NAUTILUS INKIA HOLDINGS LLC (FORMERLY INKIA ENERGY LTD)

Inkia Sale

On November 24, 2017, Nautilus Inkia Holdings LLC ("Nautilus Inkia"), a Cayman Islands limited liability company controlled by I Squared Capital, entered into a share purchase agreement with Kenon Holdings Ltd, through its subsidiaries Inkia Energy Ltd ("Inkia") and IC Power Distribution Holding Pte Ltd ("ICPDH"), pursuant to which Inkia and ICPDH agreed to sell all of their interests in power generation and distribution companies in Latin America and the Caribbean (the "Inkia Businesses") in consideration for US$1,332 million, consisting of (i) US$935 million cash proceeds paid by Nautilus Inkia, (ii) retained cash at Inkia of US$222 million, and (iii) US$175 million, which was in the form of a deferred payment obligation bearing interest of 8% per annum, payable in kind by Nautilus Energy TopCo LLC, a parent company of Nautilus Inkia. Nautilus Inkia also assumed Inkia's obligations under Inkia's US$600 million 5.875% senior unsecured notes due 2027. The final purchase price is subject to certain adjustments, including adjustments for working capital, debt and cash at closing. The transaction was completed on December 31, 2017.

About the Company

We are an international company focused on the electric power sector, specifically on generation and distribution. The Company is based in Latin America with operations in Peru, Chile, Dominican Republic, El Salvador, Bolivia, Nicaragua, Jamaica, Guatemala and Panama. We are focused on Latin American markets that have higher rates of growth of gross domestic product, as well as lower base levels of overall and per capita energy consumption compared to 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 electricity generation assets.

Regarding generation, we own, operate and develop power plants to generate and sell electricity to distribution companies and unregulated consumers under short-term and long-term power purchase agreements, or PPAs, and to the spot market. Our operating companies use natural gas, water, wind, diesel and heavy fuel oil (HFO) to produce electricity. Our generation capacity is 74% contracted as of December 2017, which reduces the risk related to market prices of electricity and fuel.

Regarding distribution, we own the largest distribution company in Central America, measured by population served, "Energuate", based in Guatemala. The Energuate business includes two electricity distribution companies: Distribuidora de Electricidad de Oriente, S.A. (DEORSA), and Distribuidora de Electricidad de Occidente, S.A. (DEOCSA).

As of December 31, 2017 Inkia's consolidated installed capacity was 3,374 MW.

Segment	Country	Company	Fuel	MW	COD or Acquisition Date
Peru	Peru	Kallpa	Natural Gas/Hydroelectric	1,618	CC[1] Aug 2012 / LF[2] Apr 2014 / CDA Aug 2016 / CDA mini hydro Oct 2017
	Peru	Samay I	Diesel and Natural Gas	632	May 2016
Central America	Nicaragua	Corinto	HFO	71	Mar 2014
	Nicaragua	Tipitapa	HFO	51	Mar 2014
	Nicaragua	Amayo I	Wind	40	Mar 2014
	Nicaragua	Amayo II	Wind	23	Mar 2014
	Guatemala	PQP	HFO	55	Sep 2014
	El Salvador	Nejapa	HFO	140	Original Asset
	Panama	Kanan	HFO	124	Apr 2016
Other	Bolivia	COBEE	Hydroelectric /Natural Gas	228	Original Asset
	Chile	Central Cardones	Diesel	153	Dec 2011
	Chile	Colmito	Natural Gas and Diesel	58	Oct 2013
	Dominican Republic	CEPP	HFO	67	Original Asset
	Jamaica	JPPC	HFO	60	May 2014
	Panama	Pedregal	HFO	54	Original Asset
Total Operating Capacity				**3,374**	

[1] Combined Cycle ('CC')
[2] Las Flores Power Plant ('LF')

CDA plant mini hydro

On October 27, 2017, the Cerro del Aguila ("CDA") mini hydro reached its commercial operations date ("COD"). This mini hydro has 10 MW of installed capacity and uses the ecological water flow for additional generation. This takes CDA capacity to 555 MW for US$975 million capex.

Kanan Unavailability

In April 2017, Kanan's 92 MW power plant experienced a fire. As a result, Kanan's 37 MW barge and 55 MW barge were placed off-line, and Kanan wrote off US$48 million in assets.

Kanan has property and business interruption insurance for its power plants to protect against risks of direct physical loss or damage, including machinery breakdown, earthquakes and other risks associated with the operation of a plant. Kanan's management deems that this event is covered by the insurance policy and received confirmation that the acquisition of the Esperanza barge (discussed below) would cover its insurance claim. Therefore, Kanan recorded income for US$74 million equivalent to the acquisition purchase price of this barge net of the insurance deductibles. This amount is presented net of US$48 million, reflecting a net gain of US$25 million. To date, Kanan has received advanced payments from its insurance company in the amount of approximately US$80 million. In addition, Kanan recorded other receivable for US$3 million related to fire expenses deemed to be covered by the insurance company.

In October 2017, Kanan entered into an agreement to purchase the Esperanza barge, a 124 MW barge, for US$59 million (with an additional US$4 million for inventory and spare parts) from PQP, another Inkia subsidiary, to replace the barges damaged in the fire. The Esperanza barge was relocated to Panama and additional work in the engines was completed in the first quarter of 2018. In March 2018, 6 out of 7 engines were declared available to the National Dispatch Center. Kanan expects the official COD during the second quarter of 2018.

Agua Clara Project

Our subsidiary IC Power DR is developing a 50 MW wind project in the Dominican Republic, expected to reach COD by the first quarter of 2019. As part of the project, IC Power DR has entered into a 20 year PPA with a government entity for which the relevant concession has been granted.

On October 11, 2017, IC Power DR, entered into an EPC contract with the selected EPC contractor and on November 8, 2017, made an advance payment of US$3 million. The total project cost is estimated to be US$103 million and the related financing was closed in March 2018 for US$73.5 million.

Inkia senior notes

On November 9, 2017, Inkia issued senior unsecured notes for an aggregate principal amount of US$450 million. The notes accrue interest at a rate of 5.875% and will be payable semi-annually with final maturity in November 2027. The proceeds of the notes were used to repay in full Inkia's 2021 8.375% notes. With this transaction, Inkia successfully completed a comprehensive refinancing strategy that included existing indebtedness at the operating companies' levels.

On December 14, 2017, Inkia reopened its 5.875% senior notes due 2027 for an aggregate principal amount of US$150 million. The new notes have terms and conditions identical to the initial US$450 million notes issued on November 9, 2017.

Subsequent Events

COBEE Unavailability

On February 14, 2018 a massive flash flood affected 89% of COBEE's generation capacity in the Zongo Valley, destroying water intakes and outfalls of seven plants of our Zongo generation system and 25 out of 60 kilometers of the main road (and bridges) in the valley. No personal damages were registered.

Reconstruction works to progressively re-enable our 100% generation capacity are proceeding positively. Most reconstructions works are estimated to be final by year end. The Company expects that the final costs and business interruption to be inmaterial after accounting for property and business interruption insurance coverage.

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

The following discussion of our financial condition and results of operations should be read in conjunction with our consolidated financial statements as of December 31, 2017 and December 31, 2016.

The Company's net income for the year ended December 31, 2017 amounted to approximately US$71 million compared to US$27 million during the year 2016. The Company's results for the period were mainly affected by the following:

Revenues

Our revenue increased by US$264 million, or 17%, to US$1,777 million during 2017 from US$1,513 million during 2016, primarily due to (1) US$99 million increase in revenue from our Samay I plant, which reached its COD in May 2016; (2) US$102 million increase in revenue from Kallpa[3] during 2017, mainly as a result of the COD of our CDA plant in August 2016; and (3) a US$54 million, or 11% increase in revenue from Energuate as a result of an increase in the sales volume partially due to the full year consolidation of Energuate results (acquired in late January 2016) and the appreciation of the Guatemalan Quetzal against the US Dollar.

Peru Segment
Revenue from our Peru segment increased by US$201 million, or 38%, to US$725 million, during 2017 from US$524 million during 2016, primarily due to:

- a US$99 million increase in Samay revenue as a result of its COD in May 2016 and higher dispatch of the plant in 2017 as a result of unavailability of other plants and a delay in the construction of a transmission line in Peru; and
- a US$102 million, or 21%, increase in Kallpa's revenue as a result of (1) a US$47 million, or 15%, increase in Kallpa's revenue from energy sales to US$359 million during the year 2017 from US$312 million during 2016, principally as a result of (i) a 44% increase in the volume of energy sold by Kallpa to 10,293 GWh during the year ended December 31, 2017 from 7,157 GWh during the same period in 2016, principally as a result of the COD of Kallpa's CDA plant in August 2016, this effect was partially offset by (ii) a US$9 per MWh, or 20%, decline in Kallpa's average energy price to US$35 per MWh during 2017 from US$44 per MWh during 2016 and (2) increases of US$21 million in Kallpa's revenue from capacity sales and US$34 million in Kallpa's revenue from toll revenue, both principally as a result of the COD of Kallpa's CDA plant in August 2016 and the commencement of a new PPA during the second quarter of 2017.

Central America Segment
Revenue from our Central America segment decreased by US$7 million, or 2%, to US$319 million during 2017 from US$326 million during 2016, primarily as a result of:

- *PQP.* PQP's revenue decreased by US$18 million, or 33%, to US$37 million during 2017 from US$55 million during 2016, principally as a result of (1) a 76% decline in spot market sales due to the effects of the entry of new generation capacity with lower marginal cost in Guatemala, which affects PQP's position in the dispatch order of Guatemala, and (2) the expiration of several short term PPAs in 2017 which were not renewed, which combined led to a 42% decline in the total volume of energy sold by PQP to 411 GWh during 2017 from 713 GWh during 2016.
- *Cenérgica.* Cenérgica's revenue decreased by US$6 million, or 25%, to US$18 million during 2017 from US$24 million during 2016 due to the termination and non-renewal of its PPA.

These effects were partially offset by:

- *ICPNH.* ICPNH's revenue increased by US$11 million, or 12%, to US$101 million during 2017 from US$90 million during 2016, principally as a result of a US$12 million, or 18%, increase in ICPNH's revenue from energy sales of its thermal plants as a result of a US$22 per MWh, or 33%,

[3] Kallpa refers to the new entity as a result of the merger between CDA and Kallpa as of August 2017.

increase in the average energy prices of these plants to US$89 per MWh during 2017 from US$67 per MWh during 2016 due to adjustments in PPA prices as a result of an increase in HFO prices. The effect of this price increase was partially offset by an 8% decline in the total volume of energy sold by these plants to 708 GWh during 2017 from 771 GWh during 2016, mainly as a result of the entry of new capacity with lower marginal cost, which affects the position of ICPNH's thermal plants in the dispatch order.

- *Nejapa.* Nejapa's revenue increased by US$2 million, or 2%, to US$85 million during 2017 from US$83 million during 2016, principally as a result of a US$19 per MWh, or 23%, increase in Nejapa's average energy price to US$102 per MWh during 2017 from US$83 per MWh during 2016 due to adjustments in PPA prices as a result of an increase in HFO prices. The effect of this price increase was partially offset by a 15% decline in the total volume of energy sold by Nejapa to 716 GWh during 2017 from 844 GWh during 2016.

Other Segment

Our revenue from Other segment increased by US$17 million, or 11%, to US$173 million during 2017 from US$156 million during 2016, primarily as a result of the following:

- *JPPC.* JPPC's revenue increased by US$13 million, or 31%, to US$55 million during 2017 from US$42 million during 2016, principally as a result of a US$21 per MWh, or 29%, increase in JPPC's average energy price to US$93 per MWh during 2017 from US$72 per MWh during 2016 due to adjustments in PPA prices as a result of an increase in HFO prices.
- *CEPP.* CEPP's revenue increased by US$4 million, or 13%, to US$34 million during 2017 from US$30 million during 2016, principally as a result of (1) a US$10 per MWh, or 16%, increase in CEPP's average energy price to US$74 per MWh during 2017 from US$64 per MWh during 2016 due to an increase in spot market energy prices as a result of an increase in HFO prices.
- *COBEE.* COBEE's revenue increased by US$4 million, or 10%, to US$44 million during 2017 from US$40 million during 2016, principally as a result of a US$6 million, or 75% increase in energy sales to spot market due to higher generation.

These effects were partially offset by a US$6 million decline in Surpetroil's revenue due to the sale of our Colombian assets in April 2017.

Distribution Segment

Revenue from our distribution business increased by US$54 million, or 11%, to US$563 million during 2017 from US$509 million during 2016, primarily as a result of (1) increases in the energy sales tariffs, (2) the appreciation in the Guatemalan Quetzal against the US dollar, and (3) the consolidation of the results of Energuate for the full year ended December 31, 2017 compared to eleven months of the year 2016. These effects were partially offset by a US$5 million, or 42%, increase in regulatory liability reimbursement.

Cost of Sales

Our cost of sales (including depreciation and amortization and impairment) increased by US$185 million, or 15%, to US$1,391 million during 2017 from US$1,206 million during 2016, primarily due to:

- a US$20 million asset write off registered during 2017, which is comprised of an impairment charge in respect of Inkia's investment of Samay III S.A.'s Colombian assets;
- a US$3 million, or 2% increase in the depreciation and amortization expenses included in our cost of sales, to US$136 million during 2017 from US$133 million during 2016, primarily as a result of (1) an increase in our Peru segment depreciation and amortization expenses as a result of the CODs of the Samay I plant and the CDA plant in May 2016 and August 2016, respectively; and (2) an increase in our Distribution segment depreciation and amortization expenses as a result of the consolidation of the results of Energuate for the full year ended December 31, 2017 compared to eleven months of the year 2016. These effects were partially offset by a decrease in our Central America segment depreciation and amortization expenses as a result of the write off of several of Kanan's assets as a result of the fire at our Kanan plant in April 2017;

- a US$162 million or 15%, increase in our cost of sales (excluding depreciation and amortization and impairment) to US$1,235 million during 2017 from US$1,073 million during 2016, primarily due to (1) a US$111 million, or 35% increase in cost of sales of our Peru segment, primarily driven by cost of sales related to our Samay I and CDA plants as a result of their respective CODs in May 2016 and August 2016, and (2) a US$50 million, or 12% increase in cost of sales of Energuate as a result of (i) the appreciation in the Guatemalan Quetzal against the US dollar, (ii) an increase in Energuate's energy purchase expenses due to the increase in the energy sold and the increase in commercial losses, and (iii) the consolidation of the results of Energuate for the full year ended December 31, 2017 compared to eleven months in 2016.

Peru Segment
Cost of sales (excluding depreciation and amortization and impairment) from our Peru segment increased by US$111 million, or 35%, to US$430 million during 2017 from US$319 million during 2016, primarily as a result of:

- a US$97 million, or 606%, increase in Samay I's cost of sales, primarily as a result of its COD in May 2016 and an increase in the dispatch of the Samay I plant as a result of unavailability of other plants and a delay in the construction of a transmission line in Peru; and
- a US$14 million, or 5% increase in Kallpa's cost of sales a result of the COD of the CDA plant in August 2016.

Central America Segment
Cost of sales (excluding depreciation and amortization and impairment) of our Central America segment decreased by US$11 million, or 4%, to US$241 million during 2017 from US$252 million during 2016, primarily as a result of:

- A US$16 million, or 31%, increase in PQP's cost of sales to US$52 million during 2017 from US$36 million during 2016, primarily due to lower fuel expenses related to lower generation as a result of the entry of new capacity with lower marginal costs in Guatemala and the expiration and non-renewal of its PPA.
- A US$7 million, or 50%, decline in Cenérgica's cost of sales to US$7 million during 2017 from US$14 million during 2016 due to lower energy purchases as a result of the expiration of its PPA.

  These effects were partially offset by ICPNH's US$12 million, or 17%, increase in cost of sales to US$71 million during 2017 from US$59 million during 2016, primarily as a result of higher fuel expenses at ICPNH's thermal plants.

Other Segment
Cost of sales (excluding depreciation and amortization and impairment) of our Other segment increased by US$13 million, or 13%, to US$114 million during 2017 from US$101 million during 2016, primarily as a result of:

- a US$11 million, or 31% increase in JPPC's cost of sales, mainly due to an increase in fuel, gas and lubricant expenses as a result of (1) a 10% increase in JPPC's net generation to 428 GWh during 2017 from 390 GWh during 2016, and (2) a 47% increase in average HFO prices to US$47 per barrel during 2017 from US$32 per barrel during 2016, according to the Platts, McGraw Hill Financial Index; and
- a US$5 million, or 21%, increase in CEPP's cost of sales mainly due to higher fuel, gas and lubricants due to higher HFO prices despite a 16% decrease in CEPP's net generation.

These effects were partially offset by a US$7 million decrease in Surpetroil's cost of sales due to the sale of our Colombian assets in April 2017.

Distribution Segment
Cost of sales (excluding depreciation, amortization, and impairment) of our distribution business increased by US$50 million, or 12%, to US$453 million during 2017 from US403 million during 2016, primarily as a result of:

- the appreciation in the Guatemalan Quetzal against the US dollar; and
- an increase in Energuate's energy purchase expenses due to (1) a 2% increase in the average energy purchase price, (2) an increase in the volume of Energuate's energy purchases as a result of increased demand by customers as well as an increase in the volume of uncompensated energy purchases as a result of an increase in energy losses to 20% during the year ended December, 2017 from 18% during the year 2016, and (3) the consolidation of the results of Energuate for the full year ended December 31, 2017 compared to eleven months of the year 2016.

Administrative Expenses

Our administrative expenses (including depreciation allocated to G&A) increased by US$14 million, or 13%, to US$118 million during 2017 from US$104 million during 2016, primarily as a result of:

- a US$3 million, or 11% increase in our Peru segment administrative expenses from our CDA and Samay I plants during 2017 as a result of their respective CODs during the year 2016;
- a US$7 million, or 19% increase in our distribution business administrative expenses, primarily as a result of the consolidation of the results of (1) Energuate for the full year 2017 compared to eleven months following its acquisition by the Company during 2016 and (2) a US$3 million, or 65%, increase to US$7 million in Energuate's bad debt expense during 2017 from US$4 million during 2016; and
- A US$5 million or 22% increase in our Other segment administrative expenses, primarily due to expenses incurred related to Inkia's sale.

Other Income, net

Our other income, net increased by US$66 million to US$81 million (including net gain on Kanan write-off) during 2017 from US$15 million during 2016.

During the year 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 the Company as a result of the finalization of the working capital adjustment related to our acquisition of Energuate;
- an US$25 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 Kanan purchased from PQP and the insurance deductibles; and
- US$5 million of revenue in connection with transfers of assets from customers of Energuate in the form of cash necessary to acquire or to build them.

These amounts were partially offset by a US$5 million foreign currency translation loss, which was reclassified to profit and loss in connection to the sale of our Colombian assets.

During 2016, our other income, net consisted primarily of (1) the receipt of US$7 million in compensation as a result of the early termination of a Kallpa PPA in August 2016, (2) the receipt of US$3 million from payments from Energuate's energy suppliers as compensation for their disruptions in the supply of energy to Energuate, and (3) a US$3 million insurance payment received relating to the Sainani power plant in COBEE, 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$131 million, or 60%, to US$349 million during 2017 from US$218 million during 2016. Our operating margin (representing profit from operating activities as a percentage of revenue) increased to 20% during the 2017 from 14% during the year 2016.

Financing Expenses, Net

Our financing expenses, net, increased by US$71 million, or 53%, to US$206 million during 2017 from US$135 million during 2016, as a result of a US$77 million, or 52%, increase in finance costs, the effects of which were partially offset by a US$5 million increase in finance income and gains from derivative financial instruments.

Our finance income, including gains from derivative financial instruments, increased by US$6 million to US$18 million during 2017 from US$12 million during 2016, principally as a result of our recording foreign currency income of US$9 million during the year ended December 31, 2017, principally as a result of the effects of the appreciation of the Guatemalan Quetzal and the Peruvian Sol against the US dollar on our financial assets denominated in local currencies.

