> | <b>9,067</b>                |
| <b>December 31, 2014</b>                          |                    |                    |                             |
| Cash and cash equivalents                         | 424,178            | 383,336            | 40,842                      |
| Short-term deposits and restricted cash           | 150,593            | 145,571            | 5,022                       |
| Trade receivables                                 | 140,098            | 90,277             | 49,821                      |
| Other receivables                                 | 45,576             | 7,945              | 37,631                      |
| Deposits and other receivables                    | 7,350              | 1,140              | 6,210                       |
| <b>Total</b>                                      | <b>767,795</b>     | <b>628,269</b>     | <b>139,526</b>              |
| Short term loans                                  | 58,137             | 15,000             | 43,137                      |
| Trade payables                                    | 87,946             | 61,570             | 26,376                      |
| Other payables, excluding derivatives instruments | 86,461             | 55,213             | 31,248                      |
| Loans from bank and others, and debentures        | 1,765,563          | 1,701,679          | 63,884                      |
| <b>Total</b>                                      | <b>1,998,107</b>   | <b>1,833,462</b>   | <b>164,645</b>              |
| Net monetary position                             | (1,230,312)        | (1,205,193)        | (25,119)                    |
| Derivative instruments                            | (36,909)           | (36,909)           | -                           |
| <b>Net position</b>                               | <b>(1,267,221)</b> | <b>(1,242,102)</b> | <b>(25,119)</b>             |

Management considers that due to the net position maintained by the Group currencies, the effect of the expected changes in exchange rates have no significant impact on its consolidated income statement as of December 31, 2016, 2015 and 2014.

**Sensitivity analysis**

A strengthening at the rate of 5%–10% of the dollar exchange rate against the Sol, DR Peso, Bolivian Peso, Chilean Peso, Quetzal and Euro would have increased (decreased) the income or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

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| <i>In thousands of U.S. dollars</i> | <b>10% increase</b> | <b>5% increase</b> | <b>5% decrease</b> | <b>10% decrease</b> |
|-------------------------------------|---------------------|--------------------|--------------------|---------------------|
| <b>December 31, 2016</b>            |                     |                    |                    |                     |
| Dollar / Sol                        | 6,193               | 2,933              | (2,654)            | (5,067)             |
| Dollar / DR Peso                    | 371                 | 176                | (159)              | (303)               |
| Dollar / Quetzal                    | (41,599)            | (19,705)           | 17,828             | 34,036              |
| Dollar / Bolivian Peso              | (4,747)             | (2,248)            | 2,034              | 3,884               |
| Dollar / Chilean Peso               | (5,382)             | (2,549)            | 2,306              | 4,403               |
| Dollar / Other                      | 531                 | 252                | (228)              | (435)               |
| <b>December 31, 2015</b>            |                     |                    |                    |                     |
| Dollar / Sol                        | 6,234               | 2,953              | (2,672)            | (5,101)             |
| Dollar / DR Peso                    | 661                 | 313                | (283)              | (541)               |
| Dollar / Bolivian Peso              | (4,368)             | (2,069)            | 1,872              | 3,574               |
| Dollar / Chilean Peso               | (1,527)             | (723)              | 654                | 1,249               |
| Dollar / Other                      | 23                  | 11                 | (10)               | (20)                |
| <b>December 31, 2014</b>            |                     |                    |                    |                     |
| Dollar / Sol                        | 2,059               | 975                | (882)              | (1,685)             |
| Dollar / DR Peso                    | 1,128               | 534                | (483)              | (923)               |
| Dollar / Bolivian Peso              | (4,866)             | (2,305)            | 2,085              | 3,981               |
| Dollar / Chilean Peso               | (1,407)             | (666)              | 603                | 1,151               |
| Dollar / Other                      | 253                 | 119                | (107)              | (203)               |

**J. Fair value of financial assets and liabilities**

Accounting standards define a financial instrument as cash, ownership in an entity, or a contract by means of which the contractual right or obligation to receive or deliver cash or another financial instrument has been vested in or imposed on an entity.

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

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

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

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

Although Management uses its best judgment in estimating the fair value of these financial instruments, there are inherent weaknesses in any estimation technique. As a result, the fair value may not be indicative of the net realizable or liquidation value.

As of December 31, 2016, 2015 and 2014, management considers that the book values of the financial instruments do not differ significantly from their estimated fair values; based on the methodologies and assumptions mentioned below:

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- Cash and cash equivalents items and short-term deposits do not represent a credit risk or significant interest rate risk. Therefore, it has been assumed that their carrying value is approximate to their market value.
- Derivative financial instruments are recorded at their estimated market value; therefore, there are no differences between their carrying value and their estimated market value.
- For accounts receivable and payable with a maturity of less than one year, it has been considered that their fair values are not significantly different from their carrying values.
- For short term loans and long-term interest bearing borrowings that accrue interest contracted at fixed rates, it has been estimated that their book value does not differ significantly from their market value, insofar as the interest rates of loans in effect do not differ significantly compared to year-end market interest rates.

### K. Hierarchy of fair value

The following table presents an analysis of the financial instruments measured at fair value, using an evaluation method. The various levels were defined as follows:

Level 1: Quoted prices (not adjusted) in an active market for identical instruments. Level 2: Observed data, direct or indirect, not included in Level 1 above.

| <i>In thousands of U.S. dollars</i> | Level 1 | Level 2       | Total         |
|-------------------------------------|---------|---------------|---------------|
| <b>December 31, 2016</b>            |         |               |               |
| Liabilities                         |         |               |               |
| Derivatives used for hedging        | -       | 22,865        | 22,865        |
| Derivatives not used for hedging    | -       | 2,125         | 2,125         |
|                                     | -       | <b>24,990</b> | <b>24,990</b> |
| Assets                              |         |               |               |
| Derivatives not used for hedging    | -       | 111           | 111           |
|                                     | -       | <b>111</b>    | <b>111</b>    |
| <b>December 31, 2015</b>            |         |               |               |
| Liabilities                         |         |               |               |
| Derivatives used for hedging        | -       | 44,909        | 44,909        |
| Derivatives not used for hedging    | -       | 3,276         | 3,276         |
|                                     | -       | <b>48,185</b> | <b>48,185</b> |
| Assets                              |         |               |               |
| Derivatives used for hedging        | -       | -             | -             |
| Derivatives not used for hedging    | -       | 161           | 161           |
|                                     | -       | <b>161</b>    | <b>161</b>    |
| <b>December 31, 2014</b>            |         |               |               |
| Liabilities                         |         |               |               |
| Derivatives used for hedging        | -       | 33,115        | 33,115        |
| Derivatives not used for hedging    | -       | 4,116         | 4,116         |
|                                     | -       | <b>37,231</b> | <b>37,231</b> |
| Assets                              |         |               |               |
| Derivatives used for hedging        | -       | -             | -             |
| Derivatives not used for hedging    | -       | 322           | 322           |
|                                     | -       | <b>322</b>    | <b>322</b>    |

The Company has utilized market comparison techniques to estimate the fair value of its derivatives.

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The fair values are based on broker quotes. Similar contracts are traded in an active market and the quotes reflect the actual transactions in similar instruments.

