

Table of Contents**(b) Promotion of investment on electricity generation using renewable energy—**

The Legislative Decree N° 1002, published on May 2, 2008 and the regulation, has the purpose of promoting the use of RER in order to enhance the quality of life of the population and to protect the environment through the investment promotion of electricity generation with the use of RER, which is declared of national interest and public necessity. RER are defined as the biomass as well as the wind, solar, geothermal, tidal and hydraulic energies (the latter solely when the generation capacity is less than 20.0 MW).

Eligible to the provisions of said Legislative Decree are the new operations of companies using RER as primary energy, with previous accreditation before the MEM.

Electricity generation via RER enjoys priority in the daily dispatch performed by COES. The production variable cost for the use of RER shall be zero.

The law and its regulations introduced an auction scheme for electricity generated with RER. The energy required for the auctions shall correspond to the participation of the estimated generation with RER by multiplying the National Consumption of Electricity, as established by the Regulation, by the percentage established by the MEM, in which the national consumption of electricity generated with RER must participate, every five years.

(c) Promotion of investment on electricity generation using water resources and other renewable resources—

The Legislative Decree N°1058 dated June 27, 2008, established the investment promotional framework of electricity generation with the use of RER, thus encouraging scientific research and technological innovation, as well as the designing of projects that qualify as mechanisms of clean development which upon being granted their registration can be subject of the negotiation of Emission Reductions Certificates (hereafter "CER") that can be sold to companies of industrialized countries, which at their turn can account said reductions of greenhouse gases as part of their qualitative goals committed under the Kyoto Protocol.

This regime benefits the electricity generation based on water resources or based on other renewable resources such as wind, solar, geothermal, biomass or tidal, which will be subject to the accelerated depreciation benefit over the Income Tax. Said regime shall be applied to the generation plants that start operations since the entry into force of the aforementioned Legislative Decree. The accelerated depreciation shall be applicable to machinery, equipment and civil works necessary for the installation and operation of the plant, which are acquired and/or built since the entry into force of the Legislative Decree. The rate to be applied is 20 percent as global annual rate.

3. Summary of significant accounting policies and principles

3.1 Basis of preparation and presentation—

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the "International Accounting Standards Board" (hereinafter "IASB").

The accompanying financial statements have been prepared on a historical cost basis, based on the accounting records kept by the Company.