Our finance costs increased by US$77 million to US$224 million during 2017 from US$147 million during 2016, principally as a result of (1) a US$46 million increase in our Peru segment finance costs as a result of (i) a US$22 million increase in finance expenses to US$33 million during 2017 from US$11 million during 2016 due to the issuance of the Kallpa 2027 notes, which triggered the payment of US$26 million relating to the swap unwind and early prepayment fees and (ii) a US$26 million increase in interest expenses on loans and bonds as the interest expense on the facilities used to finance our Samay I and CDA plant following their respective CODs in May 2016 and August 2016 was expensed rather than being capitalized as part of our property plant and equipment as we were permitted to do prior to their respective CODs, (2) a US$14 million premium paid in connection to the repayment of Inkia 2021 notes, (3) a US$13 million increase in our Distribution segment finance costs due to (i) our recognizing interest expense on the outstanding indebtedness of Energuate for the full year 2017 compared to eleven months of the same period in 2016, and (ii) the refinancing costs associated with our refinancing of all of Energuate's indebtedness in May 2017 and (4) a US$10 million increase in interest expenses on loans and bonds as the interest expense on the portion of the proceeds of the Inkia 2021 notes used to finance our equity share on our CDA plant following its COD in August 2016 was expensed rather than being capitalized as part of our property plant and equipment as we were permitted to do prior to the COD of the CDA plant. These effects were partially offset by a US$5 million, or 51% decrease, in interest expenses from short-term borrowing.

Taxes on Income

Our tax expenses increased by US$16 million, or 28%, to US$73 million during 2017 from US$57 million during 2016. The approximate weighted average tax rate for our operating companies declined to 29% during 2017 from 30% during 2016.

Our effective tax rate declined to 51% during 2017 from 68% during the year 2016. The principal factors causing the deviation between our effective tax rate and the approximate weighted average tax rate for our operating companies during 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 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 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 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$44 million, or 163%, to US$71 million during 2017 from US$27 million during 2016. Our net margin (representing profit as a percentage of revenue) increased to 4% during 2017 from 2% during 2016.

Liquidity and Capital Resources

As of December 31, 2017 and December 31, 2016, we had cash and cash equivalents (excluding restricted cash) of US$360 million and US$173 million, respectively. As of December 31, 2017, US$222 million out of US$360 million correspond to funds owned by Kenon Holdings as part of the sale process. In addition, we had restricted cash of US$18 million and US$42 million, respectively, either because such cash deposits are time deposits or debt service accounts relating to our Peruvian, Bolivian, Chilean, Nicaraguan, Guatemalan and Jamaican assets.

As of December 31, 2017 and December 31, 2016, we had working capital of US$411 million and a negative working capital of US$91 million, respectively. As of December 31, 2017, we have reduced our short-term debt by US$219 million as a result of our refinancing of Energuate's debt and CDA's debt and the repayment of ICPDH's short-term loan. We believe that our working capital is currently adequate for our operations.

Our main 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 main needs for liquidity generally consist of capital expenditures related to the development and construction of generation projects and the acquisition of other generation and/or 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 and outside 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 Flow

Cash Flows from Operating Activities

Our main source of operating funds is cash flow generated from our operations. Net cash provided by operating activities was US$316 million during 2017 and US$172 million during 2016.

This increase was primarily driven by: (1) a US$76 million increase in Kallpa's net cash flows from operating activities as a result of the COD of our CDA plant during August 2016, lower payments for gas consumption, and the commencement of collection of secondary regulation services provided by Kallpa; (2) a US$23 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); (3) a US$33 million increase in Energuate's cash flows from operating activities, principally due to the absence during the year ended December 31, 2017 of the negative effects of the contested payments of income tax, interest and penalties made by Energuate during the year 2016; and (4) a US$13 million increase in Kanan's cash flows from operating activities due to its COD in April 2016.

Cash Flows Used in Investing Activities

Cash flows used in our investing activities declined by US$252 million, or 100% to nil during 2017 from US$252 million during 2016.

During the year ended December 31, 2017, investing activities for which we used cash primarily consisted of acquisitions of property, plant and equipment of US$124 million, consisting of US$41 million used to make a payment to the EPC contractor for the CDA plant, US$32 million used by Energuate for various projects to improve

its operations, US$19 million used by Kanan in the reconstruction of its power plant and US$32 million related to capital expenditures in connection with maintenance of our other subsidiaries. The effects of these factors were completely offset by (1) a US$80 million collection from Kanan's insurance claim, (2) a US$10 million payment from working capital adjustment from Actis and (3) the release of restricted cash of US$36 million of the net funds received by COBEE, Energuate, Cardones, JPPC and our Company.

During 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$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, US$63 million related to capital expenditures in connection with maintenance of our other subsidiaries, and US$16 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 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.

Cash Flows from Financing Activities

Cash flows used by our financing activities were US$138 million during 2017 compared to cash flows provided by our financing activities of US$10 million during 2016.

During 2017, we received aggregate proceeds of US$1,722 million from the incurrence of long-term debt, consisting primarily of (1) proceeds of US$650 million from the issuance in August 2017 of the Kallpa 2027 notes, (2) proceeds of US$330 million under the Energuate Loan Agreement in May 2017, (3) proceeds of US$120 million under the Energuate Guatemalan Loan Agreements in May 2017, (4) proceeds of US$450 million from the issuance in November 2017 of Inkia 2027 notes, and (5) proceeds of US$150 million from the re-opening of Inkia 2027 notes in December 2017.

During 2017, we used cash (1) to repay long-term debt of US$1,416 million, including (i) CDA's obligations under its project finance debt, (ii) DEOCSA and DEORSA's obligations under their then-existing syndicated loan agreements, (iii) Inkia's obligations under its then-existing 2021 notes and (iv) 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$126 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$152 million, (4) to pay expenses on behalf of related parties, swap unwind costs and early prepayment fees, and issuance expenses in the aggregate amount of US$76 million relating to the issuance of the Kallpa 2027 notes, the Inkia 2027 notes, the Energuate refinancing and the repayment of CDA's project finance debt, (5) to make loans to our parent company of US$42 million, (6) to pay dividends to holders of non-controlling interests of certain of our subsidiaries of US$37 million, and (7) to repay US$7 million related to Kallpa's minority shareholder's loan.

During 2016, we received aggregate proceeds of US$541 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 Kanan's credit facility, (3) US$44 million borrowed under the CDA project finance debt facility, (3) US$20 million borrowed under the Samay I project finance debt facility, (4) US$40 million under Deocsa and Deorsa syndicated loan facility, (5) US$ 22 million from the issuance of the COBEE Bonds, and (6) US$12 million under the PQP facility. In addition, we received proceeds of short-term borrowings net of payment of short-term borrowings of US$33 million and US$9 million of capital contributions from minority shareholders related to CdA and Surpetroil.

During 2016, we used cash (1) to repay long-term debt of US$378 million, including (i) the redemption of Kallpa's outstanding 8.50% local 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$125 million, (3) to pay issuance expenses related to Kallpa's debt refinancing in the amount of US$24

million, (4) to pay dividends to holders of non-controlling interests of certain of our subsidiaries of US$23 million, and (5) to pay a consent fee of US$10 million to Kallpa's previous bondholders.

For the three months ended December 31, 2017.

The Company's net income for the three months ended December 31, 2017 amounted to approximately US$9 million compared to a US$2 million net loss during the same period in 2016. The Company's results for the period were mainly affected by the following:

Revenues

Our revenue increased by US$1 million, or 0.2%, to US$417 million during the three-month period ended December 31, 2017 from US$416 million during the same period in 2016, primarily due to (1) a US$10 million increase in Peru segment revenue during the three-month period ended December 31, 2017 mainly due to higher volume of energy sold due to the beginning of a new PPA and higher generation in the CDA plant; and (2) a US$5 million higher revenue from Energuate during three-month period ended December 31, 2017 due to an increase in tariffs. These effects were partially offset by a US$15 million decrease in revenue mainly due to the expiration and non-renewal of some PPAs in El Salvador.

Peru Segment
Revenue from our Peru segment increased by US$10 million, or 7%, to US$160 million during the three-month period ended December 31, 2017 from US$150 million during the same period in 2016, primarily due to a (1) U$10 million, or 12% increase in Kallpa's revenue from energy sales to US$96 million during the three-month period ended December 31, 2017 from US$86 million during the same period in 2016 as a result of a 42% increase in the volume of energy sold by Kallpa to 2,774 GWh for the three months ended December 31, 2017 mainly due to higher generation of CDA's plant due to better hydrology conditions and the start of a new PPA during the second quarter of the year 2017; and (2) US$8 million increase in toll revenue as a result of the increase in energy sales as discussed previously. These effects were partially offset by an US$8 million, or 62%, decrease in Samay's revenue to US$5 million, as a result of US$8 million higher intercompany energy and capacity sales to Kallpa during the three-month period ended December 31, 2017 which are eliminated in Samay's revenue as part of the consolidation process. Those energy and capacity sales were assigned by the COES to a different generator during 2016.

Central America Segment
Revenue from our Central America segment decreased by US$15 million, or 17%, to US$71 million during the three-month period ended December 31, 2017 from US$86 million during the same period in 2016 primarily as a result of:

Kanan. Kanan's revenue decreased by US$7 million, or 37%, to US$12 million during the three-month period ended December 31, 2017 from US$19 million during the same period in 2016, principally as a result of a 53 GWh, or 42%, decrease in Kanan's energy sold and a US$2 million, or 50%, lower capacity sales due to Kanan's temporary transfer of its PPA.
Nejapa. Nejapa's revenue decreased by US$6 million, or 25%, to US$18 million during the three-month period ended December 31, 2017 from US$24 million during the same period in 2016, as a result of (1) a 54 GWh, or 27%, decrease in Nejapa's energy sales to distribution companies due to the termination and non-renewal of some of its PPAs. This effect was partially offset by a 10% increase in Nejapa's energy price to $111 per MWh during the three months ended December 31, 2017 from US$101 per MWh during the same period in 2016 due to higher PPAs prices as a result of an increase in HFO prices.
Cenérgica. Cenérgica's revenue decreased by US$5 million, or 71%, to US$2 million during the three-month period ended December 31, 2017 from US$7 million during the same period in 2016, as a result of a US$4 million decline in Cenérgica's revenue from energy sales due to the termination and non-renewal of its PPA.

These effects were partially offset by a US$4 million, or 17%, increase in ICPNH's revenue to US$27 million during the three-month period ended December 31, 2017 from US$23 million during the same period in 2016, principally as a result of (1) a US$2 million, or 11% increase in ICPNH's thermal plants revenue resulting from a 24% increase in ICPNH's thermal plants average energy price to US$92 per MWh in the three months ended December 31, 2017 from US$83 per MWh during the same period in 2016 due

to higher PPAs prices as a result of an increase in HFO prices; and (2) a US$2 million, or 50%, increase in revenue in the Amayo plants to US$6 million during the three-month period ended December 31, 2017 from US$4 million during the same period in 2016 due to higher wind levels.

Other Segment
Our revenue from Other segment increased by US$1 million, or 2%, to US$43 million during the three-month period ended December 31, 2017 from US$42 million during the same period in 2016, mainly due to a US$2 million, or 14% increase in JPPC's revenue to US$16 million during the three-month period ended December 31, 2017 from US$14 million during the same period in 2016, principally as a result of a US$16 per MWh, or 19%, increase in JPPC's average energy price to US$100 per MWh during the three-month period ended December 31, 2017 from US$84 per MWh during the same period in 2016 due to higher PPA prices as a result of an increase in HFO prices.

This effect was partially offset by a US$2 million, or 100% decline in Surpetroil's revenue, to nil during the three-month period ended December 31, 2017 due to the sale of our Colombian assets in April 2017.

Distribution Segment
Our revenue in the Distribution segment increased by US$5 million, or 4%, to US$144 million during the three-month period ended December 31, 2017 from US$139 million during the same period in 2016, primarily as a result of (1) the appreciation in the Guatemalan Quetzal against the US Dollar and (2) an increase in energy sales tariff during the three-month period ended December 31, 2017 as compared to the same period in 2016. These effects were partially offset by a US$3 million, or 50%, increase in regulatory liability reimbursement.

Cost of Sales

Our cost of sales (including depreciation and amortization and impairment) decreased by US$11 million, or 3%, to US$317 million during the three-month period ended December 31, 2017 from US$328 million during the same period in 2016, primarily due to:

- a US$4 million, or 11% decrease in depreciation expense attributable to cost of sales due to a decrease in Kanan's depreciation expenses due to asset write-offs as a result of the fire at the Kanan plant;
- a US$7 million or 2% decrease in the cost of sales (excluding depreciation and amortization and impairment) mainly due to a US$7 million, or 35% decrease and a US$6 million, or 50% decrease in Nejapa and PQP's cost of sales respectively; partially offset by a US$3 million, or 5% increase in cost of sales of Energuate as a result of higher energy purchase expenses.

Peru Segment
Our cost of sales in the Peru segment (excluding depreciation and amortization and impairment) decreased by US$3 million, or 4%, to US$83 million during the three-month period ended December 31, 2017 from US$86 million during the same period in 2016, primarily due to a US$10 million decrease in Kallpa's natural gas cost due to a 669 GWh decrease in Kallpa's net generation. This effect was partially offset by (1) a US$3 million increase in Kallpa's energy purchase expenses and (2) a US$3 million increase in Kallpa's third party services.

Central America Segment
Our cost of sales in the Central America segment (excluding depreciation and amortization and impairment) decreased by US$12 million, or 18%, to US$54 million during the three-month period ended December 31, 2017 from US$66 million during the same period in 2016, primarily due to:

- a US$7 million, or 35%, decrease in Nejapa's cost of sales to US$13 million during the three-month period ended December 31, 2017 from US$20 million during the same period in 2016 due to lower fuel expenses related to lower generation and the expiration and non-renewal of its PPA.

- A US$6 million, or 50%, decrease in PQP's cost of sales to US$6 million during the three-month period ended December 31, 2017 from US$12 million during the same period in 2016 due to lower fuel expenses related to lower generation as a result of the entry of new capacity with lower marginal costs in Guatemala and the expiration and non-renewal of its PPA.

Other Segment
Our cost of sales from our Other segment (excluding depreciation and amortization and impairment) increased by US$5 million, or 19%, to US$31 million during the three-month period ended December 31, 2017 from US$26 million during the same period in 2016, primarily due to a US$4 million, or 40% increase in JPPC's cost of sales as a result of an increase in fuel, gas and lubricant expenses of JPPC due to a 1% higher net generation, to 120 GWh during the three-month period ended December 31, 2017 from 119 GWh during the same period in 2016 and a 29% increase in average HFO prices to US$53 per barrel during the three-month period ended December 31, 2017 from US$41 per barrel during the same period in 2016, according to the Platts, McGraw Hill Financial Index.

Distribution Segment
Our cost of sales of the Distribution segment (excluding depreciation) increased by US$3 million, or 3%, to US$117 million during the three-month period ended December 31, 2017 from US$114 million during the same period in 2016, due to an increase in energy purchase costs, as a result of the appreciation in the Guatemalan Quetzal against the US Dollar and an increase in Energuate's energy purchase expenses due to the commencement of new PPAs signed at a higher price and an increase in uncompensated energy purchases as a result of an increase in energy losses

Administrative Expenses

Our administrative expenses (including depreciation and amortization allocated in general and administrative expenses) increased by US$2 million, or 6%, to US$35 million during the three-month period ended December 31, 2017 from US$33 million during the same period in 2016, primarily as a result of a US$3 million increase administrative expenses in Inkia related to the Inkia sale, during the three-month period ended December 31, 2017.

Other Income, net

Our other income increased by US$21 million to US$21 million during the three-month period ended December 31, 2017 from nil during the same period in 2016. During the three-month period ended December 31, 2017, our other income consisted primarily of (i) a US$17 million insurance compensation received by Kanan related to property damage and loss of income, as a consequence of the fire occurred in April 2017 and US$2 million Energuate's other income.

Profit from Operating Activities

As a result of the above, our profit from operating activities increased by US$31 million, or 56%, to US$86 million during the three-month period ended December 31, 2017 from US$55 million during the same period in 2016. Our operating margin (representing profit from operating activities as a percentage of revenue) was 21% during the three-month period ended December 31, 2017 and 13% for the same period in 2016.

Financing Expenses, Net

Our financing expenses, net, increased by US$19 million, or 50%, to US$57 million during the three-month period ended December 31, 2017 from US$38 million during the same period in 2016, mainly as a result of a US$16 million, or 37%, increase in finance costs.

Our finance income decreased to US$2 million during the three-month period ended December 31, 2017 from US$4 million during the same period 2016, principally as a result of a US$2 million lower exchange gain due to a lower appreciation of the Guatemalan Quetzal and the Peruvian Sol during the three-month period ended December 31, 2017.

Our financing expenses increased to US$59 million during the three-month period ended December 31, 2017 from US$43 million during the same period in 2016, principally as a result of (1) a US$14 million premium paid in connection to the repayment of Inkia 2021 notes and (2) US$3 million increase in Energuate's finance expenses due to higher outstanding debt during the three-month period ended December 31, 2017. These effects were partially offset by a US$2 million reduction in ICPDH's interest expense on short-term borrowings during the three-month period ended December 31, 2017 as compared to the same period in 2016 due to the repayment of ICPDH's debt in May, 2017.

Taxes on Income

Our tax expenses increased by US$1 million, or 5%, to US$20 million during the three-month period ended December 31, 2017 from US$19 million during the same period in 2016. The approximate weighted average tax rate for our operating companies increased to 30.5% during the three-month period ended December 31, 2017 from 29.6% during the same period in 2016.

Our effective tax rate decreased to 69% during the three-month period ended December 31, 2017 from 112% during the same period in 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 December 31, 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 which increased our effective tax rate, as well as administrative expenses incurred by our holding companies, which increased 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 three-month period ended December 31, 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 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$11 million, or 550%, to a US$9 million net income during the three-month period ended December 31, 2017 from US$2 million net loss during the same period in 2016. Our net margin (representing profit as a percentage of revenue) increased to 2% during the three-month period ended December 31, 2017 from -0.5% during the same period in 2016.

Appendixes

Consolidated Income Statement (US$ million)

	For the year ended December 31st, 2017		For the three months ended December 31st (Q4)	
	2017	**2016**	**2017**	**2016**
Revenues	1,777	1,513	417	416
Cost of sales	-1,391	-1,206	-317	-328
Gross Profit	386	307	100	88
Administrative expenses [1]	-118	-104	-35	-33
Net gain on Kanan write-off	25	-	17	-
Other income	68	20	8	2
Other expense	-12	-5	-4	-2
Profit from operating activities	349	218	86	55
Finance income	17	10	2	4
Gain from derivative financial instruments, net	1	2	-	1
Finance costs	-224	-147	-59	-43
Finance costs, net	-206	-135	-57	-38
Share of profit in associates	1	1	-	-
Profit before tax	144	84	29	17
Income tax expense	-73	-57	-20	-19
Profit (loss) for the period	71	27	9	-2
Attributable to:				
Inkia's equity holders	46	14	1	-4
Non-controlling interest	25	13	8	2
Profit (loss) for the period	**71**	**27**	**9**	**-2**

Cost of Sales:

Cost of Sales (excl Depreciation & Asset Write Off)	-1,235	-1,073	-284	-291
Depreciation & Amortization	-136	-133	-33	-37
Asset Write off	-20	-	-	-
Cost of Sales	**-1,391**	**-1,206**	**-317**	**-328**

1. Includes US$10 million and US$3 million of depreciation and amortization for the twelve-month period and three-month period ended December 31, 2017 allocated to administrative expenses (US$9 million and US$2 million for the twelve-month period and three-month period ended December 31, 2016).