**L. Accounting classifications and fair values.**

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

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|   | Carrying amount  |                          |                                |                  |                      | Fair value         |                             |           |         |           |         |           |
|---|------------------|--------------------------|--------------------------------|------------------|----------------------|--------------------|-----------------------------|-----------|---------|-----------|---------|-----------|
|   | Held-for trading | Designated at fair value | Fair value-hedging instruments | Held-to-maturity | Loan and receivables | Available for sale | Other financial liabilities | Total     | Level 1 | Level 2   | Level 3 | Total     |
| <i>In thousands of U.S. dollars</i>                     |                  |                          |                                |                  |                      |                    |                             |           |         |           |         |           |
| <b>Financial assets measured at fair value</b>          |                  |                          |                                |                  |                      |                    |                             |           |         |           |         |           |
| Interest rate swap not used for hedging                 | 111              | -                        | -                              | -                | -                    | -                  | -                           | 111       | -       | 111       | -       | 111       |
|   | 111              | -                        | -                              | -                | -                    | -                  | -                           | 111       | -       | 111       | -       | 111       |
| <b>Financial assets not measured at fair value</b>      |                  |                          |                                |                  |                      |                    |                             |           |         |           |         |           |
| Cash and cash equivalents                               | -                | -                        | -                              | -                | 172,695              | -                  | -                           | 172,695   | -       | -         | -       | -         |
| Short term deposits and restricted cash                 | -                | -                        | -                              | -                | 58,219               | -                  | -                           | 58,219    | -       | -         | -       | -         |
| Trade receivables                                       | -                | -                        | -                              | -                | 259,873              | -                  | -                           | 259,873   | -       | -         | -       | -         |
| Other receivables                                       | -                | -                        | -                              | -                | 29,325               | -                  | -                           | 29,325    | -       | -         | -       | -         |
| Deposits and other receivables                          | -                | -                        | -                              | -                | 26,706               | -                  | -                           | 26,706    | -       | -         | -       | -         |
|   | -                | -                        | -                              | -                | 546,818              | -                  | -                           | 546,818   | -       | -         | -       | -         |
| <b>Financial liabilities measured at fair value</b>     |                  |                          |                                |                  |                      |                    |                             |           |         |           |         |           |
| Interest rate swap used for hedging                     | -                | -                        | 22,865                         | -                | -                    | -                  | -                           | 22,865    | -       | 22,865    | -       | 22,865    |
| Interest rate swap not used for hedging                 | 2,125            | -                        | -                              | -                | -                    | -                  | -                           | 2,125     | -       | 2,125     | -       | 2,125     |
|   | 2,125            | -                        | 22,865                         | -                | -                    | -                  | -                           | 24,990    | -       | 24,990    | -       | 24,990    |
| <b>Financial liabilities not measured at fair value</b> |                  |                          |                                |                  |                      |                    |                             |           |         |           |         |           |
| Loan from banks and others                              | -                | -                        | -                              | -                | -                    | -                  | 1,590,756                   | 1,590,756 | -       | 1,842,632 | -       | 1,842,632 |
| Liabilities in respect of finance leases                | -                | -                        | -                              | -                | -                    | -                  | 88,169                      | 88,169    | -       | 90,576    | -       | 90,576    |
| Debentures  | -                | -                        | -                              | -                | -                    | -                  | 867,287                     | 867,287   | -       | 947,786   | -       | 947,786   |
| Guarantee deposits from customers                       | -                | -                        | -                              | -                | -                    | -                  | 56,833                      | 56,833    | -       | -         | -       | -         |
| Trade payables  | -                | -                        | -                              | -                | -                    | -                  | 297,013                     | 297,013   | -       | -         | -       | -         |
| Other payables  | -                | -                        | -                              | -                | -                    | -                  | 49,681                      | 49,681    | -       | -         | -       | -         |
|   | -                | -                        | -                              | -                | -                    | -                  | 2,949,739                   | 2,949,739 | -       | 2,880,994 | -       | 2,880,994 |

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| December 31, 2015                                       | Carrying amount  |                          |                                |                  | Fair value           |                    |                             |                  |         |                  |         |                  |
|---|------------------|--------------------------|--------------------------------|------------------|----------------------|--------------------|-----------------------------|------------------|---------|------------------|---------|------------------|
|   | Held-for trading | Designated at fair value | Fair value-hedging instruments | Held-to-maturity | Loan and receivables | Available for sale | Other financial liabilities | Total            | Level 1 | Level 2          | Level 3 | Total            |
| <i>In thousands of U.S. dollars</i>                     |                  |                          |                                |                  |                      |                    |                             |                  |         |                  |         |                  |
| <b>Financial assets measured at fair value</b>          |                  |                          |                                |                  |                      |                    |                             |                  |         |                  |         |                  |
| Interest rate swap not used for hedging                 | 161              | -                        | -                              | -                | -                    | -                  | -                           | 161              | -       | 161              | -       | 161              |
|   | <b>161</b>       | -                        | -                              | -                | -                    | -                  | -                           | <b>161</b>       | -       | <b>161</b>       | -       | <b>161</b>       |
| <b>Financial assets not measured at fair value</b>      |                  |                          |                                |                  |                      |                    |                             |                  |         |                  |         |                  |
| Cash and cash equivalents                               | -                | -                        | -                              | -                | 239,109              | -                  | -                           | 239,109          | -       | -                | -       | -                |
| Short term deposits and restricted cash                 | -                | -                        | -                              | -                | 208,809              | -                  | -                           | 208,809          | -       | -                | -       | -                |
| Trade receivables                                       | -                | -                        | -                              | -                | 91,967               | -                  | -                           | 91,967           | -       | -                | -       | -                |
| Other receivables                                       | -                | -                        | -                              | -                | 12,859               | -                  | -                           | 12,859           | -       | -                | -       | -                |
| Deposits and other receivables                          | -                | -                        | -                              | -                | 18,415               | -                  | -                           | 18,415           | -       | -                | -       | -                |
|   | -                | -                        | -                              | -                | <b>571,159</b>       | -                  | -                           | <b>571,159</b>   | -       | -                | -       | -                |
| <b>Financial liabilities measured at fair value</b>     |                  |                          |                                |                  |                      |                    |                             |                  |         |                  |         |                  |
| Interest rate swap used for hedging                     | -                | -                        | 44,059                         | -                | -                    | -                  | -                           | 44,059           | -       | 44,059           | -       | 44,059           |
| Forward exchange contracts used for hedging             | -                | -                        | 850                            | -                | -                    | -                  | -                           | 850              | -       | 850              | -       | 850              |
| Interest rate swap not used for hedging                 | 3,276            | -                        | -                              | -                | -                    | -                  | -                           | 3,276            | -       | 3,276            | -       | 3,276            |
|   | <b>3,276</b>     | -                        | <b>44,909</b>                  | -                | -                    | -                  | -                           | <b>48,185</b>    | -       | <b>48,185</b>    | -       | <b>48,185</b>    |
| <b>Financial liabilities not measured at fair value</b> |                  |                          |                                |                  |                      |                    |                             |                  |         |                  |         |                  |
| Loan from banks and others                              | -                | -                        | -                              | -                | -                    | -                  | 1,239,024                   | 1,239,024        | -       | 1,365,669        | -       | 1,365,669        |
| Liabilities in respect of finance leases                | -                | -                        | -                              | -                | -                    | -                  | 163,774                     | 163,774          | -       | 175,957          | -       | 175,957          |
| Debentures  | -                | -                        | -                              | -                | -                    | -                  | 671,247                     | 671,247          | -       | 764,878          | -       | 764,878          |
| Trade payables  | -                | -                        | -                              | -                | -                    | -                  | 109,703                     | 109,703          | -       | -                | -       | -                |
| Other payables  | -                | -                        | -                              | -                | -                    | -                  | 79,803                      | 79,803           | -       | -                | -       | -                |
|   | -                | -                        | -                              | -                | -                    | -                  | <b>2,263,551</b>            | <b>2,263,551</b> | -       | <b>2,306,504</b> | -       | <b>2,306,504</b> |

