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Quantitative and qualitative disclosures about market risk

We are exposed to several market risks in our normal business activities. Market risk is the potential loss that may result from market changes associated with our business or with an existing or forecasted financial or commodity transaction. The types of market risks we are exposed to are interest rate risk, foreign currency risk, liquidity risk and credit risk.

Interest rate risk

As of December 31, 2014, our long-term debt was at variable interest rates. A hypothetical increase or decrease in our variable interest rates by 1% would have had a $573 thousand and $941 thousand net effect on our predecessor's earnings for the years ended December 31, 2013 and 2014, respectively.

We expect to enter into the Revolver upon completion of this offering. We expect that borrowings under the Revolver will be at variable interest rates. Although we intend to use hedging strategies to mitigate our exposure to interest rate fluctuations, we may not hedge all of our interest rate risk and, to the extent we enter into interest rate hedges, our hedges may not necessarily have the same duration as the associated indebtedness. Our exposure to interest rate fluctuations will depend on the amount of indebtedness that bears interest at variable rates, the time at which the interest rate is adjusted, the amount of the adjustment, our ability to prepay or refinance variable rate indebtedness when fixed rate debt matures and needs to be refinanced and hedging strategies we may use to reduce the impact of any increases in rates.

Foreign currency risk

During the years ended December 31, 2013 and 2014, all of our revenues were generated in Indian Rupee, Malaysian Ringgit, South African Rand and Thai Baht, and were translated into the U.S. dollar, which is our reporting currency. We expect the PPAs, operating and maintenance agreements, financing arrangements and other contractual arrangements relating to our initial portfolio will be denominated in Chinese Yuan Renminbi, Brazilian Real, Indian Rupee, Malaysian Ringgit, South African Rand, Peruvian Nuevo Sol and Thai Baht, but in the future we expect such arrangements may also be denominated in other currencies.

We expect to use derivative financial instruments, such as forward exchange contracts and purchases of currency options to minimize our net exposure to currency fluctuations. In 2016, we expect 31% of our revenue (and 31% of CAFD) to be denominated in U.S. dollars, and 53% of our revenue (and 37% of CAFD) to be derived from PPAs indexed to inflation. We plan to hedge all foreign-currency CAFD on a rolling three-year basis.