Consolidated Adjusted EBITDA (*)

	For the Year Ended December 31,	
	2017	**2016**
	(in millions of US dollars)	
Net income	US$ 71	US$ 27
Depreciation and amortization	148	145
Assets write-off	20	-
Finance expenses, net	206	135
Share in profit of associate	-1	-1
Income Tax expense	73	57
Net gain on Kanan write-off	-25	-
Consolidated EBITDA	**US$492**	**US$363**
Dividends received from Pedregal	-	1
Consolidated Adjusted EBITDA	**US$492**	**US$364**

(*) As defined by OM

Unconsolidated Operating Cash Flow (*)

	For the Year Ended December 31,	
	2017	**2016**
Distributions received from:		
Energuate	104	25
Kallpa	86	48
COBEE	20	10
PQP	33	-
Nejapa and Cenérgica	6	6
ICPNH	4	7
Kanan (*)	-	50
JPPC	2	-
Pedregal	-	1
Total distributions received	255	147
Operating expenses	-10	-8
Unconsolidated Operating Cash Flow	**US$245**	**US$139**

**US$50 million intercompany loan repayment*

Debt by Company

	As of December 31, 2017 US$ million (*)	As of December 31, 2016 US$ million (*)
Short-term Debt		
Samay	80	32
CEPP	4	1
DEORSA	2	12
DEOCSA	1	18
ICPDH	-	119
Kallpa (**)	-	14
PQP	-	6
COBEE	-	4
Nejapa	-	4
Corinto	-	2
Surpetroil	-	1
	87	213
Long-term Debt		
Kallpa (***)	1,050	993
Inkia	588	448
Samay	302	307
DEOCSA	258	174
DEORSA	182	113
COBEE	80	83
Kanan	36	46
Consorcio Eólico Amayo, S.A.	37	43
Cardones	36	36
Consorcio Eólico Amayo (Fase II), S.A.	28	31
Colmito	10	17
CEPP	5	10
Recsa	4	5
Corinto	3	7
Tipitapa Power Company, Ltd.	3	6
PQP	-	12
Surpetroil	-	1
JPPC	-	1
	2,622	2,333
Total debt	**US$2,709**	**US$2,546**

(*) Debt is presented at amortized cost (net of transaction costs)
(**) As of December 31, 2016, includes US$11 million related to CDA.
(***) As of December 31, 2016, includes US$579 million related to CDA.

Consolidated EBITDA reconciliation from operating income

	For the Year Ended December 31,	
	2017	**2016**
	(in millions of US dollars)	
Operating income	349	218
Depreciation and amortization	148	145
Net gain on Kanan write-off	(25)	-
Assets write-off	20	-
Total Consolidated EBITDA	**US$492**	**US$363**

Financial Information Summary

For the Year Ended December 31, 2017

US$ million

Entity	Ownership Interest (%)	Country	Revenues	Cost of Sales[1]	EBITDA
Peru					
Kallpa	75	Peru	590	317	271
Samay I	75	Peru	135	113	40
Subtotal Peru			**725**	**430**	**311**
Central America					
ICPNH	61-65	Nicaragua	101	71	26
Nejapa	100	El Salvador	85	66	16
Cenérgica	100	El Salvador	18	7	3
PQP	100	Guatemala	37	36	28
Kanan	100	Panama	68	52	16
Guatemel	100	Guatemala	10	9	-
Subtotal Central America			**319**	**241**	**89**
Other					
COBEE	100	Bolivia	44	16	22
CEPP	97	Dominican Republic	34	29	4
Central Cardones	87	Chile	14	2	9
Colmito	100	Chile	22	19	3
JPPC	100	Jamaica	55	46	6
Surpetroil	60	Colombia	2	1	-
Recsa	100	Guatemala	1	1	-
Inkia & others	100	Various	1	-	-7
Subtotal Other			**173**	**114**	**37**
Distribution					
DEOCSA	91	Guatemala	314	255	40
DEORSA	93	Guatemala	249	198	36
Subtotal Distribution			**563**	**453**	**76**
Eliminations			**-3**	**-3**	**-21**[2]
Total Inkia			**US$1,777**	**US$1,235**	**US$492**

[1] Excluding Depreciation, Amortization and Asset Write Off.
[2] Elimination of PQP's gain on the barge sale to Kanan.

For the Year Ended December 31, 2016

US$ million

Entity	Ownership Interest (%)	Country	Revenues	Cost of Sales[1]	EBITDA
Peru					
Kallpa	75	Peru	488	303	170
Samay I	75	Peru	36	16	19
Subtotal Peru			**524**	**319**	**189**
Central America					
ICPNH	61-65	Nicaragua	90	59	28
Nejapa	100	El Salvador	83	67	12
Cenérgica	100	El Salvador	24	14	4
PQP	100	Guatemala	55	52	5
Kanan	100	Panama	67	55	11
Guatemel	100	Guatemala	7	5	-
Subtotal Central America			**326**	**252**	**60**
Other					
COBEE	100	Bolivia	40	15	20
CEPP	97	Dominican Republic	30	24	3
Central Cardones	87	Chile	13	1	9
Colmito	100	Chile	21	18	3
JPPC	100	Jamaica	42	35	4
Surpetroil	60	Colombia	8	8	-
Recsa	100	Guatemala	1	-	-
Inkia & others	100	Various	1	-	-7
Subtotal Other			**156**	**101**	**32**
Distribution					
DEOCSA	91	Guatemala	284	226	46
DEORSA	93	Guatemala	225	177	36
Subtotal Distribution			**509**	**403**	**82**
Eliminations			**-2**	**-2**	**-**
Total Inkia			**US$1,513**	**US$1,073**	**US$363**

[1] Excluding Depreciation, Amortization and Asset Write Off.

For the Three Months Ended December 31, 2017

US$ million

Entity	Ownership Interest (%)	Country	Revenues	Cost of Sales[1]	EBITDA
Peru					
Kallpa	75	Peru	155	78	65
Samay I	75	Peru	5	5	8
Subtotal Peru			**160**	**83**	**73**
Central America					
ICPNH	61-65	Nicaragua	27	20	5
Nejapa	100	El Salvador	18	13	5
Cenérgica	100	El Salvador	2	2	1
PQP	100	Guatemala	9	6	23
Kanan	100	Panama	12	10	1
Guatemel	100	Guatemala	3	3	-
Subtotal Central America			**71**	**54**	**35**
Other					
COBEE	100	Bolivia	11	4	4
CEPP	97	Dominican Republic	8	7	-
Central Cardones	87	Chile	4	1	2
Colmito	100	Chile	4	4	1
JPPC	100	Jamaica	16	14	2
Surpetroil	60	Colombia	-	-	-
Recsa	100	Guatemala	-	1	-
Inkia & others	100	Various	-	-	-7
Subtotal Other			**43**	**31**	**2**
Distribution					
DEOCSA	91	Guatemala	82	66	8
DEORSA	93	Guatemala	62	51	7
Subtotal Distribution			**144**	**117**	**15**
Eliminations			-1	-1	**-21**[2]
Total Inkia			**US$417**	**US$284**	**US$104**

[1] Excluding Depreciation, Amortization and Asset Write Off.
[2] Elimination of PQP's gain on the barge sale to Kanan.

For the Three Months Ended December 31, 2016

US$ million

Entity	Ownership Interest (%)	Country	Revenues	Cost of Sales[1]	EBITDA
Peru					
Kallpa	75	Peru	137	81	46
Samay I	75	Peru	13	5	9
Subtotal Peru			**150**	**86**	**55**
Central America					
ICPNH	61-65	Nicaragua	23	17	7
Nejapa	100	El Salvador	24	20	3
Cenérgica	100	El Salvador	7	3	-
PQP	100	Guatemala	11	12	-1
Kanan	100	Panama	19	12	6
Guatemel	100	Guatemala	2	2	-
Subtotal Central America			**86**	**66**	**15**
Other					
COBEE	100	Bolivia	10	3	4
CEPP	97	Dominican Republic	8	7	-
Central Cardones	87	Chile	4	-	3
Colmito	100	Chile	3	3	1
JPPC	100	Jamaica	14	10	3
Surpetroil	60	Colombia	2	3	-1
Recsa	100	Guatemala	1	-	-
Inkia & others	100	Various	-	-	-3
Subtotal Other			**42**	**26**	**7**
Distribution					
DEOCSA	91	Guatemala	78	64	13
DEORSA	93	Guatemala	61	50	5
Subtotal Distribution			**139**	**114**	**18**
Eliminations			**-1**	**-1**	**-**
Total Inkia			**US$416**	**US$282**	**US$95**

[1] Excluding Depreciation, Amortization and Asset Write Off.

INKIA ENERGY LTD.

Consolidated Financial Statements

December 31, 2017 and 2016

(including Independent Auditors' Report)

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors
Inkia Energy Ltd.

Opinion

We have audited the contractual basis consolidated financial statements of Inkia Energy Ltd. and subsidiaries (the Company), which comprise the contractual basis consolidated statement of financial position as at December 31, 2017, the contractual basis consolidated statements of profit or loss, other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the contractual basis consolidated financial statements, comprising significant contractual accounting policies and other explanatory information.

In our opinion, the accompanying contractual basis consolidated financial statements of the Company for the year ended December 31, 2017 are prepared in all material respects, in accordance with the Closing Accounting Policies of the Stock Purchase Agreement between Inkia Energy Ltd. (Seller 1), IC Power Distribution Holdings, Pte. Ltd. (Seller 2), and Nautilus Inkia Holdings LLC (Buyer 1), Nautilus Distribution Holdings LLC (Buyer 2), and Nautilus Isthmus Holdings LLC (Buyer 3) dated November 24, 2017 (the Contract).

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 *Auditor's Responsibilities for the Audit of the Contractual Basis Consolidated Financial Statements* section of our report. We are independent of the Company 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.

Emphasis of Matters

- Basis of Accounting and Restriction on Distribution and Use:

  We draw attention to Note 2.A of the contractual basis consolidated financial statements, which describes the basis of accounting. These contractual basis consolidated financial statements as at December 31, 2017 are prepared to assist Inkia Energy Ltd. and IC Power Distribution Holdings, Pte. Ltd. in complying with the Closing Accounting Policies of the Contract set out in this Note 2.A. As a result, the contractual basis consolidated financial statements may be not suitable for another purpose. Our report is intended solely for Inkia Energy Ltd., IC Power Distribution Holdings, Pte. Ltd., Nautilus Inkia Holdings LLC, Nautilus Distribution Holdings LLC, and Nautilus Isthmus Holdings LLC and should not be distributed to or used by other parties. Our opinion is not modified with respect to this matter.

Caipo y Asociados S. Civil de R.L., sociedad civil peruana de responsabilidad limitada y firma miembro de la red de firmas miembro independientes de KPMG afiliadas a KPMG International Cooperative ("KPMG International"), una entidad suiza.

Inscrita en la partida N° 01681796 del Registro de Personas Jurídicas de Lima.

- We draw attention to Note 30.D of the contractual basis consolidated financial statements. In 2011, the acquisition of DEORSA and DEOCSA by the previous owners was 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. As of December 31, 2017 and 2016, the total tax claim paid under protest by DEOCSA and DEORSA amounts to US$89,516 thousand and US$ 80,023 thousand, respectively. Management considers, based on the opinion of its tax and legal advisors, that the receivable generated by these payments is more likely than not to be recovered as a result of the final outcome of this claim and of the other recourses to be initiated by Inkia Energy Ltd., DEOCSA and DEORSA. Our opinion is not modified with respect to this matter.

Going Concern

We draw attention to Notes 1 and 2.A of the contractual basis consolidated financial statements, which indicates that Inkia Energy Ltd. and IC Power Distribution Holdings, Pte. Ltd. completed the sale of its Latin American and Caribbean businesses to the Buyers on December 31, 2017. These events or conditions, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Matters

- The statutory consolidated financial statements of Inkia Energy Ltd. and subsidiaries as of and for the year ended December 31, 2017, prepared in accordance with International Financial Reporting Standards (IFRS), were authorized for issuance on March 26, 2018 by the Board of Directors.

- The statutory consolidated financial statements of Inkia Energy Ltd. and subsidiaries as of and for the year ended December 31, 2016, prepared in accordance with IFRS were audited by us expressing an unqualified opinion dated October 25, 2017. These statutory consolidated financial statements are presented herein only for comparative purposes.

Responsibilities of Management and Those Charged with Governance for the Contractual Basis Consolidated Financial Statements

Management is responsible for the preparation of the contractual basis consolidated financial statements in accordance with the Closing Accounting Policies of the Contract and for such internal control as management determines is necessary to enable the preparation of contractual basis consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the contractual basis consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Contractual Basis Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the contractual basis consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 contractual basis 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 contractual basis 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 Company'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 Company's ability to continue as a going concern. If we conclude that a material related disclosures in the contractual basis 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 auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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.

Lima, Peru

April 26, 2018

Caipo y Asociados

Juan José Córdova
Peruvian Certified Public Accountant
Registration 01-18869

INKIA ENERGY LTD. AND SUBSIDIARIES

Consolidated Statement of Financial Position

As of December 31, 2017 and 2016

In thousands of U.S. dollars - Contractual Basis	Note	2017	2016
Assets			
Current assets			
Cash and cash equivalents	8	360,227	172,695
Short-term deposits and restricted cash	9	17,890	41,679
Trade receivable	10	272,223	249,753
Other receivable	11	63,166	46,896
Income tax receivable		7,759	11,326
Inventories	13	91,718	91,659
Intercompany balances with parent Company	12	89,110	51,134
Total current assets		**902,093**	**665,142**
Non-current assets			
Restricted cash	9	8,394	16,540
Trade receivable	10	12,331	10,120
Investment in associate	14	9,153	8,896
Deposits and other receivables, including derivate instruments		19,685	27,593
Income tax receivable and tax claims	11	104,698	99,892
Deferred income tax assets	20	25,450	25,104
Property, plant and equipment, net	15	2,937,005	3,001,690
Intangible assets and goodwill, net	16	357,835	375,756
Total non-current assets		**3,474,551**	**3,565,591**
Total assets		**4,376,644**	**4,230,733**

In thousands of U.S. dollars - Contractual Basis	Note	2017	2016
Liabilities			
Current liabilities			
Credit from Banks and others	17	142,453	360,938
Trade payable	18	191,740	252,956
Other payables including derivative instruments	19	85,893	77,163
Guarantee deposits from customers	19	59,735	56,833
Income tax payable	19	10,214	6,984
Deferred revenue	19	459	944
Intercompany balance		620	-
Total current liabilities		**491,114**	**755,818**
Non-current liabilities			
Loans from Banks and others	17	621,919	1,328,604
Debentures	17	1,944,559	856,670
Trade payable	18	38,770	44,057
Derivative instruments	19	56	14,271
Deferred income tax liabilities	20	196,230	186,686
Employee benefits	19	13,903	11,076
Other long term liabilities	19	38,889	44,032
Total non-current liabilities		**2,854,326**	**2,485,396**
Total liabilities		**3,345,440**	**3,241,214**
Equity			
Share capital	21	3	3
Share premium		342,773	342,773
Capital reserves		6,108	(14,035)
Employee benefits		(2,503)	(248)
Retained earnings		514,310	468,732
Total equity attributable to the equity holders of the Company		**860,691**	**797,225**
Non-controlling interest	22	170,513	192,294
Total equity		**1,031,204**	**989,519**
Total liabilities and equity		**4,376,644**	**4,230,733**

The notes on pages 7 to 93 are part of these contractual basis consolidated financial statements.

INKIA ENERGY LTD. AND SUBSIDIARIES
Consolidated Statement of Profit or Loss
For the years ended December 31, 2017 and 2016

In thousands of U.S. dollars - Contractual Basis	***Note***	**2017**	**2016**
Revenue		1,777,232	1,513,351
Cost of sales	*5,15,16,23*	(1,391,385)	(1,205,521)
Gross profit		**385,847**	**307,830**
Selling, general and administrative expenses	*24*	(118,460)	(104,456)
Other income	*26*	93,478	20,415
Other expenses	*26*	(11,465)	(5,183)
Profit from operating activities		**349,400**	**218,606**
Finance income	*25*	16,831	10,508
Net gain from derivative financial instruments	*19.C*	647	1,555
Finance costs	*25*	(223,926)	(147,135)
Finance costs, net		**(206,448)**	**(135,072)**
Share of profit in associate	*14*	685	623
Profit before income tax		**143,637**	**84,157**
Income tax expense	*20*	(73,141)	(57,083)
Profit		**70,496**	**27,074**
Attributable to			
Inkia's equity holders		45,582	13,824
Non - controlling interest	*22*	24,914	13,250
Profit		**70,496**	**27,074**

The notes on pages 7 to 93 are part of these contractual basis consolidated financial statements.

INKIA ENERGY LTD. AND SUBSIDIARIES
Consolidated Statement of Other Comprehensive Income
For the years ended December 31, 2017 and 2016

In thousands of U.S. dollars - Contractual Basis	**2017**	**2016**
Profit	70,496	27,074
Components of other comprehensive income		
Items that will be subsequently reclassified to profit or loss		
Exchange differences on translating foreign operations	5,174	3,329
Foreign currency translation differences transferred to profit and loss, note 26	5,351	-
Cash flow hedges – effective portion of changes in fair value	20,927	20,440
Cash flow hedges – reclassified to profit and loss	(1,324)	1,562
Share of other comprehensive income (loss) of associates	(4)	23
Income tax expenses relating to cash flow hedges	(6,191)	(6,002)
	23,933	**19,352**
Items that will not be subsequently reclassified to profit or loss		
Remeasurament of defined benefit obligation	(3,291)	(363)
Income tax on defined benefit obligation	881	99
	(2,410)	**(264)**
Other comprehensive income for the year, net of tax	**21,523**	**19,088**
Total comprehensive income for the year	**92,019**	**46,162**
Attributable to		
Inkia's equity holders	63,466	28,483
Non-controlling interest	28,553	17,679
Total comprehensive income for the year	**92,019**	**46,162**

The notes on pages 7 to 93 are part of these contractual basis consolidated financial statements.

INKIA ENERGY LTD. AND SUBSIDIARIES
Consolidated Statement of Changes in Equity
For the years ended December 31, 2017 and 2016

	Attributable to Inkia's equity holders							Non-	
In thousands of U.S. dollars - Contractual Basis	Share capital	Share premium	Hedging reserves	Translation reserve	Employee benefits	Retained earnings	Total	controlling interest	Total equity
Balances as at January 1, 2016	3	342,773	(21,767)	(7,152)	-	454,885	768,742	177,762	946,504
Comprehensive income for the year									
Profit	-	-	-	-	-	13,824	13,824	13,250	27,074
Other comprehensive income (loss)									
Share of other comprehensive income of associates	-	-	-	-	-	23	23	-	23
Remeasurament of defined benefit obligation, net of income	-	-	-	-	(248)	-	(248)	(16)	(264)
Exchange differences on translating foreign operations	-	-	-	2,718	-	-	2,718	611	3,329
Cash flow hedges, net of income tax	-	-	12,166		-	-	12,166	3,834	16,000
Total other comprehensive income	**-**	**-**	**12,166**	**2,718**	**(248)**	**23**	**14,659**	**4,429**	**19,088**
Total comprehensive income for the year	**-**	**-**	**12,166**	**2,718**	**(248)**	**13,847**	**28,483**	**17,679**	**46,162**
Transactions with owners of the company									
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 22	-	-	-	-	-	-	-	20,325	20,325
Balances as at December 31, 2016	**3**	**342,773**	**(9,601)**	**(4,434)**	**(248)**	**468,732**	**797,225**	**192,294**	**989,519**
Balances as at January 1, 2017	3	342,773	(9,601)	(4,434)	(248)	468,732	797,225	192,294	989,519
Comprehensive income for the year									
Profit	-	-	-	-	-	45,582	45,582	24,914	70,496
Other comprehensive income (loss)									
Share of other comprehensive income of associates	-	-	-	-	-	(4)	(4)	-	(4)
Remeasurement of defined benefit obligation, net of income	-	-	-	-	(2,255)	-	(2,255)	(155)	(2,410)
Exchange differences on translating foreign operations	-	-	-	4,733	-	-	4,733	441	5,174
Foreign currency translation differences	-	-	-	5,351	-	-	5,351	-	5,351
Cash flow hedges, net of income tax	-	-	10,059	-	-	-	10,059	3,353	13,412
Total other comprehensive income	**-**	**-**	**10,059**	**10,084**	**(2,255)**	**(4)**	**17,884**	**3,639**	**21,523**
Total comprehensive income for the year	**-**	**-**	**10,059**	**10,084**	**(2,255)**	**45,578**	**63,466**	**28,553**	**92,019**
Transactions with owners of the company									
Distributions to non-controlling shareholders	-	-	-	-	-	-	-	(27,639)	(27,639)
Capital reduction to non-controlling shareholders	-	-	-	-	-	-	-	(13,805)	(13,805)
Sale of subsidiary	-	-	-	-	-	-	-	(8,890)	(8,890)
Balances as at December 31, 2017	**3**	**342,773**	**458**	**5,650**	**(2,503)**	**514,310**	**860,691**	**170,513**	**1,031,204**

The notes on pages 7 to 93 are part of these contractual basis consolidated financial statements.