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| <i>In thousands of U.S. dollars</i>                     | Carrying amount  |                          |                                |                  |                      | Fair value         |                             |                  |         |                  |         |                  |
|---|------------------|--------------------------|--------------------------------|------------------|----------------------|--------------------|-----------------------------|------------------|---------|------------------|---------|------------------|
|   | Held-for trading | Designated at fair value | Fair value-hedging instruments | Held-to-maturity | Loan and receivables | Available for sale | Other financial liabilities | Total            | Level 1 | Level 2          | Level 3 | Total            |
| <b>Financial assets measured at fair value</b>          |                  |                          |                                |                  |                      |                    |                             |                  |         |                  |         |                  |
| Interest rate swap not used for hedging                 | 322              | -                        | -                              | -                | -                    | -                  | -                           | 322              | -       | 322              | -       | 322              |
|   | <b>322</b>       | -                        | -                              | -                | -                    | -                  | -                           | <b>322</b>       | -       | <b>322</b>       | -       | <b>322</b>       |
| <b>Financial assets not measured at fair value</b>      |                  |                          |                                |                  |                      |                    |                             |                  |         |                  |         |                  |
| Cash and cash equivalents                               | -                | -                        | -                              | -                | 424,178              | -                  | -                           | 424,178          | -       | -                | -       | -                |
| Short term deposits and restricted cash                 | -                | -                        | -                              | -                | 150,593              | -                  | -                           | 150,593          | -       | -                | -       | -                |
| Trade receivables                                       | -                | -                        | -                              | -                | 140,098              | -                  | -                           | 140,098          | -       | -                | -       | -                |
| Other receivables                                       | -                | -                        | -                              | -                | 45,576               | -                  | -                           | 45,576           | -       | -                | -       | -                |
| Deposits and other receivables                          | -                | -                        | -                              | -                | 7,350                | -                  | -                           | 7,350            | -       | -                | -       | -                |
| Interest rate swap not used for hedging                 | -                | -                        | -                              | -                | -                    | -                  | -                           | -                | -       | -                | -       | -                |
|   | -                | -                        | -                              | -                | <b>767,795</b>       | -                  | -                           | <b>767,795</b>   | -       | -                | -       | -                |
| <b>Financial liabilities measured at fair value</b>     |                  |                          |                                |                  |                      |                    |                             |                  |         |                  |         |                  |
| Interest rate swap used for hedging                     | -                | -                        | 27,713                         | -                | -                    | -                  | -                           | 27,713           | -       | 27,713           | -       | 27,713           |
| Forward exchange contracts used for hedging             | -                | -                        | 5,402                          | -                | -                    | -                  | -                           | 5,402            | -       | 5,402            | -       | 5,402            |
| Interest rate swap not used for hedging                 | 4,116            | -                        | -                              | -                | -                    | -                  | -                           | 4,116            | -       | 4,116            | -       | 4,116            |
|   | <b>4,116</b>     | -                        | <b>33,115</b>                  | -                | -                    | -                  | -                           | <b>37,231</b>    | -       | <b>37,231</b>    | -       | <b>37,231</b>    |
| <b>Financial liabilities not measured at fair value</b> |                  |                          |                                |                  |                      |                    |                             |                  |         |                  |         |                  |
| Loan from banks and others                              | -                | -                        | -                              | -                | -                    | -                  | 926,210                     | 926,210          | -       | 986,907          | -       | 986,907          |
| Liabilities in respect of finance leases                | -                | -                        | -                              | -                | -                    | -                  | 193,538                     | 193,538          | -       | 212,835          | -       | 212,835          |
| Debentures  | -                | -                        | -                              | -                | -                    | -                  | 703,952                     | 703,952          | -       | 819,572          | -       | 819,572          |
| Loan from parent company                                | -                | -                        | -                              | -                | -                    | -                  | -                           | -                | -       | -                | -       | -                |
| Trade payables  | -                | -                        | -                              | -                | -                    | -                  | 87,946                      | 87,946           | -       | -                | -       | -                |
| Other payables  | -                | -                        | -                              | -                | -                    | -                  | 86,461                      | 86,461           | -       | -                | -       | -                |
|   | -                | -                        | -                              | -                | -                    | -                  | <b>1,998,107</b>            | <b>1,998,107</b> | -       | <b>2,019,314</b> | -       | <b>2,019,314</b> |

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**M. Measurement of fair values**

The following table shows the valuation techniques used in measuring Level 2 fair values as at December 31, 2016, 2015 and 2014, as well as the significant unobservable inputs used.

| Type                                     | Valuation technique   | Significant unobservable data | Inter-relationship between significant unobservable inputs and fair value measurement |
|--|---|-------------------------------|---|
| Interest rate Swaps                      | The group applies standard valuation techniques such as: <i>discounted cash flows</i> for fixed and variables coupons (estimated with forward curves) using as discounted rates the <i>projected LIBOR zero coupon curve</i> . The observable inputs are obtained through market information suppliers. | Not applicable                | Not applicable  |
| Foreign Exchange Forwards                | The Group applies standard valuation techniques which include market observable parameters such as the implicit exchange rate calculated with forward points. These variables are obtained through market information suppliers.  | Not applicable                | Not applicable  |
| Credit from banks, others and debentures | Discounted cash flows with market interest rate   | Not applicable                | Not applicable  |

**27. Commitments**

**A. Inkia Energy Ltd**

As of December 31, 2016, Inkia has issued stand by letters of credit for a total amount of US\$ 53,664 thousand for guarantee, as follows:

| Guarantee party        | Description                      | Amount (In thousand) |
|------------------------|----------------------------------|----------------------|
| Inkia Energy Ltd.      | Contingent equity for over costs | 15,729               |
| Samay I S.A.           | Contract compliance              | 15,000               |
| Kanan overseas I, Inc  | Power Purchase agreement         | 9,534                |
| Kanan overseas I, Inc  | Power Purchase agreement         | 7,334                |
| Kanan overseas I, Inc  | Spot purchases                   | 4,000                |
| Kanan overseas II, Inc | Power Purchase agreement         | 1,467                |
| Kanan overseas I, Inc  | Storage and handling agreement   | 600                  |

**B. Kallpa, Peru**

**Power Purchase Agreements (PPA)**

As of December 31, 2016, Kallpa has entered into thirty two PPAs with unregulated consumers to provide capacity and the associated energy of 621 MW (twenty seven PPAs of 522 MW as of December 31, 2015). These contracts have various commencement dates, and have expiration dates between 2013 and 2028. Also, as of December 31, 2016, the Kallpa has signed twenty seven PPAs with 7 distribution companies for 590 MW (thirteen PPAs with 8 distribution companies for 660 MW as of December 31, 2015).

