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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 to the negotiation of Emission Reductions Certificate (hereafter "CER" for its Spanish acronym) 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.

The accounting policies adopted are consistent with policies applied in previous years, except for the new IFRS and revised IAS that are mandatory for periods beginning on or after January 1, 2014, in which the Company has adopted; however, due to the structure of the Company and nature of its operations, the adoption of these standards had no significant effect on its financial position and results of operation; therefore, it has not been necessary to modify the comparative financial statements of the Company. These new IFRS and revised IAS are described below:

- *IAS 32 Financial Instruments: Presentation—Offsetting Financial Assets and Financial Liabilities (Amendment)*

Defines the meaning of "currently has a legal right to compensation" criteria and mechanisms for non-simultaneous solution clearinghouses for entitlement to compensation modification. Additionally, this amendment clarifies that to compensate two or more instruments financial institutions should have a right to compensation that cannot be conditioned on a future event, and should be mandatory the following circumstances: (i) the normal course of business, (ii) in the event of default, and (iii) in the event of insolvency or bankruptcy of the entity or any of the counterparties.

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