INKIA ENERGY LTD. AND SUBSIDIARIES
Consolidated Statement of Cash Flows
For the years ended December 31, 2017 and 2016

In thousands of U.S. dollars - Contractual Basis	**2017**	**2016**
Profit	70,496	27,074
Adjustments for:		
Depreciation and amortization	147,667	145,043
Finance costs, net	206,448	135,072
Income tax expense	73,141	57,083
Loss (gain) on disposal of property, plant and equipment	(24,838)	2,170
Impairment	20,438	-
Bad debt expense	7,866	4,896
Inventory write off	1,232	135
Share of profit in associate	(685)	(623)
	501,765	**370,850**
Changes in		
Trade and other accounts receivable	(63,837)	(68,082)
Inventories	(2,470)	(40,076)
Trade and other accounts payable	(54,394)	26,078
Provisions and employee benefits	67	(1,050)
	381,131	**287,720**
Income tax paid	(65,144)	(116,413)
Dividends received	382	743
Net cash provided by operating activities	**316,369**	**172,050**
Cash flows from investing activities		
Acquisition of property, plant and equipment	(123,810)	(225,738)
Acquisition of intangibles	(10,353)	(9,548)
Constitution (liquidation) of short-term deposits	(4,421)	50,000
Value Added Tax	(32)	8,884
Insurance claim	80,000	-
Restricted cash	36,491	125,831
Energuate purchase adjustment	10,272	-
Collection of interest	6,768	6,062
Proceeds from sales of plant and equipment	4,726	421
Sale of subsidiary	600	-
Business combination, net of cash acquired	-	(206,059)
Payment of consideration retained	-	(2,204)
Net cash provided by (used in) investing activities	**241**	**(252,351)**

The notes on pages 7 to 93 are part of these contractual basis consolidated financial statements.

INKIA ENERGY LTD. AND SUBSIDIARIES
Consolidated Statement of Cash Flows
For the years ended December 31, 2017 and 2016

In thousands of U.S. dollars - Contractual Basis	**2017**	**2016**
Cash flows from financing activities		
Payment of long term debt	(1,416,322)	(378,048)
Payment of short term borrowings	(380,990)	(368,957)
Payment of interest	(152,016)	(124,944)
Payment of loan to IC Power	(41,788)	(12,684)
Payment of swap unwinding and early prepayment fee	(40,702)	-
Payment of issuance expenses	(30,645)	(24,210)
Payments of dividends to non-controlling interest	(23,233)	(23,311)
Payment of capital reduction to non-controlling interest	(13,805)	-
Payment of loan with non-controlling shareholder	(7,635)	-
Payment of consent fee	(4,547)	-
Payment of transaction costs	(3,280)	-
Proceeds from long-term debt	1,721,775	540,727
Proceeds from short term borrowings	254,932	401,880
Payment of redemption premium	-	(9,515)
Capital contributions and proceeds from non-controlling shareholder	-	9,428
Net cash (used) provided by financing activities	**(138,256)**	**10,366**
Net increase (decrease) in cash and cash equivalents	178,354	(69,935)
Cash and cash equivalents as at January 1	172,695	239,109
Effect of changes in the exchange rate on cash and cash equivalents	9,178	3,521
Cash and cash equivalents as at December 31	**360,227**	**172,695**
Non-cash investing transactions		
Purchase of fixed assets on credit and others	(14,686)	(22,405)

The notes on pages 7 to 93 are part of these contractual basis consolidated 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 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 Asia Development Ltd. ("ICPAD"). 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.

Inkia has an operating capacity of approximately 3,374 MWs as of December 31, 2017 (3,436 MWs as of December 31, 2016). 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
Operating Companies					
Kallpa	Peru	75%	Natural gas and hydroelectric	1,618	July 2007 – August 2016
Samay I	Peru	75%	Natural gas and Diesel	632	May 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[1]	Jamaica	100%	Heavy fuel oil	60	June 2007 - May 2014
Kanan	Panama	100%	Heavy fuel oil	124	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
PQP	Guatemala	100%	Heavy fuel oil	55	September 2014
Investments					
Pedregal	Panamá	21%	Heavy fuel oil	54	June 2007
Total operating capacity as of December 31, 2016				**3,374**	

1. Inkia acquired the remaining 84% stake in JPPC in May 2014.

Inkia's administrative offices are located in Calle Las Palmeras 435, 7th Floor, Peru. The address of its registered office is 22 Victoria Street, Hamilton HM 12, Bermuda.

On December 31, 2017, Inkia Energy Limited ("Inkia"), a wholly-owned subsidiary of IC Power completed the sale of its Latin American and Caribbean businesses to I Squared Capital ("ISQ"), an infrastructure private equity firm. As a result of this, the Company classified its Latin American and Caribbean businesses as discontinued operations in its statutory consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS).

The sale generated proceeds of approximately US$ 1,331,091 thousand, consisting of US$ 1,109,573 thousand proceeds paid by ISQ plus retained unconsolidated cash at Inkia of US$ 221,518 thousand. This reflects the base purchase price of US$ 1,177,000 thousand after certain adjustments, including estimated working capital, debt and cash at closing. The purchase price is subject to customary adjustments, including a final adjustment based on actual working capital, debt and cash amounts as of the closing date.

As part of the transaction, ISQ will assume Inkia's US$ 600,000 thousand of bonds, which were issued in November and December 2017. See note 2.A.

2. Significant Accounting Policies

The principal accounting policies applied in the preparation of these contractual basis consolidated financial statements are set out below.

A. Basis of preparation

The contractual basis consolidated financial statements have been prepared in accordance with the "Closing Accounting Policies" pursuant the Share Purchase Agreement between Inkia Energy Ltd. (Seller 1), IC Power Distribution Holdings, Pte. Ltd. (Seller 2), and Nautilus Inkia Holdings LLC (Buyer 1), Nautilus Distribution Holdings LLC (Buyer 2), and Nautilus Isthmus Holdings LLC (Buyer 3) dated November 24, 2017 (the Contract).

"Closing Accounting Policies" means International Financial Reporting Standards (IFRS) using the accounting methods, policies, practices, procedures, judgments and estimation methodology used by the Company in the normal closing process reflected in Inkia´s audited financial statements and applied consistently with past practice. On December 31, 2017, Inkia Energy Ltd. completed the sale of its Latin American and Caribbean businesses to the Buyers. In this regards and in accordance with the Contract, the Company's consolidated financial statements have been prepared applying IFRS on a consolidated basis without taking into account the sale, see note 1.

The contractual basis consolidated financial statements as of December 31, 2017 have been authorized for issuance by the Management of the Company on March 26, 2018.

i. Historical cost basis

The contractual basis 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.

ii. New standards and interpretations not yet adopted

Certain new standards and interpretations have been published that are not mandatory for December 31, 2017 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:

Estimated impact of the adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue from contracts

The Group has assessed the estimated impact that the initial application of IFRS 9 and IFRS 15 in the generation segment will have on its contractual basis consolidated financial statements, evaluation of these new standards in the distribution segment is still under process. The estimated impact of the adoption of these standards on the Group´s equity as of January 1, 2018 may change because the new accounting policies are subject to change until the Group presents its first financial statements that include the date of initial application.

In thousands of US dollars	As reported at December 31, 2017	Estimated adjustments due to application of IFRS 9	Estimated adjustments due to application of IFRS 15	Estimated adjusted opening balance as of January 1, 2018
Retained earnings	510,550	(7,262)	-	503,288
Non-controlling interest	170,513	(2,433)	-	168,080

The total estimated adjustment (net of tax) to the opening balance of the Group´s equity as of January 1, 2018 is decrease of US$ 9,695 thousand in equity due to the renegotiation of financial liabilities not resulting in de-recognition.

IFRS 9 Financial instruments:
IFRS 9 Financial Instruments set outs requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. An entity shall apply this Standard for annual 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 and quantitative impacts of the implementation. The Group considers that the overall impact of the implementation of IFRS 9 will not have a significant impact on the contractual basis consolidated financial statements of the Group except for the renegotiation of financial liabilities.

The Group has elected to apply the classification and measurement and impairment requirements of the standard retrospectively, without restating the comparative period. As a consequence, any adjustments to carrying amounts of financial assets and financial liabilities are recognized at the date of initial application of IFRS 9 (January 1, 2018) in opening retained earnings. Provisions for impairment will not be restated in the comparative period and disclosure requirements arising from the consequential amendments made to IFRS 7 and IFRS 9 will not be presented in relation to the comparative period. The new hedge accounting requirements must be applied prospectively.

The examination of the impacts was conducted, considering the following main areas of IFRS 9:

Classification of financial assets
IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 contains three principal classifications categories for financial assets: measured at amortized cost, fair value through profit and loss (FVTPL) and fair value through other comprehensive income (FVOCI). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

Classification of debt assets will be driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. A debt instrument is measured at amortized cost if: a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and b) the contractual cash flows under the instrument solely represent payments of principal and interest. A debt instrument is measured at FVOCI if: a) the objective of the business model is to collect and sale, and b) the contractual cash flows under the instrument solely represent payments of principal and interest. All other debt instruments must be measured at FVTPL.

Based on its assessment, the Group consider that the application of IFRS 9 will not lead to changes in the classification and measurement of financial assets due to the types of financial assets held by the Group. The financial assets hold by the Group will be classified as measured at amortized cost.

Impairment of financial assets

The Group will apply the simplified model in order to calculate the expected credit losses for its most important financial asset, the trade receivables. 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 a 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, it would be expected the recognition of losses the first day of the recognition of the receivable (day - one losses), based on the fact that all receivable is exposed to credit risk.

The provision matrix is based on historical loss experience and is adjusted for forward-looking information based on current and future economic conditions if this information is available without undue cost and effort.

The application of the new impairment requirements of IFRS, considering the creditworthiness of its customers will not be significant.

Renegotiation of debt instruments not resulting in a de-recognition

In May 2016, our subsidiary Kallpa Generacion S.A. (Kallpa) raised US$ 350 million of private debt under Rule 144 A / Regulation S (the "New Notes) to refinance its current debts (short-term loans, local bonds, Syndicate Loan and Financial Leases for Kallpa II and III) at more attractive interest rates, extending maturity dates and taking advantage of its investment grade rating.

Kallpa evaluated based on quantitative (10% Present Value-test) as well as qualitative factors if there was a substantial modification of the terms of the existing financial liability. The result of the aforementioned analysis was a no substantive modification of the existing debt terms without de-recognition of the original financial liability.

The difference between the original and modified cash flows was amortized over the remaining term of the modified liability by re-calculating the effective interest rate, with no recognition of a gain or loss at the date of modification.

IFRS 9 requires that entities must recognize a gain or loss at the date of modification when a financial liability measured at amortized cost is modified without this resulting in de-recognition. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate.

As a result, Kallpa should change its current accounting policy due to the fact that the current accounting policy is not aligned with IFRS 9. IFRS 9 must be applied retrospectively, therefore gains and losses arising from financial liabilities that are still recognized at the date of initial application would need to be calculated and adjusted through opening retained earnings on transition.

The Group estimates that the difference between the original and the modified cash flows at the original interest rate results in a total decrease of US$ 9,695 thousand in the Group´s equity on January 1, 2018.

Hedge Accounting

The new hedge accounting rules align hedge accounting more closely with common risk management practices. As a general rule, it will be easier to apply hedge accounting going forward.

The types of hedge accounting relationships that the Group currently designates meet the requirements of IFRS 9 and are aligned with the risk management strategy and objective. The Group had not designated more hedge relationships.

The Group will apply the new hedge accounting requirements under IFRS 9. Transition to the new standard in relation to hedge accounting will be carried out prospectively. Due to the fact, that the underlying concepts of Hedge Accounting has not changed, the Group does not expect a significant impact.

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:

An entity's risk management strategy and how it is applied to manage risk;

1) How the entity's hedging activities might affect the amount, timing and uncertainty of its future cash flows;
2) The effect that hedge accounting has had on the entity's contractual basis consolidate financial statements; and
3) Whether the entity is applying the option to designate a credit exposure as measured at fair value through P&L.

The disclosure requirements for each of these four areas are very detailed. The Group will apply them in 2018 financial statements.

IFRS 15 Revenue from contracts with customers:
IFRS 15 Revenue from Contracts with Customers established a comprehensive framework for determining whether, how much and when revenues is recognized. It replaces IAS 11 Construction Contracts, IAS 18 Revenue and IFRIC 13 Customer Loyalty Programmes.

An entity shall apply this standard to all contracts with customers, except for insurance contracts, financial instruments and lease contracts, which are within the scope of other standards.

IFRS 15 provides a single revenue recognition model applied to contracts with customers and two approaches to revenue recognition: at a point in time or over time. The model, based on control, considers a transaction analysis based on five steps to determine whether, how much and when revenue is recognized:

1. Identify the contract with a customer.
2. Identify the performance obligations in the contract.
3. Determine the transaction price.
4. Allocate the transaction price to the performance obligations in the contract.
5. Recognize revenue when (or as) the entity satisfies a performance obligation.

The Group plans to adopt IFRS 15 using the cumulative effect method, with effect of initially applying this standard recognized at the date of initial application: January, 1, 2018. As a result, the Group will not apply the requirements of IFRS 15 to the comparative period presented in 2018 financial statements.

The Group has conducted an assessment in order to determine the qualitative and quantitative impacts of the implementation of the new revenue recognition standard. Based on this assessment, the Group does not expect a material impact due to the transition to IFRS 15. The following impacts were identified in comparison with the previous revenue recognition policies:

Principal-agent relationships
The revised criteria for principal-agent relationships concerning transmission services paid by some subsidiaries (Nejapa, Cenergica, Kallpa, Kanan and PQP – "The Subsidiaries") and reimbursed from their customers will result in a change in recognition on the profit or loss statement. Under the current accounting policy, the Group recognizes the reimbursements received from customers as revenue and the payments made as costs on a gross basis.

The Group had analyzed the criteria in IFRS 15 in order to determine if it acts a principal or agent in this transaction, resulting in the conclusion that The Subsidiaries act as an agent due to the following reasons:

- The transmission company is responsible for providing the transmission services and assumes the final responsibility for the services. The responsibility of The Subsidiaries ends with the injection of the energy in the transmission system.
- The Subsidiaries does not have discretion in establishing the prices due to the fact that the transmission tariffs are determined by the regulator.

Furthermore, some subsidiaries are obligated to pay several regulatory charges (for example FISE) to the government, these charges are reimbursed by the clients.

Therefore, revenues and costs related to transmission fees and charges reimbursed by clients should be offset. This means that revenues and cost of sales will decrease without resulting in any earnings effects.

Variable consideration - Tarifa Dignidad
In Bolivia, there is a type of tariff called “Tarifa Dignidad” approved by Government since 2006 that grants 25% discount in the electricity bills of Distributor´s clients whose monthly consumption is below 70 kWh in the urban areas and 30 kWh in the rural ones. This discount is covered by all electricity companies that operate in Bolivia, therefore COBEE as a generation company must pay this tariff to the distribution company which is at the same time customer of COBEE.

The payment of this tariff is currently recognized as cost of sales. Under IFRS 15 it should be estimated and treated as a reduction of revenue. This change has not impact in retained earnings.

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

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

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-of use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Therefore, the main impact on entities with operates leases is an increase in assets and the financial debt. In addition, the nature of expenses related to those leases will now change as IFRS 16 replaces the straight line operating lease expense with a depreciation charge for right of use and interest expense on lease liabilities. The larger the entity's lease portfolio, the greater the impact on its reporting metrics.

The Group has conducted an initial assessment in order to determine the qualitative impacts of the implementation of the new lease standard. As of 31 December 2017, the Group is not able to determine the quantitative impact. The Group considers that the overall impact of the implementation of IFRS 16 will be low due to the volume of operating lease contracts of the Group is not significant. The Group intends to apply recognition exemptions to exclude short- term leases and leases of low-value items.

The Group plans to apply IFRS 16 initially on January 1, 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balances of retained earnings as of January 1, 2019 with no restatement of comparative information.

The Group has not yet finished the evaluation and will continue to assess the quantitative impacts of the future implementation of IFRS 16.

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 contractual basis consolidated financial statements from the date on which control commences until the date on which control ceases and based on the “Closing Accounting Polices” of the contract.

The Group has no interests in structured entities as of December 31, 2016.

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 losses 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. Reorganizations under Common Control Transactions

Common control transactions that involve the setup of a new group company and the combination of entities under common control are recorded using the book values of the parent company.

vi. 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.

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.

vii. 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. 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 theses 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 4.A, 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 contractual basis consolidated financial statement, Inter-segment pricing is determined based on transaction prices occurring in the ordinary course of business.

D. 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 contractual basis 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:

- Available-for sale equity investments (except on impairment, in which case foreign currency differences that have been recognized in OCI are reclassified to profit or loss); and
- 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.

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.

E. 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.

F. 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.

The revenues from 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, 2017, the weighted average remaining life of our PPAs based on firm capacity was 8 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.

G. 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. Share-based payment transactions

The grant-date fair value of equity-settled share-based payment arrangements granted to employees is generally recognized as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

iii. 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.

iv. Bonus plans Transactions

The Group's senior executives receive remuneration in the form of share-appreciations rights, which can only be settled in cash (cash-settled transactions). The cost of cash-settled transactions is measured initially at the grant date.

v. 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.

vi. 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.

H. 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 basic over the useful life of the related asset reducing the depreciation expense.

I. Finance income and finance costs

The Group's finance income and finance costs include:

- Interest income;
- Interest expense;
- The net gain or loss on the disposal of available-for-sale financial assets;
- The net gain or loss on financial assets at fair value through profit or loss;
- The foreign currency gain or loss on financial assets and financial liabilities;
- The fair value loss on contingent consideration classified as financial liability;
- Impairment losses recognized on financial assets (other than trade receivables);
- 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.

J. 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, unused tax credits 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.

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.

K. 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.

L. 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.

M. Cash and cash equivalents

In the contractual basis consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with banks, and 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. Bank overdraft are shown within Credit from banks and other current liabilities in the statement of financial position.

N. 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:

	Years
Roads	20 - 30
Buildings	5 - 80
Leasehold improvements	2 – 10
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.

O. 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. 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. 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 separately from 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:

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.

P. Transfer of assets from customers

In the distribution industry, an entity may receive from its customers 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 has control on the assets and the customers are connected to the distribution network.

Q. 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.

R. Financial instruments

The Group classifies non-derivative financial assets into the following categories: financial assets at fair value through profit and loss and, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

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 contractual basis 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.
Held-to-maturity financial assets	These assets are initially measured at fair value plus any direct attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost using the effective interest method.
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.

S. 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.

T. 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.

U. 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.

V. 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.

W. Provisions

A provisions is recognized if as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

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.

X. 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 contractual basis 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.

Y. Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date 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.

3. Basis of Preparation of Contractual Basis Financial Statements

A. Use of judgments and estimates

The preparation of accounting estimates used in the preparation of the Group's contractual basis 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 contractual basis consolidated financial statements in conformity with the contract 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 contractual basis 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 15 and 16 – Useful life of the property, plant and equipment and intangible assets;
- Note 16 – Key assumptions used for discounted cash flow projections;
- Note 20 – Utilization of tax losses.
- Note 30 – 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.

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:

In thousands of U.S. dollars	
Cash consideration	242,536
Deferred payment	23,750
Total consideration transferred	**266,286**
Total consideration transferred	266,286
Cash and cash equivalents acquired	(60,227)
Total	**206,059**

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:

In thousands of U.S. dollars	***Note***	
Property, plant and equipment, net	*15*	392,495
Intangibles assets	*16*	195,148
Deferred income tax assets	*20*	20,289
Trade receivables, net	*10*	100,508
Cash and cash equivalents	*8*	60,227
Other assets		22,457
Credit from bank and others		(288,290)
Deferred income tax liabilities	*20*	(54,642)
Trade payables	*18*	(108,193)
Guarantee deposits from customers (a)	*19*	(51,072)
Other liabilities		(39,418)
Total identifiable net assets acquired		**249,509**

(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:

In thousands of U.S. dollars	***Note***	
Total consideration transferred	*A*	266,286
Non-controlling interest		20,325
Fair value of identifiable net assets	*B*	(249,509)
Goodwill*	***16***	**37,102**

(*) 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.