The Peruvian market functions on the marginal cost method in which the generators bid their



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marginal cost to the market regulator who instructs the most efficient generators to produce electricity for the system. In the event the Kallpa is not capable to meet its commitments under the contracts, the Kallpa will be required to purchase energy in the spot market.

**Gas supply and transportation**

Kallpa purchases its natural gas for its generation facilities from the Camisea consortium under an exclusive natural gas supply agreement dated January 2, 2006, as amended. Under this agreement, the Camisea Consortium has agreed to supply Kallpa's natural gas requirements, subject to a daily maximum amount and Kallpa has agreed to acquire natural gas exclusively from the Camisea Consortium.

The Camisea consortium is obligated to provide a maximum of 4,250,000 cubic meters of natural gas per day to Kallpa's plant and Kallpa is obligated to purchase a minimum of approximately 2,225,000 cubic meters of natural gas per day as follows:

|                    | <b>Cubic meters per day</b>             |                             |
|--------------------|---|-----------------------------|
|                    | <b>To be provided<br/>by Consortium</b> | <b>Minimum<br/>purchase</b> |
| First gas turbine  | 1,200,000                               | 648,000                     |
| Second gas turbine | 1,300,000                               | 702,000                     |
| Third gas turbine  | 1,300,000                               | 650,000                     |
| Combined cycle     | 450,000                                 | 225,000                     |
|                    | <b>4,250,000</b>                        | <b>2,225,000</b>            |

In the event that Kallpa fails to consume the contracted minimum on any given day, it may make up the consumption volume shortage on any day during the following 18 months.

The price that Kallpa pays to the Camisea consortium for the natural gas supplied is based on a base price in U.S. dollars set on the date of the agreement, indexed each year based on two producer price indices: fuels and related products power index and oil field and gas field machinery index with discounts available based on the volume of natural gas consumed. This agreement expires in June 2022.

Kallpa's natural gas transportation services are rendered by Transportadora de Gas del Perú S.A. (TGP) pursuant to a natural gas firm transportation agreement dated December 2007, as amended. In April 2014, this agreement was further modified to include the transportation agreement between Duke Energy Egenor S. en C. por A. and Las Flores. These agreements expire in December 2033.

Additionally, Kallpa is party to two additional natural gas transportation agreements that expire in April 2030 and April 2033, respectively.

Set forth below is a summary of the natural gas transportation services under these agreements (in cubic meters of gas per day):

|                                   | <b>Firm</b> | <b>Interruptible</b> |
|-----------------------------------|-------------|----------------------|
| Initial Date – April 21, 2016     | 3,474,861   | 1,329,593            |
| April 22, 2016 - March 20, 2020   | 4,854,312   | 764,463              |
| March 20, 2020 - January 1, 2021  | 4,655,000   | 764,463              |
| January 2, 2021 - March 31, 2030  | 4,655,000   | 530,000              |
| April 1, 2030 - March 31, 2033    | 3,883,831   | 1,301,169            |
| April 1, 2033 - December 31, 2033 | 2,948,831   | 1,301,169            |

Natural gas distribution services are rendered by Cálidda, under two natural gas distribution agreements. Under such agreements, which expire on December 31, 2033, Cálidda is obliged to

distribute up to approximately 3,710,000 cubic meters of natural gas per day to Kallpa – combined – cycle plant and 1,144,312 cubic meters of natural gas per day to Las Flores power plant.

### **C. Samay I, Peru**

#### ***Power Node Bid Awarded***

On November 29, 2013, Samay I won one of the public bid auctions promoted by the Peruvian Investment Promotion Agency (“Proinversion”) to build an open cycle diesel and natural gas (dual-fired) thermoelectric plant in Mollendo, Arequipa (southern Peru), with an installed capacity of approximately 616MW (when operated with diesel fuel). The two-bid auction, which was won by Samay I and a subsidiary of Engie, is part of an effort by the Peruvian government to promote the construction of a power node in southern Peru, which will be fueled by natural gas once a natural gas pipeline (the Gasoducto Sur Peruano) delivers gas to the area.

The Samay I plant is expected to have three operational stages. First, it will operate as a cold reserve plant with diesel until natural gas becomes available in the area through a pipeline currently under construction. It is uncertain when the pipeline will be completed. Second, once natural gas becomes available to the facility through the new natural gas pipeline, the Samay I plant will have the obligation to operate as a natural gas-fired power plant and will be able to do so with minor investments by us in Samay I’s facilities. When fueled by natural gas, the Samay I plant will have an installed capacity of approximately 720 MW. Finally, following an additional investment in the conversion of the Samay I plant, which we have not committed to make, the Samay I plant could operate as a combined cycle thermoelectric plant, which would increase Samay I’s installed capacity to approximately 1,080 MW. Samay I has entered into an agreement with the State of Peru, with a term of 20 years, under which Samay I will receive fixed monthly capacity payments denominated in U.S. Dollars and we will pass-through all of the variable costs during the cold reserve phase. The amount of monthly payments required to make up the total amount to which Samay I is entitled will be calculated by the COES, and will be paid by all generators that form part of SEIN who, in their turn collect the corresponding fee from their customers through a surcharge in the transmission tariffs applicable to, and payable by, all end consumers. The surcharge does not involve the use of state funds or any appropriation process, being a mechanism that has been used for almost 20 years in Peru to cover the cost of various energy projects.

In addition to receiving a 20-year stream of capacity payments, Samay I has an advantage in being one of only two power generation companies that have defined rights to a natural gas supply and transportation capacity once the Gasoducto Sur Peruano is completed. The developer of such pipeline has a contractual obligation under its concession agreement with the State of Peru to build a branch of the pipeline to connect it with the Samay I plant. Our strategic development of the Samay I plant will provide us with a significant advantageous position in the future southern Peru power node, which will develop once the Gasoducto Sur Peruano is completed. Pursuant to the terms of its tender, Samay I must receive gas and transportation services pursuant to terms which are similar to other power plants located in other parts of Peru and served by the existing TGP pipe line, such as the Kallpa plant. According to Law 29970, natural gas transportation costs of the Samay I plant will be eventually subsidized by additional tariffs on the electricity transmission toll periodically determined by OSINERGMIN with the purpose of decentralizing the generation of electricity with natural gas, which is one of the main purposes of the State of Peru developing the southern Peru power node. ElectroPerú has commenced negotiations with suppliers and concessionaires for the supply and transport of natural gas to each of Samay I and the other plant with a defined right to the firm supply of natural gas. However, as ElectroPerú may not be successful in obtaining an agreement which conforms to the conditions as contemplated in the tender documents of the cold reserve bidding process, we believe Samay I has the right to reject entering into any supply and transportation agreements which do not comply with the conditions set forth in its tender.