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.

5. 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. The sale of Colombian assets, net of cash, was recognized as follows:

In thousands of U.S. dollars	
Price according Sale Agreement	1,156
Tax	(156)
Cash	(400)
Sale of subsidiary, net of cash	**600**

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.

6. 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 contractual basis consolidated statement of profit or loss (Note 26).

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.

7. Merger of CDA and Kallpa

On June 26, 2017, the Shareholders and the Board of Directors of Kallpa Generacion S.A. (hereinafter "Kallpa") and Cerro del Aguila S.A. (hereinafter "CDA"), unanimously approved the merger of both companies. On August 16, 2017, Kallpa merged with and into CDA, with CDA as the surviving entity. CDA assumed all of the outstanding debt obligations of Kallpa. On September 28, 2017, CDA changed its corporate name to Kallpa Generación S.A.

After the merger, Kallpa has a total installed capacity of 1,618 MW.

The merger had no effect on the Company's contractual basis consolidated financial statements.

8. Cash and Cash Equivalents

In thousands of U.S. dollars	**2017**	**2016**
Cash	1,437	433
Checking accounts (a)	354,607	171,427
Time deposits (b)	3,825	835
Mutual funds (c)	358	-
	360,227	**172,695**

(a) Checking accounts are freely available and earn interest at market rates ranging from 0.07% to 4.00% 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) Mutual funds are short-term investments managed by Santander Santiago S.A. Administradora General de Fondos.

9. Short-term Deposits and Restricted Cash

In thousands of U.S. dollars	**2017**	**2016**
Restricted cash – current (a)	13,470	41,679
Short-term deposits (b)	4,420	-
	17,890	**41,679**
Restricted cash – non-current (a)	8,394	16,540
	26,284	**58,219**

(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 0.75% to 6.20%.

(b) Correspond to 180 - day time deposits.

10. Trade Receivable

In thousands of U.S. dollars	**2017**	**2016**
Open accounts	302,018	264,877
Less – allowance for doubtful debts	(17,464)	(5,004)
	284,554	**259,873**
Trade receivable – current	272,223	249,753
Trade receivable – non current (a)	12,331	10,120
	284,554	**259,873**

(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.

As at December 31, 2017 and 2016, trade accounts receivable ageing analysis is as follows:

In thousands of U.S. dollars	**Neither past due nor impaired**	**Past due not impaired < 90 days**	**Past due not impaired > 90 days**	**Total**
2017	168,278	73,100	43,176	284,554
2016	199,008	50,723	10,142	259,873

The Group exposure and market risk and impairment losses for trade and other receivables, are described in note 28.

The movement of allowance for doubtful accounts during the year was as follows:

In thousands of U.S. dollars	**2017**	**2016**
Balance as at January 1	5,004	104
Impairment loss on trade receivable recognized in the period	7,866	4,896
Write off of customer receivables defined as uncollectable	(1,218)	-
Uncollectable agreement accounts	2,457	-
Translation effect	3,355	4
	17,464	**5,004**

11. Other Receivable

In thousands of U.S. dollars	**2017**	**2016**
Insurance claims (a)	20,242	8,809
Value added tax (b)	17,184	12,327
Receivables with Overseas Investment Perú (c)	11,168	5,595
Prepaid expenses	5,606	4,696
Consent fees (d)	3,928	-
Employees	459	546
Transmission line sale (e)	-	4,200
Transactions cost of Energuate	-	1,903
Selective consumption tax on heavy fuel oil (f)	11	940
Other receivables	4,568	7,880
	63,166	**46,896**
Income tax receivable and tax claims – non current (g)	104,698	99,892
	167,864	**146,788**

(a) As of December 31, 2017, it corresponds to the insurance indemnity related to the turbines repair of Samay I for US$ 17,182 thousand, see note 15C, and US$ 3,060 thousand to the insurance indemnity related to Kanan fire, see note 15B. 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.

(b) As of December 31, 2017, the VAT corresponds mainly to the disbursements related to diesel purchases for Samay's operations. As of December 31, 2016, 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.

(c) Expenses paid by Inkia on behalf of Overseas Investment Peru. In January 2018, this balance was cancelled.

(d) It corresponds to consent fees to be reimbursed by Nautilus Inkia Holding LLC, Nautilus Distribution Holdings LLC, and Nautilus Isthmus Holding LLC, according to consent solicitation side letter signed on November 24, 2017.

(e) 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.

(f) 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.

(g) As at December 31, 2017 and 2016, the income tax receivable and tax claims-non current distribution is as follows:

In thousands of U.S. dollars	**2017**	**2016**
Energuate tax claim, note 30.D	89,516	80,192
Kallpa tax claim, note 30.A	10,082	9,709
Income tax credit from Nicaraguan companies	3,327	3,996
Income tax credit from PQP	1,598	5,694
Other	175	301
	104,698	**99,892**

12. Intercompany Balances with Parent Company

In thousands of U.S. dollars	**2017**	**2016**
IC Power Asia Development (a)	75,493	47,029
IC Power Ltd.	13,617	4,105
Ending balance	**89,110**	**51,134**

The movement of intercompany balances with IC Power is as follows:

In thousands of U.S. dollars	**2017**	**2016**
Beginning balance	51,134	43,369
Proceeds from IC Power loan, net (a)	17,551	100
Expenses paid by Inkia on behalf of IC Power (b)	19,590	6,989
Interest income (c)	835	676
Ending balance (d)	**89,110**	**51,134**

(a) Includes US$ 9,251 thousand with IC Power Ltd. and US$ 8,300 thousand with ICPAD.
(b) Mainly related to Bank Hapoalim loan payment and related party project expenses on behalf of ICPAD in the amount of US$ 12,068 thousand and US$ 7,000 thousand, respectively.
(c) ICPAD disbursements bear interest at annual rate of 1.50%.
(d) In January 2018, US$ 89,080 thousand was cancelled.

13. Inventories

In thousands of U.S. dollars	**2017**	**2016**
Fuel (a)	47,842	42,105
Spare parts (b)	43,876	49,554
	91,718	**91,659**

(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, 2017 US$ 38,673 thousand corresponds to Samay I's diesel inventory (US$ 29,823 thousand as of December 31, 2016). 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.
During 2017, the Group recognized inventory write-downs of US$ 1,232 thousand that are charged to cost of sales to present its inventories at net realizable value (US$ 135 thousand during 2016).

14. Investment in Associate

In thousands of U.S. dollars	**Interest**	**Beginning balance**	**Equity share**	**Other**	**Dividends received**	**Total**
Equity accounted Investee 2017						
Associates						
Pedregal	21.22%	8,896	685	(4)	(424)	9,153
		8,896	**685**	**(4)**	**(424)**	**9,153**
Equity accounted Investee 2016						
Associates						
Pedregal	21.22%	8,993	623	23	(743)	8,896
		8,993	**623**	**23**	**(743)**	**8,896**

15. Property, Plant and Equipment, Net

In thousands of U.S. dollars	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	Total 2017
Cost											
Beginning balance	998,990	4,144	2,055,534	396,206	13,994	8,642	164,469	69,581	17,224	20,612	3,749,396
Additions	3,425	511	15,987	21,191	1,991	2,027	105	4,689	1,052	68,345	119,323
Business combination	-	-	-	-	-	-	-	-	-	-	-
Translation difference	83	22	795	9,581	65	79	-	190	39	360	11,214
Transfers and reclassifications	19,798	1,936	33,509	11,160	1,795	65	1,040	(10,138)	184	(50,024)	9,325
Colombian sale	(1,058)	-	(19,622)	-	(206)	(1,181)	-	-	-	(678)	(22,745)
Retirements	(1,285)	(265)	(65,969)	(3,417)	(207)	(767)	(5)	(846)	(73)	(15)	(72,849)
Ending balance	**1,019,953**	**6,348**	**2,020,234**	**434,721**	**17,432**	**8,865**	**165,609**	**63,476**	**18,426**	**38,600**	**3,793,664**
Accumulated depreciation											
Beginning balance	76,787	1,755	569,926	16,186	8,857	4,658	48,385	12,523	8,629	-	747,706
Additions	18,305	581	83,668	18,900	2,270	964	8,097	679	1,375	-	134,839
Translation difference	3	-	157	395	4	17	-	-	-	-	576
Transfers and reclassifications	-	-	(223)	-	-	-	-	-	-	-	(223)
Impairment	569	-	8,823	-	61	350	-	-	-	383	10,186
Colombian sale	(617)	-	(12,788)	-	(158)	(910)	-	-	-	(383)	(14,856)
Retirements	(1,064)	(247)	(18,116)	(375)	(141)	(647)	(250)	(660)	(69)	-	(21,569)
Ending balance	**93,983**	**2,089**	**631,447**	**35,106**	**10,893**	**4,432**	**56,232**	**12,542**	**9,935**	**-**	**856,659**
Net cost	**925,970**	**4,259**	**1,388,787**	**399,615**	**6,539**	**4,433**	**109,377**	**50,934**	**8,491**	**38,600**	**2,937,005**

INKIA ENERGY LTD. AND SUBSIDIARIES
Notes to Contractual Basis Consolidated Financial Statements
December 31, 2017 and 2016

In thousands of US$	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	Total 2016
Cost											
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
Additions	7,479	236	34,403	21,224	961	1,285	159	20,272	1,285	164,995	252,299
Business combination	1,540	901	-	369,932	2,838	859	-	7,152	1,434	7,839	392,495
Translation difference	72	14	745	5,692	53	47	-	111	26	258	7,018
Transfers and reclassifications	746,766	(810)	632,433	-	14	214	26,965	(2,545)	(1,100)	(1,402,127)	(190)
Retirements	(1,244)	-	(21,071)	(642)	(1,264)	(541)	(965)	(133)	(555)	(167)	(26,582)
Ending balance	**998,990**	**4,144**	**2,055,534**	**396,206**	**13,994**	**8,642**	**164,469**	**69,581**	**17,224**	**20,612**	**3,749,396**
Accumulated depreciation											
Beginning balance	66,665	1,604	474,144	-	7,679	3,822	46,764	11,921	8,767	-	621,366
Additions	11,012	691	97,896	16,023	2,217	1,057	1,742	762	905	-	132,305
Translation difference	2	1	143	165	12	24	-	-	3	-	350
Transfers and reclassifications	542	(541)	(263)	-	54	193	-	(5)	16	-	(4)
Retirements	(1,434)	-	(1,994)	(2)	(1,105)	(438)	(121)	(155)	(1,062)	-	(6,311)
Ending balance	**76,787**	**1,755**	**569,926**	**16,186**	**8,857**	**4,658**	**48,385**	**12,523**	**8,629**	**-**	**747,706**
Net cost	**922,203**	**2,389**	**1,485,608**	**380,020**	**5,137**	**3,984**	**116,084**	**57,058**	**8,595**	**20,612**	**3,001,690**

A. During the year ended December 31, 2017, the Group acquired assets with a cost of US$ 119,323 thousand, mainly related to Cerro del Aguila and Samay facilities for an amount of US$ 46,278 thousand.

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.

B. In April 2016, Kanan's 92 MW thermal generation project reached its Commercial Operation Date (COD). 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.

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 income for US$ 73,445 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$ 25,597 thousand, see Note 26.

As of December 31, 2017, Kanan received US$ 80,000 thousand from the insurance company, Mapfre Panamá. In addition, Kanan recorded other receivable for an amount of US$ 3,060 thousand related to fire expenses deemed to be covered by the insurance company, see note 11(a).

Based upon current estimates, it is expected that the refurbished Esperanza barge should be operational during the first semester of 2018.

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 11.

On January 17 and on January 31, 2017, Management declared Unit 2 and Unit 3 available to the system.

In addition, in September 2017, Samay I filed the claim to the insurance company, under its insurance policy for reimbursement of the total costs for the outage, including repair costs and loss of profit (subject to deductibles). Samay I's Management undergoing communication and negotiations with the insurance company accompanied with specialized legal and insurance advisors. Samay I´s Management expects to have the reimbursement in the short term and reduce the recorded account receivable accordingly.

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.

In March 2017, Comite de Operacion Economica del Sistema Interconectado Nacional (COES) approved the effective capacity tests, increasing the capacity to 545 MW. As a result of this, CDA plant recorded an additional US$ 27,441 thousand due to the installed capacity bonus to Rio Mantaro Consortium (EPC Contractor).

On October 24, 2017, the Committee of Economic Operation of the National Interconnected System (COES) declared the Commercial Operation Date of the mini-hydro plant on October 27, 2017. A mini-hydro was built next to Cerro del Aguila's dam to take advantage of the Mantaro river ecological water flow. This mini-hydro has a 10 MW capacity, takes advantage of a 60-meter height and runs with a flow rate of 19.8 cubic meters per second.

E. As a result of Surenergy Holdings SAS sale in Note 5, the Company recorded US$ 7,888 thousand net retirement of Colombian property, plant and equipment, in addition to the US$ 10,186 thousand impairment.

F. The amount of borrowing costs capitalized during 2017 was nil (US$ 14,350 thousand during 2016).

G. Property, plant and equipment include assets acquired through finance leases. At December 31, 2017 and 2016, the cost and corresponding accumulated depreciation of such assets are as follows:

	As of December 31, 2017			**As of December 31, 2016**		
In thousands of U.S. dollars	**Cost**	**Accumulated depreciation**	**Net cost**	**Cost**	**Accumulated depreciation**	**Net cost**
Land and buildings	42,288	(7,660)	34,628	42,288	(6,602)	35,686
Plant and equipment	273,888	(126,848)	147,040	275,852	(117,368)	158,484
Vehicles	381	(120)	261	410	(46)	364
	316,557	**(134,628)**	**181,929**	**318,550**	**(124,016)**	**194,534**

H. The composition of the depreciation expense is as follows:

In thousands of U.S. dollars	**2017**	**2016**
Depreciation charged to profit or loss	134,839	132,148
Depreciation charged to fixed assets	-	157
	134,839	**132,305**

16. Intangible Assets and Goodwill

The activity of intangible assets and goodwill during 2017 and 2016 is as follows:

In thousands of U.S. dollars	Goodwill (d)	Concessions licenses (c)	Customer (a)	Exclusivity agreement	Licenses	Software	Development cost (b)	Others	2017	2016
Cost										
Beginning balance	95,977	189,351	41,074	3,665	6,983	968	60,580	12,208	410,806	168,316
Additions	-	-	-	-	74	120	5,752	4,454	10,400	9,420
Reclassifications	-	-	-	-	-	-	(6,443)	(41)	(6,484)	(161)
Business combination	-	-	-	-	-	-	-	-	-	195,147
Retirements	-	-	-	-	-	-	(82)	-	(82)	-
Goodwill additions	-	-	-	-	-	-	-	-	-	37,102
Effect of variation in exchange rates	1,190	-	-	-	208	(22)	-	-	1,376	982
Ending balance	**97,167**	**189,351**	**41,074**	**3,665**	**7,265**	**1,066**	**59,807**	**16,621**	**416,016**	**410,806**
Accumulated amortization										
Beginning balance	-	5,434	20,942	1,008	2,901	675	518	3,572	35,050	22,136
Amortization of the period	-	5,759	3,970	92	2,415	129	33	430	12,828	12,895
Impairment	6,979	-	-	2,565	-	2	-	706	10,252	-
Effect of movement in exchange rates	-	-	-	-	61	-	-	(10)	51	19
Ending balance	**6,979**	**11,193**	**24,912**	**3,665**	**5,377**	**806**	**551**	**4,698**	**58,181**	**35,050**
Net book value	**90,188**	**178,158**	**16,162**	**-**	**1,888**	**260**	**59,256**	**11,923**	**357,835**	**375,756**

(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, 2017 and 2016, balance of intangible assets mainly corresponds to cost incurred in the construction and improvements of public access roads in connection with CDA plant, 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 32 years.

(d) Goodwill arises from the following Group entities (cash generating unit):

In thousands of U.S. dollars	**2017**	**2016**
Nejapa Power Company LLC and Compañía de Energía de Centroamerica S.A. de C.V.	40,693	40,693
Kallpa Generación S.A.	10,934	10,934
Energuate *	38,561	37,651
Surpetroil S.A.C. *	-	6,699
Book value	**90,188**	**95,977**

* Goodwill in Energuate and Colombia´s subsidiaries are recorded in Quetzales and Colombian pesos, respectively, 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.

Discount rate (in percent)	**2017**	**2016**
Peru	5.8	6.7
Guatemala	8.0	8.9
El Salvador	8.7	9.8
Colombia	-	8.2
Terminal value growth rate	2.0	2.0

The discount rate is a post-tax measure based on the characteristics of each CGU with a possible debt leveraging (Debt to Assets) of 26% in 2017 and of 32% in 2016.

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 and Energuate to materially exceed its recoverable amount.

17. 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 28 in connection with financial instruments.

In thousands of U.S. dollars	**Nominal annual interest rate**	**Currency**	**Maturity**	**As at December 31,2017**		**As at December 31,2016**	
				Current	**Non-current**	**Current**	**Non-current**
Short-term loans from banks:							
IC Power Distribution Holdings							
Credit Suisse (a)	LIBOR + 4%	US$	2017	-	-	119,487	-
Samay							
Interbank	2.90%	US$	2017	-	-	31,945	-
Interbank	2.90%	US$	2018	34,961	-	-	-
Interbank	1.40%	US$	2018	5,000	-	-	-
Scotiabank	1.10%	Us$	2018	40,000	-	-	-
Energuate							
DEOCSA	LIBOR + 4.75%	US$	2017	-	-	18,000	-
DEORSA	LIBOR + 4.75%	US$	2017	-	-	12,000	-
DEOCSA	LIBOR + 3.99%	US$	2018	2,000	-	-	-
DEORSA	LIBOR + 3.99%	US$	2018	1,000	-	-	-
CDA							
Banco de Crédito del Perú	0.83%	US$	2017			14,000	-
PQP							
Banco Industrial Guatemala	4.75%	US$	2017	-	-	6,000	-
Cobee							
Various entities	4.20%/5.50%	BOB	2016/2017	-	-	4,499	-
Nejapa							
Scotiabank El Salvador	5.50%	US$	2017	-	-	4,200	-
Empresa Eléctrica Corinto Ltd.							
Banco de América Central (BAC)	5.25%	US$	2017	-	-	1,586	-
CEEP							
Scotiabank	2.40%	US$	2017	-	-	1,000	-
BHD Bank	2.53%	US$	2017	-	-	200	-
Citibank	2.50%-2.75%	US$	2018	3,900	-	-	-
Surenergy							
Banco Davivienda	DTF+4.5%	COP	2017	-	-	500	-
Sub total				**86,861**	**-**	**213,417**	**-**

In thousands of U.S. dollars	Nominal annual interest rate	Currency	Maturity	As at December 31,2017 Current	As at December 31,2017 Non-Current	As at December 31,2016 Current	As at December 31,2016 Non-Current
Loans from Banks and others:							
Cerro del Aguila (b)							
Tranche A	LIBOR+4.25% LIBOR+5.50%	US$	2024	-	-	15,344	320,437
Tranche B	LIBOR+4.25% LIBOR+6.25%	US$	2024	-	-	-	180,896
Tranche 1D	LIBOR+3.60% LIBOR+2.75%	US$	2024	-	-	1,760	38,697
Tranche 2D	LIBOR+2.75% LIBOR+3.60%	US$	2027	-	-	-	21,959
Samay (c)							
Sumitomo/HSBC/Bank of Tokyo	LIBOR+2.125% LIBOR+2.625%	US$	2021	8,508	293,739	5,047	302,247
Central Cardones (d)							
Tranche One							
BCI / Banco Itaú	LIBOR+1.90%	US$	2021	-	-	3,781	18,228
Tranche Two							
BCI / Banco Itaú	LIBOR+2.75%	US$	2021	-	-	-	13,383
Tranche One							
Santander	LIBOR+3.20%	US$	2022	2,661	10,781	-	-
Tranche Two							
Santander	LIBOR+3.70%	US$	2027	117	19,044	-	-
Tranche Three							
Santander	LIBOR+3.70%	US$	2027	18	2,854	-	-
Colmito (e)							
Banco Bice	7.90%	CLP	2028			625	16,121
Banco de Crédito del Perú	LIBOR+4.00%	US$	2029	388	9,865		
Consorcio Eólico Amayo, S.A.(f)							
Banco Centroamericano de Integración Económica	8.45% - LIBOR+4%	US$	2023	5,657	31,719	5,307	37,376
Consorcio Eólico Amayo (Fase II), S.A.(g)							
Various entities	LIBOR+5.75%, 8.53%,10.76%	US$	2025	3,130	25,120	3,029	28,250
Empresa Energética Corinto, Ltd.							
Banco de América Central (BAC)	8.35%	US$	2018	3,402	-	3,124	3,402
Tipitapa Power Company, Ltd.							
Banco de América Central (BAC)	8.35%	US$	2018	3,328	-	2,801	3,328
Jamaica Private Power Company							
Royal Bank of Canada	LIBOR + 5.50%	US$	2017	-	-	824	-
Burmeister & Wain Scandinavian Contractor A/S	3.59%	US$	2018	232	-	338	233
PQP (h)							
Banco Industrial	LIBOR + 4.50%	US$	2019	-	-	2,374	9,632
Surpetroil S.A.S.							

In thousands of U.S. dollars	Nominal annual interest rate	Currency	Maturity	As at December 31,2017 Current	As at December 31,2017 Non-Current	As at December 31,2016 Current	As at December 31,2016 Non-Current
Banco de Occidente S.A.	IBR+5.87%	COP	2018	-	-	504	375
Banco Pichincha	7.33%	COP	2017	-	-	100	-
Kanan (i)							
Scotiabank	LIBOR+3.5%	US$	2021	10,859	24,607	46,094	-
COBEE (j)							
Banco de Crédito del Perú	4.20%	BOB	2027	838	7,121	-	-
DEORSA (k)							
Syndicated Loan – various banks (k)	LIBOR+4.70% LIBOR+4.75%	US$	2021/2025	-	-	10,167	67,857
Syndicated Loan – various banks (k)	TAPP minus 5.60% TAPP minus 6.10%	GTQ	2021/2025	-	-	4,687	30,653
Banco Industrial (n)	TAPP minus 6.00%	GTQ	2027	-	47,646	-	-
DEOCSA (l)							
Syndicated Loan – various banks (l)	LIBOR+4.70% LIBOR+4.75%	US$	2021/2025	-	-	16,876	107,488
Syndicated Loan – various banks (l)	TAPP minus 5.60% TAPP minus 6.10%	GTQ	2021/2025	-	-	6,215	43,127
Banco Industrial (o)	TAPP minus 6.00%	GTQ	2027	-	71,518	-	-
RECSA (m)							
Banco G&T Continental	TAPP minus 6.63%	GTQ	2020	953	3,336	931	3,722
				40,091	**547,350**	**129,928**	**1,247,411**
Liabilities in respect of finance leases							
Kallpa Generación							
Banco de Crédito del Perú (p)	5.08%	US$	2023	5,027	74,569	6,624	81,193
Surpetroil S.A.S.							
Banco de Occidente S.A.	DTF + 3.5%	COP	2017	-	-	223	-
DEORSA							
Arrendadora Agromercantil	TAPP minus 2.47%	GTQ	2017	-	-	129	-
				5,027	**74,569**	**6,976**	**81,193**
Sub total				**45,118**	**621,919**	**136,904**	**1,328,604**

In thousands of U.S. dollars	Nominal annual interest rate	Currency	Maturity	As at December 31,2017 Current	As at December 31,2017 Non-Current	As at December 31,2016 Current	As at December 31,2016 Non-Current
Debentures							
Cobee							
Bonds Cobee III-1B (q)	6.50%	US$	2017	-	-	1,750	-
Bonds Cobee III-1C (bolivianos) (q)	9.00%	BOB	2020	1,586	3,172	1,586	4,757
Bonds Cobee III-2 (q)	6.75%	US$	2017	-	-	5,000	-
Bonds Cobee III-3 (bolivianos) (q)	7.00%	BOB	2022	-	6,160	-	6,160
Bonds Cobee IV – 1A (r)	6.00%	US$	2018	3,999	-	-	3,988
Bonds Cobee IV – 1B (r)	7.00%	US$	2020	992	2,996	-	3,980
Bonds Cobee IV – 1C (bolivianos) (r)	7.80%	BOB	2024	-	12,036	-	12,030
Cobee Bonds- IV Issuance 3 (r)	6.70%	US$	2019	2,490	2,496	-	4,973
Cobee Bonds- IV Issuance 4 (bolivianos) (r)	7.80%	BOB	2024	-	15,045	-	15,039
Cobee Bonds- IV Issuance 5 (bolivianos) (r)	5,75%	BOB	2026	761	16,935	1,950	17,697
Inkia Energy Ltd (s)							
Inkia Bonds	8.375%	US$	2021	-	-	-	447,904
Inkia Bonds	5.875%	US$	2027	-	588,498	-	-
Kallpa Generación							
Kallpa Bonds (t)	4.88%	US$	2026	-	327,954	-	325,970
CDA Bonds (u)	4.13%	US$	2027	-	641,452	-	-
Energuate (v)							
DEORSA Bonds	5.88%	USD	2027	-	134,125	-	-
DEOCSA Bonds	5.88%	USD	2027	-	185,935	-	-
Cepp							
Cepp Bonds (w)	6.00%	US$	2019	-	4,984	-	9,945
				9,828	**1,941,788**	**10,286**	**852,443**
Cobee							
Cobee Bonds (Premium)			2017-2024	646	2,771	331	4,227
Subtotal				**10,474**	**1,944,559**	**10,617**	**856,670**
Total				**142,453**	**2,566,478**	**360,938**	**2,185,274**

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.

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.

In May 2017, the full outstanding of this loan was repaid with the proceeds of Deocsa and Deorsa debt issuance. For additional detail, see section V.

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* (US$)	From July 2014 to August 2017	From August 2017 to August 2020	From August 2020 to August 2023	From August 2023 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.

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 2017, 2016 and 2015, 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.

As a result of the CDA's issuance of its US$ 650,000 thousand 4.125% senior notes executed in August 2017, CDA repaid the outstanding amounts under the bonds (US$ 571,183 thousand).

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 2017, 2016 and 2015, respectively). As of December, 31, 2017, the outstanding principal amount under this agreement was US$ 305,201 thousand. This amount is shown net of US$ 2,954 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).

In August 2017, Central Cardones refinanced its remaining US$ 33,202 thousand debt with Banco Santander Chile consisting of three facilities: (i) Tranche A loan for US$ 13,591 thousands, bearing interest of 6-month LIBOR plus 3.20% repaid until August 2022, (ii) Tranche B loan US$ 19,411 thousand, bearing interest of 6-month LIBOR plus 3.70% repaid until August 2027, and (iii) Tranche C a new credit of US$ 2,909 thousand, bearing interest of 6-month LIBOR plus 3.70% repaid until August 2027. Central Cardones entered into an interest rate swap closing: 100% of Tranche A was swapped at a fixed all-in interest rate of 5.35% and 100% of Tranche B and C was swapped at a fixed all-in interest rate of 5.8825%; both CDS are until maturity. As of December 31, 2017, the outstanding principal amount under these loans was US$ 35,475.

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.

In December 2017, Colmito refinanced US$ 10,500 thousand debt with Banco de Crédito Chile. This loan bears an interest rate of LIBOR plus 4.00% and is paid semiannually until final maturity in December 2029. The remaining outstanding amount was paid with an intercompany loan from Inkia. As of December 31, 2017, the outstanding balance under this loan was US$ 10,253 thousand (US$ 16,746 thousand as of December 31, 2016).

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, 2017, the outstanding balance under this loan was US$ 37,376 thousand (US$ 42,683 thousand as of December 31, 2016).

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 Economica (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, 2017, the outstanding balance under this loan was US$ 28,250 thousand (US$ 31,279 thousand as of December 31, 2016).

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%.

This Loan was fully prepaid in August 2017.

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, 2017 the outstanding balance under this loan was US$ 35,466 thousand.

J. On September 13, 2017, COBEE entered into a B. 58,310 thousand (approximately US$ 8,378 thousand) 10-year loan agreement with Banco de Crédito del Peru. The interest accrued bi-annually every March and September at a rate of 4.20%. As of December 31, 2017, the outstanding balance under this loan was US$ 7,959 thousand.

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 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.

In May 2017, the full outstanding of this loan was repaid with the proceeds of Deocsa and Deorsa debt issuance. For additional detail, see sections N, O and V.

L. *DEOCSA* - In May 2011, DEOCSA entered into a Q.415,963 thousand (approximately US$ 54,411thousand) 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.

In May 2017, the full outstanding of this loan was repaid with the proceeds of Deocsa and Deorsa debt issuance. For additional detail, see sections N, O and V.

M. *RECSA* – In November 2013, RECSA entered into a Q 35,000 thousand (approximately 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, 2017, the outstanding balance under this loan was US$ 4,289 thousand. (US$ 4,653 thousand as of December 31, 2016).

N. DEORSA Loan Agreement – In May 2017, DEORSA entered into a Q. 352,320 thousand (approximately US$ 48,000 thousand) loan agreement with Credit Suisse AG. The loan bear interest at a rate of TAPP less 6.00% (with a floor rate of 7.00%) through maturity on June, 2027. As of December 31, 2017 the outstanding amount of these notes were US$ 47,646 thousand.

O. DEOCSA Loan Agreement – In May 2017, DEOCSA entered into a Q. 528,480 thousand (approximately US$ 72,000 thousand) loan agreement with Credit Suisse AG. The loan bear interest at a rate of TAPP less 6.00% (with a floor rate of 7.00%) through maturity on June, 2027. As of December 31, 2017 the outstanding amount of these notes were US$ 71,518 thousand.

Liabilities in respect of finance leases

P. 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. In May 2017, Kallpa renegotiate its conditions on the existing lease agreement with Banco de Crédito and obtained a new fixed interest rate of 5.08% p.a. As of December 31, 2017, the aggregate outstanding principal amount under this lease was US$ 79,596 thousand (US$ 87,816 thousand as of December 31, 2016).

Debentures

Q. *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.

R. *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.

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.

S. *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 144 A 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.

On November 9, 2017, Inkia issued senior unsecured notes for an aggregate principal amount of US$450,000 thousand. The notes accrue interest at a rate of 5.875% and will be payable semi-annually with final maturity in November 2027. The proceeds of the notes were used to repay in full Inkia's 2021 8.375% notes. With this transaction, Inkia successfully completed a comprehensive refinancing strategy that included existing indebtedness at the operating companies' levels.

On December 14, 2017, Inkia reopened its 5.875% senior notes due 2027 for an aggregate principal amount of US$150,000 thousand. The new notes have terms and conditions identical to the initial US$450 thousand notes issued on November 9, 2017.

As of December 31, 2017, the outstanding principal amount under these notes was US$588,498 thousand.

T. 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 25. As of December 31, 2017, the outstanding amount of these notes was US$ 327,954 million (net of transaction costs).

U. CDA Bonds due 2027 – In August 2017, CDA issued senior notes for an aggregate principal amount of US$ 650,000 thousand in the international capital market under the rule 144A Regulation S. The notes were issued under-par (99.87%) and interest accrues biannually in February and August of each year at a rate of 4.125%. Principal will be fully paid at maturity. The proceeds from this issue were used to repay in full the outstanding balance of the CDA senior secured syndicated credit facility. The remainder of the proceeds were used for general corporate purposes. As of December 31, 2017, the outstanding amount of these notes were US$ 641,452 million (net of transaction cost).

V. Energuate Bonds due 2027 – In May 2017, DEOCSA and DEORSA issued senior notes for an aggregate amount of US$ 330,000 thousand in the international capital market under the rule 144A Regulation S. The notes were issued at-par and the interest accrues biannually on May and November of each year at a rate of 5.875%. Simultaneously, DEOCSA and DEORSA entered into a Q. 528,480 thousand (approximately US$ 72,000 thousand) and Q. 352,320 thousand (approximately US$ 48,000 thousand) respectively, loan agreement with Credit Suisse AG. The loan bear interest at a rate of TAPP less 6.00% (with a floor rate of 7.00%) through maturity on June 2027. The proceeds from these issue and indentures were used to repay in full outstanding of ICP Distribution credit agreement with Credit Suisse AG, US$ 113,364 thousand DEOCSA and US$ 173,706 DEORSA loan agreements with Banco Agromercantil de Guatemala. The reminder of the proceeds were used for general corporate purposes.

As of December 31, 2017, the outstanding amount of these notes were US$ 320,060 thousand (net of transaction cost) (US$ 185,935 thousand for DEOCSA and US$ 134,125 thousand for DEORSA).

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. In November 2017, US$ 5,000 thousand in CEPPs bonds were repurchased. As of December 31, 2017, the outstanding principal amount net of transaction costs under these notes was US$ 4,984 thousand (US$ 9,945 thousand as of December 31, 2016).

X. As at December 31, 2017 and 2016, 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**
Samay	Not required	Not less than 1.15	Not required	Debt to capital no more than 80:20	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 1.20	Not required	Maximum debt to EBITDA of 5.0	Not required
Colmito (Chile)	Not required	Not less than 1.28	Not required	Maximum debt to EBITDA of 6.5	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 2.0	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
Energuate (Guatemala)	Not required	Not less than 2.0	Not required	Maximum debt to EBITDA of 4.5	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 22, 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, 2017:

- All companies comply with their covenants

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, 2017 and 2016, the company has complied with the covenants.

The table below presents the contractual amortization schedule of the non-current portion of the long-term debt as of December 31, 2017 and 2016:

In thousands of U.S. dollars	**2017**	**2016**
2017	-	-
2018	-	126,680
2019	56,560	146,083
2020	80,343	162,690
2021	331,905	-
2022	58,239	-
2023 and thereafter	2,039,431	-
	2,566,478	**2,185,274**

18. Trade Payable

In thousands of U.S. dollars	**2017**	**2016**
Trade payable– current	191,740	252,956
Trade payable – non current	38,770	44,057
	230,510	**297,013**

19. Other Payables

	2017		**2016**	
In thousands of U.S. dollars	**Current**	**Non-current**	**Current**	**Non-current**
Other payables including derivative instruments:				
Other payables	31,414	-	24,865	-
Interest payable (a)	24,678	-	21,817	-
Accruals	20,466	-	16,869	-
Dividends payable to non-controlling interest	8,121	-	2,893	-
Fair value of derivatives (d)	1,214	56	10,719	14,271
	85,893	**56**	**77,163**	**14,271**
Income tax payable:				
Income tax	10,214	-	6,984	-
	10,214	**-**	**6,984**	**-**
Guarantee deposits from customers				
Guarantee deposits from customers, note 4(b)	59,735	-	56,833	-
	59,735	**-**	**56,833**	**-**
Employee benefits:				
Retirement and severance (b)	-	13,903	-	11,076
	-	**13,903**	**-**	**11,076**
Other long term liabilities:				
Deferred income	459	72	944	531
Dismantling liability	-	23,851	-	18,940
Contingency Accruals	-	13,128	-	12,639
Withholding tax on earnings	-	1,243	-	1,226
Loan from Energia del Pacifico	-	-	-	7,028
Others	-	595	-	3,668
	459	**38,889**	**944**	**44,032**
	156,301	**52,848**	**141,924**	**69,379**

A. The terms and conditions of the above financial liabilities are as follows:

- Interest payable is normally settled quarterly throughout the year.

B. The discount rate assumptions at the reporting date were as follow:

In percentages	**2017**	**2016**
Compañía de Energía de Centroamerica S.A. de C.V.	3.55	7.32
IC Power Nicaragua S.A.	8.50	8.30
PQP	7.00	7.27
DEORSA, DEOCSA and RECSA	7.44	8.08

C. As of December 31, 2017 and 2016, the derivatives maintained by the Group are as follow:

	Notional	**Fair value**	
In thousands of U.S. dollars	**amount**	**2017**	**2016**
Hedge derivatives (i)			
Interest rate swap (a)	124,400	(1,023)	(2,955)
Interest rate swap (b)	35,911	(184)	-
Interest rate swap (c)	384,093	-	(17,509)
Interest rate swap (d)	15,553	-	(2,401)
		(1,207)	**(22,865)**
Trading derivatives (ii)			
Interest rate swap (e)	8,443	(63)	(175)
Interest rate swap (f)	42,000	-	(1,950)
		(1,270)	**(24,990)**

i. Hedge derivatives

	Entity	**Financing**	**Underlying item**	**Description**	**Fixed rate**	**Expiration**
(a)	Samay I	Syndicated (during construction)	Libor plus 2.125%	93% total debt	4.23%	Dec 2021
(b)	Cardones	Loan	Libor plus 3.2%	38% total debt	5.35% in US$	Aug 2022
		Loan	Libor plus 3.7%	54% total debt	5.8825% in US$	Aug 2027
		Loan	Libor plus 3.7%	8 % total debt	5.8825% in US$	Aug 2027
(c)	CDA	Syndicated	Libor plus 4.25%	100% - Tranche A	7.25-8.50%	Aug 2024
(d)	Colmito	Loan	7.90% in Chilean Pesos	69% total debt	6.025% in US$	Dec 2017

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:

	Entity	**Financing**	**Underlying item**	**Description**	**Fixed rate**	**Expiration**
(e)	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 (*)
(f)	Cardones	Syndicated	Libor plus 1.9%	100% - Tranche I	6.80%	Dec 2017

* *starts in Dec 2019*

The gain arising from the volatility of the fair value of these interest rate swaps is shown in Note 25. During 2017 and 2016, the Group recorded gains of US$ 647 thousand, US$ 1,555 thousand and US$ 3,400 thousand, respectively.