**D. CDA, Peru**

***Power Purchase Agreements (PPA)***

CDA has entered into three PPAs—a 15-year PPA with ElectroPerú covering 200 MW of capacity and the associated energy that commences in 2016, a 10-year PPA with Luz del Sur S.A.A., Edelnor and Edecañete, covering 202 MW of capacity and the associated energy that commenced in January 2018 and a 10-year PPA with Edelnor and Luz de Sur, covering 81 MW that commences in January 2022 which will account for a significant portion of CDA's expected generation capacity. The PPA with ElectroPerú is denominated in U.S. Dollars and is indexed to the U.S. producer price index. Although CDA operates a hydroelectric plant, its PPAs are indexed to natural gas prices, exposing CDA to fluctuations in such prices.

**E. Energuate, Guatemala**

***Power Purchase Agreement and Spot Market Purchases***

Energuate purchases the electricity to be distributed for customers through PPAs with generation companies including, for example, our subsidiary Puerto Quetzal. Guatemalan distribution companies are required by the General Electricity Law to maintain PPAs with generating companies at all times to cover 100% of the maximum expected demand for the current year, as well as the next year. Should the contracted capacity and electricity under its PPAs be insufficient to meet the demand of its customers, Energuate makes purchases on the spot market, only if authorized by CNEE.

As of December 31, 2016, Energuate was party to over 80 PPAs. Distribution companies can only purchase capacity and energy and enter into PPAs through a public bidding process supervised by the CNEE.

The following table sets forth the supplier, the amount of contracted capacity and the expiration date of Energuate's PPAs entered into with our five largest suppliers of capacity as of December 31, 2016, covering 67% of our collective contracted capacity.

| <b>Supplier</b>             | <b>Contracted capacity (MW)</b> | <b>Expiration date</b> |
|-----------------------------|---------------------------------|------------------------|
| Jaguar Energy Guatemala LLC | 200                             | April 2030             |
| INDE                        | 162                             | April 2017 –April 2032 |
| Energía del Caribe          | 60                              | April 2030             |
| Renace, S.A.                | 55                              | April 2030 –April 2033 |
| Hidro Xacbal, S.A.          | 30                              | April 2030 –April 2032 |

Under most of its PPAs, Energuate pays a capacity and an energy charges. Energuate pays a specified amount for each MW of capacity purchased under these PPAs and an electricity charge for the kWh of electricity actually delivered to Energuate. Most of Energuate's PPAs also provide that the electricity charge is indexed to changes in published quotations for the type of fuel used by the generator. In addition, Energuate is required to pay certain additional costs incurred by the generators to provide electricity including connection costs, transmission tolls, additional costs imposed by the CNEE and other similar costs.

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In addition, Energuate has entered into 59 PPAs that will begin starting 2017. The following table establish the five largest suppliers for these contracts covering 69% of its contracted capacity for next years.

| Supplier                         | Contracted capacity (MW) | Expiration date         |
|----------------------------------|--------------------------|-------------------------|
| Ingenio la Unión S.A.            | 90                       | April 2018 – April 2020 |
| Ingenio Magdalena                | 72                       | April 2018 –April 2032  |
| INDE                             | 51                       | April 2018 - April 2032 |
| Renace S.A.                      | 31                       | April 2030 –April 2033  |
| Energía Limpia de Guatemala S.A. | 21                       | April 2032              |

**F. Cobee, Bolivia**

***Concession from the Bolivia Government***

As of December 2010, COBEE was engaged in the generation of electricity under a concession granted to it by the Government of Bolivia, in October 1990 for a period of 40 years. The Bolivian government unilaterally transformed by supreme decree, all concessions to generate, transmit and distribute electricity to special temporary licenses. However, to date, the government has not issued regulations nor approved any procedure or guideline to convert such special temporary licenses into permanent licenses.

***Power Purchase Agreement (PPA)***

In March 2008, COBEE signed a long-term PPA agreement with Minera San Cristobal. Pursuant to the agreement, COBEE will supply 43 MW of availability and energy, commencing from December 22, 2008. The PPA agreement provides a fixed price for availability, and an energy price that is linked to the price of natural gas for production of electricity in Bolivia. Surplus energy and availability are sold in the spot market. The PPA agreement is scheduled to expire in October 2017.

In December 2011, the Bolivian Government amended the applicable law to prohibit generation companies from entering into new PPAs. Therefore, COBEE will be unable to extend or replace this PPA, under which we have contracted 18.9% of COBEE's installed capacity

**G. Nejapa El Salvador**

***Power Purchase Agreement***

In May 2013, Nejapa entered into two PPAs that were awarded as a result of two tenders for 71.2 MW and 38.8 MW of capacity, with 54-month and 48-month terms, respectively. Each PPA was divided among the seven distribution companies that conducted the tenders. The term of each PPA commenced in August 2013.

In December 2014, Nejapa entered into PPA with seven distribution companies for 30 MW of capacity with 36-month term starting from January 2015.

**H. Poliwatt, Guatemala**

***Power Purchase Agreements (PPA)***

As of December 31, 2016, Poliwatt has entered into thirteen PPAs with no related parties to provide capacity and energy of 175 MW. These contracts have various commencement dates, and vary in duration between 2017 and 2020.

Also, Poliwatt has entered into seven PPAs with related parties as of December 31, 2016, to provide capacity and energy of 69 MW. These contracts have various commencement dates, and vary in duration between 2017 and 2020.

**I. IC Power Nicaragua, Nicaragua**

***Power Purchase Agreements (PPA)***

As of December 31, 2016, Tipitapa Power Company and Empresa Energetica Corinto have entered into two PPAs with Distribuidora de Electricidad del Norte (“DISNORTE”) and Distribuidora de Electricidad del Sur (“DISSUR”) to supply and sell energy and capacity.

In addition, Consorcio Eólico Amayo and Consorcio Eólico Amayo (Fase II) also entered into PPAs with these distribution companies, and are committed to supply and sell all the energy at the supply node as part of the wholesale market.

These contracts have various commencement dates, and vary in duration, as follows:

| <b>Company</b>                   | <b>Commencement</b> | <b>Expiration</b> | <b>Contracted Capacity (MW)</b> |
|----------------------------------|---------------------|-------------------|---------------------------------|
| Tipitapa Power Company           | June 1999           | December 2018     | 51                              |
| Empresa Energetica Corinto       | April 1999          | December 2018     | 50                              |
| Consorcio Eólico Amayo           | March 2009          | March 2024        | 40                              |
| Consorcio Eólico Amayo (Fase II) | March 2010          | March 2025        | 23                              |

**J. Kanan overseas I, Inc, Panama**

***Power Purchase Agreement***

In October 2014, Kanan was awarded a contract to supply energy with a maximum contractual capacity of 86 megawatts with distributions companies for a 5 year term that effective started in December 2015. For such purpose, Kanan reached commercial operations in April 2016.

**K. Jamaica Power Private Company (JPPC), Jamaica**

***Power Purchase Agreement***

JPPC entered into a Power Purchase Agreement with Jamaica Public Service Company Limited (JPS). JPS will purchase the contract capacity (60MW), as defined, at specified rates under a dispatchable arrangement. The agreement expires 20 years in January 2018 and may be extended for successive periods of 5 years upon mutual agreement.

**28. Contingent Liabilities**

The main contingencies for the Group's subsidiaries and associates are described as follows:

**A. Kallpa Generación S.A.**

***Import tax assessment against Kallpa***

Since 2010, the Peru Customs Authority (known as “SUNAT” for its abbreviation in Spanish) issued tax assessments to Kallpa and its lenders for payment of import taxes allegedly owed by Kallpa in connection with imported equipment for installation and construction of Kallpa I, II, III and IV. The assessments were issued on the basis that Kallpa did not include the value of the engineering services rendered by the contractor of the project in the tax base to determinate the import taxes. Kallpa disagrees with this tax assessment on the grounds that the engineering services rendered include the design of the plant itself as opposed to the design of the imported equipment. Kallpa appealed the tax assessments before SUNAT in first instance and before the Peruvian Tax Tribunal (known as “Tribunal Fiscal”) in second instance. SUNAT and the Peruvian Tax Court are administrative institutions under the Ministry of Economy and Finance.

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In January 2015, the Tax Court rejected Kallpa's appeal regarding the Kallpa I assessment. Kallpa disagreed with the Tax Court's decision and, on April 15, 2015, filed a judicial action (Demanda Contencioso Administrativa) before the Superior Court of Lima. In order to file such appeal, Kallpa was required to pay the amounts paid by SUNAT which was S/ 37,564 thousand (US\$ 12,284 thousand). Subsequently, Kallpa recovered the VAT related to this amount. As of December 31, 2016 and 2015 the remaining amount is approximately S/ 32,546 thousand (US\$ 9,709 thousand and 9,550 thousand, respectively).

On September 12, 2016, the Superior Court of Lima issued a ruling on the Kallpa I case declaring its claims to be groundless. Kallpa disagreed with the Court's decision and, on September 21, 2016, filed an appeal. As of December 31, 2016, the Kallpa I assessment liability (including tax, fines and interest) is nil as Kallpa has already paid the total amount under discussion. In this sense, a favorable result of the process would imply a refund of the amounts paid

On January 27, 2016, the amount of the claim in connection with Kallpa IV was reduced in S/ 17,220 thousand (US\$ 5,240 thousand) without interests, from S/ 17,719 thousand to S/ 499 thousand (from US\$ 5,392 thousand to US\$ 152 thousand) referred to the engineering services assessment. On February 12, 2016, Kallpa filed an appeal to the Tax Court against the part of the resolution that refers to the insurance, which is still pending of resolution.

As of December 31, 2016, the total tax exposure related to these assessments is as follows:

|              |                        | Amount           | Amount             |
|--------------|------------------------|------------------|--------------------|
|              | Stage                  | (In thousand S/) | (In thousand US\$) |
| Kallpa I     | Superior Court of Lima | 32,546           | 9,709              |
| Kallpa II    | Peruvian Tax Court     | 22,982           | 6,840              |
| Kallpa III   | Peruvian Tax Court     | 22,253           | 6,623              |
| Kallpa IV    | Peruvian Tax Court     | 1,280            | 381                |
| <b>Total</b> |                        | <b>79,061</b>    | <b>23,553</b>      |

Management and the Company's legal advisors are of the opinion that Kallpa's appeals will be more likely than not be successful; accordingly, no provision was recognized in the financial statements.

### ***Income Tax Audit corresponding to the year 2012***

On February 15, 2016, as a result of the 2012 income tax audit, SUNAT issued a preliminary income tax assessment against us on the basis that certain interest accrued on our debt and some maintenance expenses amounting to approximately S/ 21,988 thousand (approximately US\$ 6,279 thousand) should not have been deducted from our 2012 taxable income but rather treated as an asset.

On March 11, 2016, SUNAT issued a final tax assessment for approximately S/ 16,528 thousand (approximately US\$ 4,886 thousand), related to the interest expenses accrued during the construction of the steam turbine (Kallpa IV) as part of the combined-cycle conversion of the plant. This tax assessment has been confirmed with SUNAT resolution (*Resolución de Determinación*) notified to Kallpa on April 18, 2016. On May 16, 2016, Kallpa filed a complaint appeal against the SUNAT assessment which was rejected by SUNAT through a resolution (*Resolución de Intendencia*) notified on February 14, 2017. This resolution has been appealed at the Tax Court.

As of December 31, 2016, potential tax liability regarding to this assessment is S/ 11,502 thousand (approximately US\$ 3,423 thousand), including interest and fines.

Kallpa's management and its tax counsel consider that this appeal will be more likely than not be successful as there are already resolutions issued by the Tax Court recognizing the deduction of interest expenses in similar circumstances based on the language of article 37a) of the Peruvian Income Tax Law; accordingly, no provision has been recorded in our financial statements.

**B. Distribuidora de Electricidad de Occidente S.A. (DEOCSA)**

***i. Compensations for Technical Service Quality:***

Based on the current legal framework in Guatemala, DEOCSA is obliged to compensate its customers for failures in technical service quality. The CNEE establishes parameters for continuity (number and length of interruptions) and establishes fines for failure to comply with such parameters. As of December 31, 2016, sanction processes initiated by the National Energy Electric Commission related to these fines in an aggregate amount of Q. 123,629 thousand (approximately US\$ 16,435 thousand). The recognition of these compensations to customers in accordance with the regulations issued by the CNEE depends on the following future events:

- That the service continues being rendered.
- The future consumption volume of the regulated customers with charge from power.
- The continuity of the regulation.
- That the customer files the claim or that CNEE obliges to compensation.
- The compensation mechanism is not applicable to most of the company's customers.

In the opinion of DEOCSA's management and its legal advisors, the chances of obtaining a negative impact in the processes by Q. 96,713 thousand (approximately US\$ 12,857 thousand) is remote.

In addition in the opinion of DEOCSA's management and its legal advisors it is not more likely than not that DEOCSA will pay Q. 26,916 thousand (approximately US\$ 3,578 thousand).

***ii. Sanction processes initiated by the National Energy Electric Commission (CNEE) in an aggregate amount of US\$ 2,032 thousand (Q. 15,288 thousand):***

Based on the current legal framework, DEOCSA is required to pay the CNEE penalties for non-compliance of the article 134 of the General Electricity Law and its Regulations.

In the opinion of DEOCSA's management and its legal advisors it is not more likely than not that DEOCSA will pay Q. 3,415 thousand (approximately US\$ 454 thousand).

In addition, in the opinion of DEOCSA's management and its legal advisors it is more likely than not that DEOCSA will need to pay Q. 11,873 thousand (approximately US\$ 1,578 thousand), therefore DEOCSA has recognized a provision for this amount in its financial statements.

***iii. Sanction processes initiated by the National Energy Electric Commission in an aggregate amount up to US\$ 2,941 thousand (Q. 22,120 thousand):***

The CNEE establishes minimum levels of quality for electricity services. In addition, the CNEE imposes certain obligations on distribution companies related to required quality levels, and establishes fines for failure to comply with such quality levels and other obligations that should be compensated to users. Sanctions included herein relates to failure of quality parameters of the supplied electricity (tension, frequency and disturbances), and minimum standards for customer service.

In the opinion of DEOCSA's management and its legal advisors it is not more likely than not that DEOCSA will pay Q. 5,168 thousand (approximately US\$ 687 thousand)

In addition, in the opinion of DEOCSA's management and its legal advisors it is more likely than not that DEOCSA will pay Q. 16,952 thousand (approximately US\$ 2,254 thousand), therefore DEOCSA has recorded the provision for this amount in its financial statements.