20. Deferred Income Tax

A. The components of deferred tax assets and liabilities recorded are the following:

In thousands of U.S. dollars	As of December 31, 2015	Statement of income	Equity	Business combination	Impact of change in tax rate	Translation Reserve	Reclassification	As of December 31, 2016	Statement of income	Equity	Impact of change in tax rate	Translation Reserve	Sale of Subsidiary – Colombian assets	Reclassification	As of December 31, 2017
Deferred income tax assets															
Derivative instruments	2,701	-	(1,815)	123	-	-	(1,009)	-	-	(1,066)	-	-	-	1,066	-
Tax loss carry forward	7,147	2,346	-	-	(117)	-	(6,760)	2,616	2,582	-	-	-	-	(2,794)	2,404
Retirement and severance benefits	601	117	-	748	-	-	116	1,582	78	246	-	-	-	(577)	1,329
Property, plant and equipment	1,091	(136)	-	(35,469)	-	-	(57)	(34,571)	853	-	-	-	-	(1,072)	(34,790)
Inventories	73	(11)	-	-	-	-	14	76	(50)	-	-	-	-	(7)	19
Intangibles	(44)	(6)	-	25,021	-	-	(4,409)	20,562	46	-	-	-	1,280	(5,926)	15,962
Trade receivables – Distribution companies	-	4,803	-	28,605	-	473	-	33,881	3,314	-	-	821	-	-	38,016
Non-monetary items	(8,942)	(1,735)	-	-	(827)	-	11,558	54	7,616	-	-	-	-	(7,656)	14
Others	66	492	-	1,261	-	-	(915)	904	(1,344)	-	-	-	-	2,936	2,496
	2,693	**5,870**	**(1,815)**	**20,289**	**(944)**	**473**	**(1,462)**	**25,104**	**13,095**	**(820)**	**-**	**821**	**1,280**	**(14,030)**	**25,450**
Deferred income tax liabilities															
Property, plant and equipment	(51,048)	(25,546)	-	(5,987)	(3,813)	(516)	57	(86,853)	(31,059)	-	575	(859)	(604)	1,072	(117,728)
Intangibles	(8,813)	(2,495)	-	(47,338)	-	322	4,409	(53,915)	(2,205)	-	-	493	-	5,926	(49,701)
Retirement and severance benefits	-	169	61	-	-	15	(116)	129	(1,175)	636	-	24	-	577	191
Derivative instruments	9,352	(123)	(4,187)	-	-	-	1,009	6,051	-	(5,226)	-	-	-	(1,066)	(241)
Inventories	137	13	-	-	-	-	(14)	136	(62)	-	-	-	-	7	81
Tax loss carry forward	20,634	9,589	-	-	(88)	14	6,760	36,909	(2,357)	-	-	14	(754)	2,794	36,606
Undistributed profits	(2,681)	(822)	-	(1,317)	-	-	-	(4,820)	(3,414)	-	-	-	-	-	(8,234)
Non-monetary items	(70,611)	925	-	-	(8,212)	-	(11,558)	(89,456)	20,261	-	-	-	-	7,656	(61,539)
Others	3,286	844	-	-	78	10	915	5,133	2,279	-	-	14	(155)	(2,936)	4,335
	(99,744)	**(17,446)**	**(4,126)**	**(54,642)**	**(12,035)**	**(155)**	**1,462**	**(186,686)**	**(17,732)**	**(4,590)**	**575**	**(314)**	**(1,513)**	**14,030**	**(196,230)**
Net effect	**(97,051)**	**(11,576)**	**(5,941)**	**(34,353)**	**(12,979)**	**318**	**-**	**(161,582)**	**(4,637)**	**(5,410)**	**575**	**507**	**(233)**	**-**	**(170,780)**

B. The table below presents the components of the income tax expense shown in the consolidated profit or loss corresponding for the years 2017 and 2016:

In thousands of U.S. dollars	**2017**	**2016**
Continuing operations:		
Current	69,784	32,528
Deferred	3,357	24,555
	73,141	**57,083**

C. The table below presents the reconciliation of the effective income tax rate for the years 2017 and 2016 to the tax rate computed using applicable statutory blended rates:

In thousands of U.S. dollars	**2017**		**2016**	
Profit before tax	143,637		84,157	
Approximated weighted average tax rate for operating companies	42,285	29%	25,435	30%
Permanent non-deductible expenses	42,392	30%	6,906	8%
Expenses incurred by holding companies in jurisdictions with nil incomes tax	31,168	22%	13,607	16%
Exempt income (a)	(574)	-	(754)	(1%)
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 (b)	(13,974)	(10%	810	1%
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 (c)	(27,877)	(19%	(2,231)	(3%)
Tax losses and other tax benefits for the period regarding which deferred taxes were not created	2,754	2%	1,902	2%
Impact of change in tax rate	(575)	-	12,979	15%
Other differences	(2,256)	(2%)	(1,383)	(2%)
Permanent tax exempt income:				
Share of profit in associate	(202)	-	(188)	-
	73,141	51%	57,083	68%

(a) US$ 574 thousand of exempt income in Amayo II in Nicaragua in 2017 (US$ 754 thousand in 2016, 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, 2017, and 2016. 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.

In the Dominic 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 2017 and 2016, 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 increased withholding tax rates on dividends. The corporate income tax rate went down 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 were increased from 4.1% in 2014 to: 6.8% in 2015 and 2016, 8.0% in 2017 and 2018; and 9.3% starting 2019.

However, on December 2016, new amendments to the Income Tax Law were introduced (effective January 1, 2017). Among other changes, the general corporate income tax rate increased from 28% to 29.5% and the withholding rates for dividends from Peruvian source were reduced from 6.8 to 5% (for dividend distribution made in 2017, with profits generated between January 1,2015 and 31 December 31, 2016, the applicable tax rate will remain unchanged at 6.8%).

CDA and Samay I have signed tax stability agreements, so will only be affected by the changes in income tax and withholding tax rates described above once their Stability agreements expire in 2022 and 2024, respectively. Kallpa resigned to its Stability Agreement (which was to expire in 2020), effective for 2016, which implied that Kallpa´s corporate rate for the 2016 year went down from 30% (stabilized rate) to 28% and a 29.5% applied to 2017.

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 deadline to elect for either regime was December 31, 2016 and it remains in effect for 5 years. Cardones and Colmito elected the cash-basis method.

In Chile, the loss carry forward have not expiration date.

The corporate income tax rate has increased gradually from 20% in 2013 to: 21% in 2014; 22.5% in 2015; 24% in 2016; and 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 reform published in September 2014. 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 were subject to one of the following two tax regimes:

- The fully integrated regime, under which shareholders are taxed on their share of the profits accrued annually by Chilean entity. The combined income tax rate under the regime will be 35%.
- The partially integrated regime, under which shareholders are 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, both Amayo projects were 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 N°.532 for Electric Power Generation with Renewable Sources Incentive. Consorcio Eólico Amayo S.A. and Consorcio Eólico Amayo (Fase II) S.A.are subject to an income tax rate of 30% since March 2016 and March 2017, respectively, 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, Puerto Quetzal Power (PQP), DEOCSA, DEORSA and Guatemel were subject to a 25% income tax rate applied over their taxable income in 2017. Recsa was subject to a 5% - 7% income tax rate over its income. Since January 2018, Recsa will be subject to a 25% rate. In addition, a 5% withholding tax on dividend distributions.

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 17(x). Deferred tax is recognized for temporary differences related to undistributed earnings in subsidiaries that will reverse it in the foreseeable future. During 2017, the Company recorded an expense of US$ 8,588 thousand in connection with this timing difference (US$ 822 thousand during 2016).

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.

21. Share Capital and Reserves

The capital stock amount to US$ 3 thousand 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.

No dividends were paid during 2017 and 2016.

22. Non-controlling Interest

The following tables summarize the information relating to each of Inkia's subsidiaries that has non-controlling interest.

2017

In thousands of U.S. dollars	Kallpa Generación S.A. (a)	Samay I S.A.	Nicaragua Energy Holdings (b)	Others	Intra-Group eliminations and purchase price adjustments	Total
NCI percentage	**25.10%**	**25.10%**	**35.42%**			
Current assets	139,786	137,693	34,929	144,737	-	-
Non-current assets	1,538,838	366,834	133,385	877,792	-	-
Current liabilities	(75,708)	(119,942)	(23,570)	(239,921)	-	-
Non-current liabilities	(1,177,259)	(303,912)	(84,857)	(717,314)	-	-
Net assets	**425,657**	**80,673**	**59,887**	**65,294**	**-**	**-**
Carrying amount of NCI	**106,840**	**20,249**	**21,212**	**5,684**	**16,528**	**170,513**
Revenues	590,460	159,174	101,314	641,735	-	-
Profit	90,122	7,222	6,362	21,895	-	-
OCI	11,374	1,896	-	(611)	-	-
Net income attributable to NCI	**22,621**	**1,813**	**2,253**	**2,107**	**(3,880)**	**24,914**
OCI attributable to NCI	**2,855**	**476**	**-**	**308**	**-**	**3,639**
Cash flow operating activities	216,896	(13,126)	24,777	-	-	-
Investing activities	(43,394)	(24,116)	4,145	-	-	-
Dividends paid to NCI	(16,315)	-	(2,097)	(4,821)	-	(23,233)
Financing activities	(170,525)	24,828	(26,840)	-	-	-
Effect of changes in the exchange rate	2,367	1,095	(358)	-	-	-
Net increase (decrease) in cash equivalents	**(10,971)**	**(11,319)**	**(373)**	-	-	**-**

(a) During 2017, Kallpa Generación and CDA merged into one entity.
(b) Includes Empresa Energética Corinto, Tipitapa Power Company, Centrans Energy Holdings (Amayo) and Arctas Amayo (Fase II).

2016

In thousands of U.S. dollars	**Kallpa Generación S.A.**	**Cerro del Aguila S.A.**	**Samay I S.A.**	**Nicaragua Energy Holdings (b)**	**Others**	**Intra-Group eliminations and purchase price adjustments**	**Total**
NCI percentage	**25.10%**	**25.10%**	**25.10%**	**35.42%**	-	-	-
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)	-	-
Net assets	**153,574**	**299,129**	**71,556**	**59,056**	**172,265**	**-**	**-**
Carrying amount of NCI	**38,547**	**75,081**	**17,961**	**20,918**	**20,695**	**19,092**	**192,294**
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	-	-	-	-
Net income attributable to NCI	**8,991**	**2**	**138**	**2,660**	**2,742**	**(1,283)**	**13,250**
OCI attributable to NCI	**-**	**2,623**	**1,211**	**-**	**480**	**115**	**4,429**
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)	-	-	-
Net increase (decrease) in cash equivalents	**(6,900)**	**19,449**	**(14,283)**	**(13,986)**	-	-	-

Restrictions on assets and liabilities
In August 2016, CDA reaching the Commercial Operation Date ("COD") of the power plant, consequently these restrictions are solved.

As of December 31, 2017 and 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 17(x).

23. Cost of Sales

In thousands of U.S. dollars	**2017**	**2016**
Energy and capacity purchases (a)	559,464	491,495
Fuel, gas and lubricants (b)	360,117	295,075
Depreciation and amortization, Note 15 and 16	135,733	132,998
Transmission costs	142,322	119,345
Personnel expenses	51,189	49,705
Maintenance expenses	38,100	39,750
Third party services	36,633	34,781
Impairment, Note 5	20,435	-
Regulatory expenses	12,287	9,369
Insurance	13,609	9,263
Plant unavailability	6,555	6,946
Intermediation fees (c)	84	4,670
Other operating expenses	14,854	12,124
	1,391,385	**1,205,521**

(a) In 2017, it includes energy purchases of US$ 403,347 thousand (US$ 355,554 thousand in 2016) 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.

24. Selling, General and Administrative Expenses

In thousands of U.S. dollars	**2017**	**2016**
Payroll and related expenses	52,281	43,693
Third party services	17,556	14,030
Depreciation and amortization	11,934	12,045
Consultant and professional services	9,451	10,902
Bad debt expenses (a)	7,866	4,896
Legal fees	7,524	4,944
Local taxes	2,167	2,794
Community goodwill	1,068	1,026
Other expenses	8,613	10,126
	118,460	**104,456**

(a) As of December 31, 2017 and 2016, it corresponds mainly to de bad debt expense of the distributions clients of Energuate (Note 10C).

25. Finance Income and Costs

In thousands of U.S. dollars	2017	2016
Finance income		
Foreign currency income, net	9,179	3,523
Interest income on commercial operations	4,162	2,827
Interest income from investments (a)	2,656	3,482
Interest income from ICPAD loan	834	676
	16,831	**10,508**
Finance costs		
Interest expenses on loans and bonds (b)	196,385	128,304
Premium and penalties on Inkia bond's tender offer (c)	14,059	-
Interest expenses on commercial operations	2,335	61
Interest expense on guarantee deposits from customers	1,314	4,232
Finance expense in respect of employee benefit	295	727
Other finance costs	9,538	4,296
Redemption premium, expense note 17.T	-	9,515
	223,926	**147,135**
Total finance costs, net	**207,095**	**136,627**

(a) Interest income is related to interest earned for the Group entities; 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 17.

(c) Comprises US$ 12,625 thousand premium and US$ 1,434 thousand redemption fee as a result of early call of US$ 450,000 thousand Senior Notes.

26. Other Income and Expenses

In thousands of U.S. dollars	2017	2016
CDA liquidated damages (a)	40,000	-
Net gain on Kanan retirement of fixed assets, note 15.B	25,597	-
Energuate purchase adjustment, Note 6	10,272	-
Transfers of assets from customers	4,611	1,593
Release of contingency accrual (b)	2,788	1,205
Insurance claims (c)	-	2,525
Early termination fee compensation (d)	-	7,398
Delay of contract compensation (e)	-	3,377
Reimbursement of capital investment in lieu of income taxes	-	-
Other	10,210	4,317
Total other income	**93,478**	**20,415**
Disposal of fixed assets	3,434	20,273
Gain on sale of fixed assets	(526)	(18,103)
Net loss on sale and disposal of fixed assets	**2,908**	**2,170**
Exchange loss from Colombian sale assets	5,351	-
Expiration of ISO credit tax	-	1,325
Other	3,206	1,688
Total other expenses	**11,465**	**5,183**

(a) On June 2, 2017, Kallpa 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.

(b) Comprises Energuate and JPPC holdings release of part of its contingency accruals in 2017 and 2016, respectively.

(c) During 2016, corresponds mainly to Consorcio Eolico Amayo (Fase II) and COBEE claims in relation to three wind towers damaged and Sainani plant, respectively.

(d) Includes early termination fee compensation received by Kallpa from Coelvisac in 2016.

(e) During 2016, includes compensation received by distribution companies for delays in the start of its PPAs.

27. 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 theses 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 4A, 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, 2017 and 2016.

Major customers

As of December 31, 2017 and 2016, 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:

In thousands of US dollars	**2017**	**2016**
Peru	725,251	524,080
Guatemala	608,282	570,509
Nicaragua	101,314	90,017
Bolivia	43,762	40,237
Chile	36,154	33,761
Others	262,469	254,747
	1,777,232	**1,513,351**

The Group's non-current assets (a) by country are as follows:

i. Mainly composed of property, plant and equipment and intangible assets.

In thousands of US dollars	**2017**	**2016**
Peru	1,905,850	1,941,428
Guatemala	684,583	549,325
Nicaragua	133,359	144,254
Chile	127,614	131,154
Bolivia	118,430	116,968
Others	477,525	657,249
	3,447,361	**3,540,378**

The tables below provide the measurement of each reportable segment, as follows:

In thousands of U.S. dollars	Distribution Companies	Peruvian entities	Central America entities	All other segments (b)	Adjustments (a)	Total
For the year ended December 31, 2017						
Revenue	563,243	725,251	319,262	173,065	(3,589)	1,777,232
Cost of sales	(470,412)	(499,878)	(266,055)	(170,419)	15,379	(1,391,385)
Gross profit	**92,831**	**225,373**	**53,207**	**2,646**	**11,790**	**385,847**
Selling, general and administrative expenses	(43,383)	(26,598)	(14,270)	(34,209)	-	(118,460)
Other income, net	5,379	41,590	40,331	(15,120)	9,833	82,013
Profit (loss) from operating activities	**54,827**	**240,365**	**79,268**	**(46,683)**	**21,623**	**349,400**
Finance income, including net gain from derivative financial instruments	10,004	4,574	1,045	2,151	(296)	17,478
Finance cost	(31,934)	(112,046)	(13,898)	(66,525)	477	(223,926)
Finance costs, net	**(21,930)**	**(107,472)**	**(12,853)**	**(64,374)**	**181**	**(206,448)**
Share of profit in associated company	-	-	-	685	-	685
Income before taxes from continuing operations	**32,897**	**132,893**	**66,415**	**(110,372)**	**21,804**	**143,637**
Income tax expense	(16,600)	(35,226)	(10,909)	(8,946)	(1,460)	(73,141)
Net income (loss) for the period	**16,297**	**97,667**	**55,506**	**(119,318)**	**20,344**	**70,496**
Segment assets	619,706	2,180,499	465,030	1,327,618	(225,362)	4,367,491
Investment in associate	-	-	-	9,153	-	9,153
Segment liabilities	649,300	1,690,675	203,780	839,376	(37,691)	3,345,440
Adjusted EBITDA	**76,603**	**310,743**	**89,545**	**18,154**		
For the year ended December 31, 2016						
Revenue	504,587	528,121	326,281	156,704	(2,342)	1,513,351
Cost of sales	(413,721)	(382,192)	(289,378)	(132,314)	12,084	(1,205,521)
Gross profit	**90,866**	**145,929**	**36,903**	**24,390**	**9,742**	**307,830**
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
Profit (loss) from operating activities	**62,499**	**129,326**	**21,351**	**(4,378)**	**9,808**	**218,606**
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)
Finance costs, net	**(15,034)**	**(63,193)**	**(12,542)**	**(44,752)**	**449**	**(135,072)**
Share of profit in associated company	-	-	-	623	-	623
Income before taxes from continuing operations	**47,465**	**66,133**	**8,809**	**(48,507)**	**10,257**	**84,157**
Income tax expense	(12,471)	(33,088)	(4,805)	(5,182)	(1,537)	(57,083)
Net income (loss) for the period	**34,994**	**33,045**	**4,004**	**(53,689)**	**8,720**	**27,074**
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
Adjusted EBITDA	**81,013**	**189,637**	**59,848**	**33,121**		

(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

28. 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 rise 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.

In thousands of U.S. dollars	**2017**	**2016**
Credit from bank and others	2,708,931	2,546,212
Trade payables	230,510	297,013
Other payables	149,414	154,470
Guarantee deposits from customers	59,735	56,833
Less cash and cash equivalents	(360,227)	(172,695)
Net debt	**2,788,363**	**2,881,833**
Equity	1,031,204	989,519
Hedging reserve	(458)	9,601
Adjusted capital	**1,030,746**	**999,120**
Debt to adjusted capital ratio at year end	**2.71**	**2.88**

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, 2017 and 2016.

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 foreign currencies are all constant and on the basis of the hedge designations in place as of December 31, 2017 and 2016, 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, 2017 and 2016, 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, 2017 and 2016, 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 19.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, 2017 and 2016:

Interest rate exposure

In thousands of U.S. dollars	**Fixed Rate**	**Floating Rate**	**Non-Interest**	**Total**
December 31, 2017				
Financial Assets				
Cash & Cash Equivalents	296,626	21,372	42,229	360,227
Short-term deposits and restricted cash	12,036	12,363	1,885	26,284
Trade receivables	-	-	284,554	284,554
Other receivables	-	-	45,524	45,524
Deposits and other receivables, excluding derivatives	-	-	15,243	15,243
Loans to parent company	-	-	89,110	89,110
Financial liabilities				
Short term loans	83,861	3,000	-	86,861
Trade payables	-	-	230,510	230,510
Other payables excluding derivatives	-	-	58,935	58,935
Guarantee deposits from customers		59,735		59,735
Debentures	1,955,033	-	-	1,955,033
Loans from banks and others	134,085	453,356	-	587,441
Liabilities in respect of finance leases	79,596	-	-	79,596
December 31, 2016				
Financial Assets				
Cash & Cash Equivalents	133,989	10,737	27,969	172,695
Short-term deposits and restricted cash	23,132	9,430	25,657	58,219
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
Financial liabilities				
Short term loans	63,430	149,987	-	213,417
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
Loans from banks and others(*)	83,917	1,293,422	-	1,377,339
Liabilities in respect of finance leases	87,817	352	-	88,169

(*) At December 31, 2016 out of US$ 1,293,422 thousand, US$ 971,372 thousand is hedged for interest rate risk.

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):

In thousands of U.S. dollars	**Increase/decrease in basic points**	**Effect on profit before tax**
December 31, 2017		
Interest bearing borrowings (*)	(+)(-) 100	(+)(-) 721
December 31, 2016		
Interest bearing borrowings (*)	(+)(-) 100	(+)(-) 2,966

(*) These floating rate borrowings with interest rate swaps have not been considered.

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:

In thousands of U.S. dollars	**Credit from banks and others**	**Interest rate swaps**
December 31, 2017		
Financial Liabilities: Maturity profile		
Due within one year, but not on demand	142,455	(1,195)
Due within one to two years	56,527	217
Due within two to three years	80,361	598
Due within three to four years	331,964	579
Due within four to five years	58,231	51
Due after five years	2,039,393	241
Total	**2,708,931**	**491**
December 31, 2016		
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
Total	**2,590,276**	**24,990**

(*) Considers only cash settlements.

The following tables indicate the periods in which the cash flows associated with derivatives that are cash flow hedges are expected to occur:

In thousands of U.S. dollars	**Fair Value**	**Expected cash flow**	**0-1 years**	**2 years**	**3-5 years**	**More than 5 years**
December 31, 2017						
Interest rate swaps:						
Liabilities	486	486	(1,209)	210	1,244	241
	486	**486**	**(1,209)**	**210**	**1,244**	**241**
December 31, 2016						
Interest rate swaps:						
Liabilities	22,865	22,865	9,930	5,788	4,192	2,955
	22,865	**22,865**	**9,930**	**5,788**	**4,192**	**2,955**

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:

In thousands of U.S. dollars	**Fair Value**	**Expected cash flow**	**0-1 years**	**2 years**	**3-5 years**	**More than 5 years**
December 31, 2017						
Interest rate swaps:						
Liabilities	(63)	(63)	(7)	(7)	(49)	-
	(63)	**(63)**	**(7)**	**(7)**	**(49)**	**-**
Interest rate swaps:						
Assets	69	69	22	14	33	-
	69	**69**	**22**	**14**	**33**	**-**
December 31, 2016						
Interest rate swaps:						
Liabilities	2,125	2,125	783	570	688	84
	2,125	**2,125**	**783**	**570**	**688**	**84**
Interest rate swaps:						
Assets	111	111	2	40	22	47
	111	**111**	**2**	**40**	**22**	**47**

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.