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### ***iv. Civil petitions submitted by third parties for damages and several injuries to DEOCSA in the amounts of US\$ 3,479 thousand (Q. 26,173 thousand):***

DEOCSA has consigned before the Third Civil Court of First Instance, under case 6517-2007, the amounts of US\$ 2,003 thousand (Q. 15,074 thousand) for the collection of unpaid invoices related to the social tariff of the period 2007, submitted by INDE.

In the opinion of DEOCSA's management and its legal advisors it is not more likely than not that DEOCSA will pay Q. 11,099 thousand (approximately US\$ 1,476 thousand).

In addition, in the opinion of DEOCSA's management and its legal advisors it is more likely than not that DEOCSA will need to pay Q. 15,074 thousand (approximately US\$ 2,003 thousand), therefore DEOCSA has recognized a provision for this amount in its financial statements.

### ***v. Arbitration in equality INDE***

DEOCSA is involved in an arbitration process with INDE due to the termination of a Trust Fund Contract and the Work Construction Contract of the Rural Electrification Project (PER) in Spanish which was terminated by government in 2015. In this process DEOCSA required INDE to pay for services provided for the construction of works in an amount of US\$ 1,075 thousand, as well as to obtain the final certificate of reception of the construction works under such project.

On the other hand, INDE initiated a claim against to DEOCSA alleging the infringement of the contract by the Combined Entities and required the refund of advances previously made by INDE amounting up to US\$ 6,128 thousand. Likewise it required that pertaining access rights were constituted and that a payment on damages, due to the alleged failure in the constitution of access rights for the construction of transmission lines, was performed.

In the opinion of DEOCSA's management and its legal advisors it is not more likely than not that DEOCSA will pay the amount claimed by INDE. Consequently, no provision has been recognized.

## **C. Distribuidora de Electricidad de Oriente S.A. (DEORSA)**

### ***i. Compensations for Technical Service Quality:***

Based on the current legal framework in Guatemala, DEORSA is obliged to compensate its customers for failures in technical service quality. The CNEE establishes parameters for continuity (number and length of interruptions) and establishes fines for failure to comply with such parameters. As of December 31, 2016, sanction processes initiated by the National Energy Electric Commission related to this fines in an aggregate amount of Q.121,221 thousand (approximately US\$ 16,115 thousand). The recognition of these compensations to customers in accordance with the regulations issued by the CNEE depends on the following future events:

- That the service continues being rendered.
- The future consumption volume of the regulated customers with charge from power.
- The continuity of the regulation.
- That the customer files the claim or that CNEE obliges to compensation.
- The compensation mechanism is not applicable to most of the company's customers.

In the opinion of DEORSA's management and its legal advisors, the chances of obtaining a negative impact in the processes by Q. 85,542 thousand (approximately US\$ 11,372 thousand) is remote.

In addition, in the opinion of DEORSA's management and its legal advisors, it is not more likely than not that DEOCSA will pay Q. 35,679 (approximately US\$ 4,743 thousand)



**ii. Sanction processes initiated by the National Energy Electric Commission (CNEE) in an aggregate amount of US\$ 2,039 thousand (Q. 15,338 thousand):**

Based on the current legal framework, DEORSA is required to pay the CNEE penalties for non-compliance of the article 134 of the General Electricity Law and its Regulations. In the opinion of DEORSA's management and its legal advisors it is not more likely than not that DEORSA will pay Q. 5,166 thousand (approximately US\$ 687 thousand).

In addition, in the opinion of DEORSA's management and its legal advisors it is more likely than not that DEORSA will pay Q. 10,172 thousand (approximately US\$ 1,352 thousand), therefore, DEORSA has recognized a provision for this amount in its financial statements.

**iii. Sanction processes initiated by the National Energy Electric Commission in an aggregate amount up to US\$ 6,035 thousand (Q. 45,396 thousand):**

The CNEE establishes minimum levels of quality for electricity services. In addition, the CNEE imposes certain obligations on distribution companies related to required quality levels, and establishes fines for failure to comply with such quality levels and other obligations that should be compensated to users. Sanctions included herein relates to failure of quality parameters of the supplied electricity (tension, frequency and disturbances), and minimum standards for customer service.

In the opinion of DEORSA's management and its legal advisors it is not more likely than not that DEORSA will pay Q. 28,782 thousand (approximately US\$ 3,826 thousand).

In addition, in the opinion of DEORSA's management and its legal advisors it is more likely than not that DEORSA will need to pay Q. 16,614 thousand (approximately US\$ 2,209 thousand), therefore DEORSA has recognized a provision for this amount in its financial statements.

**iv. Civil petitions submitted by third parties for damages and several injuries to DEORSA in the amounts of US\$ 4,953 thousand (Q.37,260 thousand):**

In the opinion of DEORSA's management and its legal advisors it is not more likely than not that DEORSA will pay Q. 37,109 thousand (approximately US\$ 4,933 thousand).

In addition, in the opinion of DEORSA's management and its legal advisors it is more likely than not that DEORSA will need to pay is Q. 151 thousand (approximately US\$ 20 thousand) therefore DEORSA has recognized a provision for this amount in its financial statements.

**v. Arbitration in equality INDE**

DEORSA is involved in an arbitration process with INDE due to the termination of the Trust Fund Contract and the Work Construction Contract of the Rural Electrification Project (PER, in Spanish) which was terminated by government in 2015. In this process DEORSA required INDE to pay for services provided for the construction of works in an amount of US\$ 2,679 thousand, as well as to obtain the final certificate of reception of the construction works under such project.

On the other hand, INDE initiated a claim against to DEORSA alleging the infringement of the contract by the Combined Entities and required the refund of advances previously made by INDE amounting up to US\$ 5,248 thousand. Likewise it required that pertaining access rights were constituted and that a payment on damages, due to the alleged failure in the constitution of access rights for the construction of transmission lines, was performed.

In the opinion of DEORSA's management and its legal advisors it is not more likely than not that DEORSA will pay the amount claimed by INDE. Consequently, no provision has been made.

**D. DEOCSA and DEORSA (Energuate) Tax claim in relation to deduction of interest and goodwill**

In 2011, the previous owners of DEORSA and DEOCSA acquired the companies through a leveraged buy-out transaction. Years after the transaction, the Guatemalan Tax Authority (Superintendencia de Administración Tributaria, or the "SAT") raised questions concerning tax deductions for interest expenses and amortization of goodwill that derived from that transaction. This culminated in the issuance in February 2015 of two binding tax opinions, one for DEOCSA and another for DEORSA (the "Binding Opinions") addressing the deductions.

The government of Guatemala changed in January 2016. After the new government took power, in July 2016, the SAT filed a complaint against DEORSA and DEOCSA (the "Complaint") in disregard of its own conclusions stated in the Binding Opinions, which Opinions remain in force as of this date. The Complaint requests the payment of alleged back taxes, interest, and fines in relation to tax years 2011 and 2012.

On August 9, 2016, the court hearing the Complaint ordered DEORSA and DEOCSA to pay (Q. 130,499 thousand (approximately)). In alleged back taxes immediately plus interest and fines within 60 days following the court order, as a condition to lift an order freezing the bank accounts of DEORSA and DEOCSA. Pursuant to this and another court order of 12 December 2016, on 10 August 2016, DEOCSA and DEORSA paid Q. 130,499 thousand (approximately US\$ 17,171 thousand) to the SAT corresponding to the alleged back taxes, and, on December 13, 2016, they paid Q. 192,974 thousand (approximately US\$ 25,721 thousand corresponding to the alleged fines and interest.