In thousands of U.S. dollars	**Total**	**US$**	**Quetzales**	**Other currencies**
December 31, 2017				
Cash and cash equivalents	360,227	329,636	7,418	23,173
Short-term deposits and restricted cash	26,284	13,147	2,853	10,284
Trade receivables	284,554	71,564	93,803	119,187
Other receivables	45,503	44,341	533	629
Deposits and other receivables	4,980	1,067	3,555	358
Total	**721,548**	**459,755**	**108,162**	**153,631**
Short term loans	142,453	137,868	953	3,632
Trade payables	230,510	109,639	92,357	28,514
Other payables, excluding derivatives instruments	58,935	35,856	15,338	7,741
Guarantee deposits from customers	59,735	-	59,735	-
Loans from bank and others, and debentures	2,566,478	2,390,962	112,560	62,956
Total	**3,058,111**	**2,674,325**	**280,943**	**102,843**
Net monetary position	(2,336,563)	(2,214,570)	(172,781)	50,788
Derivative instruments	491	491	-	-
Net position	**(2,336,072)**	**(2,214,079)**	**(172,781)**	**50,788**
December 31, 2016				
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
Total	**546,818**	**303,065**	**117,530**	**126,223**
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
Total	**2,949,739**	**2,304,328**	**491,922**	**153,489**
Net monetary position	(2,402,921)	(2,001,263)	(374,392)	(27,266)
Derivative instruments	(24,879)	(24,879)	-	-
Net position	**(2,427,800)**	**(2,026,142)**	**(374,392)**	**(27,266)**

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, 2017 and 2016.

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.

In thousands of U.S. dollars	**10% increase**	**5% increase**	**5% decrease**	**10% decrease**
December 31, 2017				
Dollar / Sol	9,315	4,412	(3,992)	(7,621)
Dollar / DR Peso	681	323	(292)	(557)
Dollar / Quetzal	(19,198)	(9,094)	8,228	15,707
Dollar / Bolivian Peso	(5,358)	(2,538)	2,296	4,384
Dollar / Chilean Peso	411	195	(176)	(336)
Dollar / Other	585	278	(251)	(479)
December 31, 2016				
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)

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, 2017 and 2016, 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:

- 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.

In thousands of U.S. dollars	Level 1	Level 2	Total
December 31, 2017			
Liabilities			
Derivatives used for hedging	-	485	485
Derivatives not used for hedging	-	(63)	(63)
	-	**422**	**422**
Assets	-		
Derivatives not used for hedging	-	69	69
	-	**69**	**69**
December 31, 2016			
Liabilities			
Derivatives used for hedging	-	22,865	22,865
Derivatives not used for hedging	-	2,125	2,125
	-	**24,990**	**24,990**
Assets			
Derivatives not used for hedging	-	111	111
	-	**111**	**111**

The Company has utilized market comparison techniques to estimate the fair value of its derivatives. 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.

December 31, 2017

	Carrying amount								Fair value			
In thousands of U.S. dollars	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
Financial assets measured at fair value												
Interest rate swap not used for hedging	69	-	-	-	-	-	-	69	-	69	-	69
	69	-	-	-	-	-	-	69	-	69	-	69
Financial assets not measured at fair value												
Cash and cash equivalents	-	-	-	-	360,227	-	-	360,227	-	-	-	-
Short term deposits and restricted cash	-	-	-	-	17,890	-	-	17,890	-	-	-	-
Trade receivables	-	-	-	-	272,223	-	-	272,223	-	-	-	-
Other receivables	-	-	-	-	45,524	-	-	45,524	-	-	-	-
Deposits and other receivables	-	-	-	-	15,243	-	-	15,243				
	-	-	-	-	711,107	-	-	711,107	-	-	-	-
Financial liabilities measured at fair value												
Interest rate swap used for hedging	-	-	485	-	-	-	-	485	-	485	-	485
Interest rate swap not used for hedging	(63)	-	-	-	-	-	-	(63)	-	(63)	-	(63)
	(63)	-	485	-	-	-	-	422	-	422	-	422
Financial liabilities not measured at fair value												
Loan from banks and others	-	-	-	-	-	-	674,302	674,302	-	674,217	-	674,217
Loan from parent company	-	-	-	-	-	-	-	-	-	-	-	-
Liabilities in respect of finance leases	-	-	-	-	-	-	79,596	79,596	-	78,335	-	78,335
Debentures	-	-	-	-	-	-	1,955,033	1,955,033	-	2,024,325	-	2,024,325
Trade payables	-	-	-	-	-	-	230,510	230,510	-	-	-	-
Guarantee deposits from customers	-	-	-	-	-	-	59,735	59,735	-	-	-	-
Other payables	-	-	-	-	-	-	58,935	58,935	-	-	-	-
	-	-	-	-	-	-	3,058,111	3,058,111	-	2,776,877	-	2,776,877

December 31, 2016

	Carrying amount								Fair value			
In thousands of U.S. dollars	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
Financial assets measured at fair value												
Interest rate swap not used for hedging	111	-	-	-	-	-	-	111	-	111	-	111
	111	**-**	**-**	**-**	**-**	**-**	**-**	**111**	**-**	**111**	**-**	**111**
Financial assets not measured at fair value												
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**	-	-	-	-
Financial liabilities measured at fair value												
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**
Financial liabilities not measured at fair value												
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**

M. Measurement of fair values

The following table shows the valuation techniques used in measuring Level 2 fair values as at December 31, 2017 and 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

29. Commitments

A. Inkia Americas Ltd

As of December 31, 2017, Inkia Americas Ltd. has issued stand by letters of credit for a total amount of US$ 26,809 thousand for guarantee, as follows:

Guarantee party	Description	Amount (In thousand)
Kanan overseas I, Inc	Credit Guarantee	13,000
Kanan overseas I, Inc	Power Purchase agreement	7,334
Kanan overseas I, Inc	Spot Purchase	3,000
Kanan overseas I, Inc	Credit Agreement	2,875
Kanan overseas I, Inc	Payments of storage and handling agreement	600

B. Kallpa, Peru

Letters of credit
As of December 31, 2017, Kallpa has issued stand by letters of credit for a total amount of US$ 11,001 thousand for guarantee, as follows:

Guarantee party	Description	Amount (In thousand)
Kanan overseas I, Inc	Power Purchase agreement	9,534
Kanan overseas I, Inc	Power Purchase agreement	1,467

Power Purchase Agreements (PPA) – Hydroelectric plant
Kallpa has entered into three PPAs—a 15-year PPA with ElectroPerú covering 200 MW of capacity and the associated energy that commenced 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 commences 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 Kallpa'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 Kallpa operates a hydroelectric plant, its PPAs are indexed to natural gas prices, exposing Kallpa to fluctuations in such prices.

Power Purchase Agreements (PPA) – Thermoelectric plant
As of December 31, 2017, Kallpa has entered into thirty four PPAs with unregulated consumers to provide capacity and the associated energy of 692 MW (thirty four PPAs of 610 MW as of December 31, 2016). These contracts have various commencement dates, and have expiration dates between 2016 and 2028. Also, as of December 31, 2017, Kallpa has signed thirty one PPAs with 8 distribution companies for 889 MW (thirty two PPAs with 8 distribution companies for 779 MW as of December 31, 2016).

The Peruvian market functions on the marginal cost method in which the generators bid their marginal cost to the market regulator who instructs the most efficient generators to produce electricity for the system. In the event Kallpa is not capable to meet its commitments under the contracts, 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:

	Cubic meters per day	
	To be provided by Consortium	Minimum purchase
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
	4,250,000	**2,225,000**

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 Peru 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 agreement expires 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):

	Firm	**Interruptible**
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. 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, 2017, Energuate was party to over 98 PPAs (80 PPAs as of December 31, 2016). 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, 2017, covering 59% of the collective contracted capacity.

Supplier	Contracted capacity (MW)	Expiration date
Jaguar Energy Guatemala LLC	200	April 2030
INDE	115	April 2018 –April 2032
Energía del Caribe	60	April 2030
Renace, S.A.	55	April 2030
Hidro Xacbal, S.A.	30	April 2030

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.

E. 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.

F. 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 and finish in January 2018 and finished in July 2017, respectively.

In December 2014, Nejapa entered into PPA with seven distribution companies for 30 MW of capacity with 36 - month term starting from January 2015.

In December 2017, Nejapa entered into PPA with five distribution companies for 63.7 MW of capacity with 39 - month term starting from January 2018.

G. Poliwatt, Guatemala

Power Purchase Agreements (PPA)
As of December 31, 2017, Poliwatt has entered into eight PPAs with no related parties (thirteen as of December 31, 2016) to provide capacity and energy of 126 MW (175 MW as of December 31, 2016). These contracts have various commencement dates, and vary in duration between 2017 and 2020.

Also, Poliwatt has entered into two PPAs with related parties as of December 31, 2017 (seven PPAs as of December 31, 2016), to provide capacity and energy of 7 MW (69 MW as of December 31, 2016). These contracts have various commencement dates, and vary in duration between 2019 and 2020.

H. IC Power Nicaragua, Nicaragua

Power Purchase Agreements (PPA)
As of December 31, 2017, 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:

Company	Commencement	Expiration	Contracted Capacity (MW)
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

I. 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.

J. 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.

30. 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.

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/ 37,900 thousand (US$ 12,300 thousand). Subsequently, Kallpa recovered the VAT related to this amount. As of December 31, 2017 and 2016 the remaining amount is approximately S/ 32,546 thousand (US$ 10,051 thousand and US$ 9,709 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. On April 24, 2017, an oral hearing was held where Kallpa explained its defense arguments. 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 filed by Kallpa. An oral hearing was held in September 2017 to assess the technical support. On February 2, 2018, the Kallpa was notified with the first instance decision. Such decision did not merit the technical support filed by Kallpa, in clear contempt of the second instance judge orders.

As of December 31, 2017, 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

With regards to Kallpa II and III, On December, 2017 the Tax Court rejected Kallpa's appeals. Kallpa disagrees with such decisions and will file, before March 29, 2018 a judicial action (Demanda Contencioso Administrativa) before the Superior Court of Lima. On March 2, 2018 Kallpa paid S/. 21, 752 thousand (US$ 6,662 thousand) corresponding to the full amount required by SUNAT for Kallpa III to avoid the risk of coercive collection and the accrual of interest while the final decision is issued. Once Kallpa is notified with the amount required by SUNAT for Kallpa II, will proceed to pay.

On January 27, 2016, the amount of the claim in connection with Kallpa IV was reduced in S/ 17,220 thousand (US$ 5,270 thousand) without interests, from S/ 17,719 thousand to S/ 499 thousand (from US$ 5,423 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, 2017, the total tax exposure related to these assessments is as follows:

	Stage	Amount (In thousand S/)	Amount (In thousand US$)
Kallpa I	Superior Court of Lima	32,546	10,082
Kallpa II	Peruvian Tax Court	23,482	7,236
Kallpa III (*)	Peruvian Tax Court	22,759	7,013
Kallpa IV	Peruvian Tax Court	990	305
Total		**79,777**	**24,636**

(*) Paid on March 2, 2018

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 contractual basis consolidated 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$ 6,790 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$ 5,104 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, 2017, potential tax liability regarding to this assessment is S/ 12,586 thousand (approximately US$ 3,879 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 contractual basis consolidated 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, 2017, sanction processes initiated by the National Energy Electric Commission related to these fines in an aggregate amount of Q. 80,228 thousand (approximately US$ 10,923 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. 50,620 thousand (approximately US$ 6,892 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. 29,608 thousand (approximately US$ 4,031 thousand).

ii. Sanction processes initiated by the National Energy Electric Commission (CNEE) in an aggregate amount of US$ 2,027 thousand (Q. 14,886 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. 3,329 thousand (approximately US$ 453 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. 11,557 thousand (approximately US$ 1,574 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$ 3,070 thousand (Q. 22,548 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. 5,200 thousand (approximately US$ 708 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. 17,348 thousand (approximately US$ 2,362 thousand), therefore DEOCSA has recorded the provision for this amount in its financial statements.

iv. Civil petitions submitted by third parties for damages and several injuries to DEOCSA in the amounts of US$ 3,800 thousand (Q. 27,913 thousand):

In the opinion of DEOCSA's management and its legal advisors it is not more likely than not that DEOCSA will pay Q. 10,721 thousand (approximately US$ 1,460 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. 17,192 thousand (approximately US$ 2,340 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 Q. 8,194 thousand (approximately 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 Q. 67,404 thousand (approximately US$ 9,177 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, 2017, sanction processes initiated by the National Energy Electric Commission related to this fines in an aggregate amount of Q.129,700 thousand (approximately US$ 17,658 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. 94,021 thousand (approximately US$ 12,801 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$ 4,857 thousand)

ii. Sanction processes initiated by the National Energy Electric Commission (CNEE) in an aggregate amount of US$ 3,067 thousand (Q. 22,528 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. 5,399 thousand (approximately US$ 735 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. 17,129 thousand (approximately US$ 2,332 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$ 5,564 thousand (Q. 40,869 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. 29,882 thousand (approximately US$ 4,068 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. 10,987 thousand (approximately US$ 1,496 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$ 2,569 thousand (Q.18,871 thousand):

In the opinion of DEORSA's management and its legal advisors it is not more likely than not that DEORSA will pay Q. 18,493 thousand (approximately US$ 2,518 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. 378 thousand (approximately US$ 51 thousand) therefore DEORSA has recognized a provision for this amount in its financial statements.

v. Tax claim for Value Added Tax (VAT) related to missing invoices

As of December 31, 2017, DEORSA has a claim from the Tax Administration Superintendence for Income Tax and Value Added Tax (VAT) obligations, for an amount of Q. 174,361 thousand (approximately US$ 23,735 thousand) in relation to alleged missing invoices in the book of sales for the period July 1999 to December 2000. The original assessment amount was Q. 40,357 thousand (approximately US$ 5,493 thousand). The date of the last hearing was April 24, 2002. This case is pending a ruling from the Second Administrative Law Court.

In the opinion of DEORSA's management and its legal advisors it is not more likely than not that DEORSA will pay Q. 159,360 thousand (approximately US$ 21,693 thousand).

vi. 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 Q. 20,513 thousand (approximately US$ 2,690 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 Q. 58,839 thousand (approximately US$ 8,011 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 2017 and 2016 DEORSA and DEOCSA made additional payments of income tax paid in advance by Q. 55,535 thousand (approximately US$ 7,527 thousand) and Q. 40,729 thousand (approximately US$ 5,393 thousand) also considering non-deductible the items related to goodwill's amortization and interests (until May 2017) that were subject to the tax claim, respectively. On January 2018, a new payment of Q. 9,545 thousand (approximately US$ 1,298 thousand) was made.

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.

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 was scheduled for October 13, 2017 to determine the amount of interest and fines on the claim but was again re scheduled for April 26, 2018.

As of December 31, 2017 and 2016, the total tax claim paid under protest by DEOCSA and DEORSA amounts to US$89,516 thousand and US$ 80,023 thousand, respectively. The amount for this tax claim has been recognized as a receivable, see note 11.

E. Kanan Overseas I Inc.

On December 27 and 28, 2017, Kanan presented an arbitration request before the regulator, against two of the three distribution companies with which Kanan has long-term contracts. The purpose of initiating the process is for the regulator to determine if Kanan is exempt from paying penalties for unfulfilled contractual obligations under the long-term contracts with three distribution companies. The main reason for not being able to fulfill obligations arising from capacity commitments is due to the fact that there is no reserve capacity available in the market for purchase and therefore, Kanan is unable to fully comply with contract requirements. According to Kanan management, this situation represents force majeure and, therefore, Kanan should be exempted from paying penalties.

The regulator admitted the request for arbitration and the process includes the opportunity for each counterparty to respond and present evidence for the applicability of the fines. The arbitration presents the opportunity for a private reconciliation, if no agreement is reached, the regulator will consider the evidence presented and will issue a resolution of the case within 30 working days.

As of December 31, 2017, Kanan determined to book a provision in connection to the arbitration process and penalty amounts for the three distribution companies for a total amount of US$ 6,455 thousand.

31. Related Party Transactions

The Group does not have significant transactions with related parties as of December 31, 2017 and 2016, as defined by IAS 24; except for the transactions with its shareholder as described in notes 12 and 21.

The aggregate annual compensation expenses related to Inkia executive officers during 2017 and 2016 were US$ 6,239 thousand and US$ 5,419 thousand, respectively.

32. Subsequent Events

A. COBEE – River flood in Zongo Valley

On February 14, 2017, due to an unusual intense rainfall, there was a River Flood in Zongo valley causing material losses, in different magnitudes, in Zongo hidroelectric system: damage on roads, bridges, housing facilities, water intakes, canals, local service (low voltage) and medium and high voltage distribution networks.

Although COBEE’s management is still assessing the impact of the damage and the resulting outage, COBEE does not expect to have material adverse effect on its financial results.

B. Inkia Energy Ltd. transfer to Kenon

On February 14, 2018, IC Power Asia Development Ltd. transferred 100% of its participation in Inkia Energy Ltd. to Kenon Holdings, being an aggregate of 24,000 common shares of par value US$0.01, which represent the 100% of the shares of Inkia Energy Ltd.

C. DEOCSA – Collect agreements

On February 23, 2017, DEOCSA signed an agreement with the municipality of Malacatán, for the normalization of the energy distribution service in the urban area of Malacatán, San Marcos. The agreement contains an offer for the users, which include: (i) a discount for cash payment of 60% of the total amount owed and (ii) a discount of 50% if the payment is made in installments, the payment term of these agreement cannot exceed ten years. As of December 31, 2017, the number of clients with debt balance is 10,182 users.

On March 1, a debt agreement for the supplies of water pumps and municipal buildings was signed between both parties, in addition, DEOCSA won't charge the interest pending of invoicing. The agreement is subject and conditioned to the commitment for the payments of the municipality of Malacatán. The debt was agreed to be cancelled in 4 years and 7 months.

The balance of accounts receivable from customers as of December 31, 2017 is Q.116,000 thousand (approximately US$ 15,793 thousand), this amount does not include public lighting fee or agreed debt and supplies of water pumps and municipal buildings. As of December 31, 2017 DEOCSA maintains a bad debt reserve for Q.113,000 thousand (approximately US$ 15,385 thousand).

On March 18, 2018, DEOCSA signed an agreement with representatives of the communities of Retalhuleu and Genova Costa Cuca, for the normalization of the energy distribution service in the urban area of these places. The agreement contains an offer for the users, which include: (i) a discount for cash payment of 50% of the total amount owed and (ii) a discount of 40% if the payment is made in installments, the payment term of these agreement cannot exceed ten years. As of December 31, 2017, the number of clients with debt balance is 1,782 users.

The balance of accounts receivable from customers as of December 31, 2017 is Q.11,460 thousand (approximately US$ 1,560 thousand), this amount does not include public lighting fee or agreed debt. As of December 31, 2017 DEOCSA maintains a bad debt reserve for Q.11,417 thousand (approximately US$ 1,554 thousand).

D. IC Power Panama Management

On February 28, 2018, IC Power Panama Management signed employee termination agreements with its employees. The closure of IC Power Panama Management operations will be processed within one month as of the date March 31, 2018.

E. Agua Clara Project

IC Power DR is 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, IC Power DR has entered into a 20 year PPA with a government entity for which the relevant concession has been granted.

The total Project cost is estimated to be US$ 100,000 thousand, of which 73% is expected to be debt-financed.

On March 16, 2018, IC Power DR signed a credit agreement with Citibank NY for a total amount of US$ 73,500 thousand. This agreement will be cancelled or terminated when all project commitments have been fulfilled or utilized in order to COD starts. On March 20, 2018, IC Power DR received the first disbursement for a total amount of US$ 15,500 thousand.