Due to the actions of the government and in order to avoid the initiation of complaints concerning tax years 2013, 2014, and 2015, and the corresponding imposition of further fines and interest, DEORSA and DEOCSA followed the instructions of the SAT and paid the alleged back taxes and interest for those years in the following manner: on 9 August 2016, DEORSA and DEOCSA paid a total of Q. 137,505 thousand (approximately US\$ 18,093 thousand for the years 2014 and 2015; and on August 19, 2016, they paid a total of Q. 100,236 thousand (approximately US\$ 13,189 thousand for the year 2013). In addition, during 2016 DEORSA and DEOCSA made additional payments of income tax paid in advance by Q. 40,729 thousand (approximately US\$ 5,393 thousand) corresponding to year 2016.

The abovementioned measures were adopted in order not to put at risk the continuing operation and prevent irreversible damage to DEORSA and DEOCSA. All payments were made under protest and subject to a broad reservation of rights, including but not limited to seeking restitution of such payments. DEORSA and DEOCSA and their legal and tax advisors are of the view that the deductions for interest expenses and amortization of goodwill are legitimate tax deductions and are confident of their position under applicable legal frameworks. DEORSA and DEOCSA are defending against the SAT Complaint and considering all available remedies with respect to this matter. As of December 31, 2016, the total tax claim amounts to US\$ 82,948 thousand (Q. 623,946 thousand). Hence, Energuate's management considers, based on the opinion of its tax and legal advisors that there is a probability greater than 50% in the recoverability of these payments as a result of the final outcome of this claim and of the other recourses to be initiated by Energuate and the Company.

A hearing to deliberate on the calculation of accrued interest and fines that was originally scheduled for December 29, 2016 was rescheduled twice and took place on June 23, 2017. The court ordered the SAT to issue a report with definitive calculations on accrued interests and fines regarding payments made on August 2016. A hearing for evaluating this report took place on July 25, 2017. As such interest and fines have been paid under protest by DEOCSA and DEORSA, the purpose of the hearing was to express disagreement with such payment. A subsequent hearing has been scheduled for October 13, 2017 to determine the amount of interest and fines on the claim but was again re scheduled for January 31, 2018.

The amount for this tax claim has been recognized as a receivable, see note 9.

## **29. Related Party Transactions**

The Group does not have significant transactions with related parties as of December 31, 2016 and 2015, as defined by IAS 24; except for the transactions with its shareholder as described in notes 10 and 19.

Inkia executive officers do not receive compensation directly from Inkia; each is also an executive officer of Kallpa and receives compensation directly from Kallpa. The aggregate annual compensation expenses related to Inkia executive officers during 2016 and 2015 were US\$ 5,419 thousand and US\$ 4,704 thousand, respectively.

## **30. Subsequent Events**

### **A. Samay I**

Further to that stated in note 13(c), on January 17 and 31, 2017, Units 2 and 3 of the Puerto Bravo power plant restarted commercial operations and became available for system dispatch.

### **B. Agreement with non-controlling interest**

On March 2, 2017, Samay III S.A. and Yesid Gasca Durán (NCI of Supertróil and Surenergy in Colombia) signed an agreement to split the assets of Supertróil and Surenergy. A period of 90 days is established from the date of signature for closing the precedent conditions. As a result of this, agreement, the company has updated its impairment analysis expecting that the book value of the subsidiaries' assets will exceed their recoverable amount. Therefore, during the first quarter of 2017 the company is expecting to record an impairment in the amount of approximately US\$ 14,341 thousand.

### **C. Kanan**

On April 5, 2017, Kanan's power plant experienced a fire. As a result, 37 MW barge and 55 MW barge were placed off-line. Kanan has property and business interruption insurance for its power plant. Kanan is seeking coverage for the costs of the outage, including repair and replacement costs and loss of profits, as appropriate, from insurance coverage.

On July 6 and 17, 2017, on August 11, and September 19, 2017 Kanan received from the insurance company, Mapfre Panamá, four advanced payments of US\$ 24,200 thousand, US\$ 13,000 thousand, US\$ 1,400 thousand and US\$ 1,400 thousand, respectively.

### **D. Supertróil and Surenergy Sale-agreement**

On April 27, 2017, Samay III sold its shares in Surenergy Holdings SAS (formerly IC Power Trading SAS), owner of Surpetroil SAS and Surenergy SAS ESP, to Yesid Gasca for US\$ 1,156 thousand.

### **E. Energuate Purchase Adjustment**

On April 28, 2017, Ernst & Young LLP issued the Accountant Ruling in connection with the disagreement between Actis and the Company on the final working capital adjustment related to Energuate purchase price-consideration. As a result of EY ruling, a US\$ 10,272 thousand adjustment is required to be made in favor of Inkia. The Company has recorded such amount as other income in the consolidated statement of profit or loss as of March 31, 2017.

On May 12 and May 17, 2017, Actis paid US\$ 272 thousand and authorized the release of US\$ 10,000 thousand from Escrow account, respectively.

### **F. Energuate Senior Notes**

On May 3, 2017 Energuate issued senior notes in an aggregate principal amount of US\$ 330,000 thousand. The notes accrue interest at a rate of 5.875% and will be payable semi-annually, with final maturity occurring in May 2027.

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In connection with the issuance of notes, Energuate also entered into a Quetzales denominated loan in the amount of approximately US\$ 120,000 thousand. The loan accrues interest at the weighted average interest rate (TASA Activa Promedio Ponderada), as published by the Guatemalan Central Bank, less 6.0% (subject to a floor rate of 7.0%), with final maturity occurring in June 2027.

The proceeds of the notes and loan were used to repay in full Energuate indebtedness. In addition, the proceeds were used to repay ICPDH's US\$ 120,000 thousand Credit Agreement, which was entered into in connection with Company's acquisition of Energuate in January 2016.

**G. Inkia Energy Ltd.**

On July 23, 2017, Kenon announced that it has been approached by, and received indicative, non-binding offers from, parties looking to acquire some or all of its businesses in Latin America and the Caribbean. As a result, the Parent Company is considering such a sale and is in discussions with such parties. There is no assurance that such discussions will result in a sale.

**H. CDA Bonds**

On August 9, 2017, Cerro del Águila S.A. ("CDA"), issued senior unsecured notes in an aggregate principal amount of US\$ 650,000 thousand (the "Notes"). The Notes accrue interest at a rate of 4.125% and will mature in August 2027. The proceeds of the Notes are intended to refinance the outstanding project finance debt and to pay related costs and shareholder loans.

In addition, effectively on August 16, 2017, Kallpa Generación S.A. merged with CDA. Upon the consummation of the merger, the surviving entity CDA will have a total installed capacity of 1,608 MW, making CDA the leading power producer in Peru in terms of energy generation.

Between July 1, 2017 and until the issuance date of this report (October 3, 2017), there have not been any material events additional to those described in paragraph above that may require adjustments or disclosure to the consolidated financial statements as of December 31, 2016.

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