

U.S.\$75,000,000
AES Panamá, S.R.L.
6.000% Senior Notes due 2022

AES Panamá, S.R.L. ("Issuer") is offering U.S.\$75,000,000 6.000% Senior Notes due 2022 to be fungible with the U.S.\$300,000,000 currently outstanding and issued pursuant to a registration with the Securities Market Superintendency ("SMV") of up to U.S.\$375,000,000.

The Issuer is organized as a limited liability company organized under the laws of the Republic of Panama, or Panama, through public deed number 147 on January 19, 1998 by the Second Notary Public of the Circuit of Panama, registered in jacket 340437, document 39259 of the Mercantile Section of the Public Registry of Panama, which was transformed from a corporation (*sociedad anónima*) to a limited liability company through a public deed on October 2, 2014, effective from October 16, 2014, registered in jacket 2584, document 269093 of the Commercial Section of the Public Registry of Panama. The Issuer is offering U.S.\$75,000,000 aggregate principal amount of 6.000% Senior Notes due 2022, or the Notes. The Notes offered hereby are an additional issuance of our 6.000% Senior Notes due 2022 initially issued on June 25, 2015 in the aggregate principal amount of U.S.\$300,000,000, or the Outstanding Notes. Other than the issue date and issue price, the Notes offered hereby will have identical terms, as, and will be consolidated and form a single series and be fungible with, the Outstanding Notes, except that until the expiration of the 40-day distribution compliance period commencing on the date of issuance, the Notes offered hereby and sold in compliance with Regulation S will be issued and maintained under temporary ISIN and CUSIP numbers. References herein to the "Notes" refer to the Notes offered hereby and the Outstanding Notes collectively, unless the context otherwise requires.

Interest on the Notes is payable semi-annually in arrears on June 25 and December 25 of each year, calculated on the basis of a 360-day year of twelve 30-day months. The Notes will mature on June 25, 2022.

Before June 25, 2019, we may redeem the Notes, at our option, in whole at any time or in part from time to time, at a redemption price equal to the principal amount of the Notes to be redeemed, plus a make-whole premium described in this offering memorandum, accrued and unpaid interest and additional amounts, if any, to the date of redemption. On or after June 25, 2019, we may redeem the Notes, at our option, in whole at any time or in part from time to time, at redemption prices described in this offering memorandum, plus accrued and unpaid interest and additional amounts, if any, to the date of redemption. We also may redeem the Notes at our option, in whole but not in part, at 100% of their principal amount, plus accrued and unpaid interest to the date of redemption and any additional amounts then due and payable, upon the occurrence of any specified events affecting taxation of the Notes. See "Description of the Notes—Redemption."

The Notes are general unsubordinated obligations of AES Panamá, secured by the collateral in a debt service reserve account, pledged to the collateral agent for the benefit of Deutsche Bank Trust Company Americas, as trustee under the indenture governing the Notes, and the holders of the Notes. Upon completion of this offering, the aggregate principal amount of Notes outstanding will be U.S.\$375,000,000, representing 2.66 times the authorized capital of AES Panamá of U.S.\$141,100,000 as of June 30, 2016.

Investing in the Notes involves risks. See "Risk Factors" on page 14.

The Notes have not been registered under the United States Securities Act of 1933, as amended, or the Securities Act, or with the securities regulatory authority of any state or other jurisdiction in the United States. The Notes may not be offered or sold within the United States or to U.S. persons, except to qualified institutional buyers in reliance on the exemption from registration provided by Rule 144A under the Securities Act and to non-U.S. persons in offshore transactions in reliance on Regulation S. Investors are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For further details about eligible offerees and resale restrictions, see "Notice to Investors."

The Notes being offered in accordance with Rule 144A will be issued in the form of one or more registered notes in global form, or the Rule 144A Global Note. The Notes being offered in accordance with Regulation S will be issued in the form of a registered note in global form, or the Regulation S Global Note. The Notes will be deposited with a custodian for The Depository Trust Company, or DTC, in New York, New York and registered in the name of Cede & Co., as nominee of DTC. Investors may hold their interests in a global note representing the Notes through organizations that are participants in DTC, including Euroclear System, or Euroclear, and Clearstream Banking, société anonyme, Luxembourg, or Clearstream. Beneficial interests in the Regulation S Global Note may be held in Panama through Central Latinoamericana de Valores, S.A., or Latinclear, a clearing house that is a participant in Clearstream.

THE PUBLIC OFFERING OF THE NOTES HAS BEEN AUTHORIZED IN PANAMA BY THE SUPERINTENDENCIA DEL MERCADO DE VALORES DE PANAMÁ (PANAMA SECURITIES MARKET SUPERINTENDENCY). THIS AUTHORIZATION DOES NOT IMPLY THAT THE SUPERINTENDENCY RECOMMENDS INVESTING IN THE NOTES NOR DOES IT REPRESENT A FAVORABLE OR UNFAVORABLE OPINION ON THE ISSUER'S BUSINESS PROSPECTS. THE PANAMA SECURITIES MARKET SUPERINTENDENCY WILL NOT BE RESPONSIBLE FOR THE ACCURACY OF THE INFORMATION PRESENTED IN THIS OFFERING MEMORANDUM OR OF THE DECLARATIONS CONTAINED IN THE REGISTRATION APPLICATION.

THE LISTING AND TRADING OF THE NOTES HAVE BEEN AUTHORIZED BY THE BOLSA DE VALORES DE PANAMÁ, S.A. (PANAMA STOCK EXCHANGE). THIS AUTHORIZATION DOES NOT IMPLY ANY RECOMMENDATION OR OPINION REGARDING THE NOTES OR THE ISSUER.

Summary of the Notes offered hereby^(a)

	Price to investors ^(b)	Expenses ^(c)	Net proceeds to Issuer
Total:	U.S.\$77,794,500	Approximately U.S.\$2,214,775	U.S.\$75,579,725
Per unit:	103.726%	3.0 %	100.8%

(a) The Outstanding Notes were sold at a total price to investors of U.S.\$300,000,000, which represented a per unit price of 100.0%. Total expenses related to that offering were approximately U.S.\$2,750,000 or 0.9% per unit, and the net proceeds for the Issuer were U.S.\$297,250,000, or 99.1% per unit.

(b) "Price to investors" and "Net proceeds to Issuer" in the table above include the premium or discount but do not include accrued interest on the Notes offered hereby from June 25, 2016, the most recent date on which interest was paid on the Outstanding Notes, which equals U.S.\$16.67 per U.S.\$1,000 principal amount of Notes for a total of U.S.\$ 1,250,000, assuming the Notes offered hereby are issued and delivered on the expected closing date of October 5, 2016. Investors are required to pay such accrued interest as part of the purchase price of the Notes.

(c) Includes the Initial Purchaser's discount and other offering expenses payable by us. See "Use of Proceeds" section for detail regarding expenses.

Certain other terms and information relating to the Notes offered hereby that appear blank in this preliminary offering memorandum will be provided in the supplemental offering memorandum no later than the date on which the Notes are offered for sale through the Panama Stock Exchange. To the extent that the Spanish language prospectus used in connection with the offering of the Notes in Panama conflicts with this offering memorandum, this offering memorandum shall govern and control.

Application has also been made to admit the Notes offered hereby on the Official List of the Luxembourg Stock Exchange and to be admitted to trading on the Euronext MTF market of the Luxembourg Stock Exchange, or the Euro MTF. This offering memorandum constitutes a prospectus for the purposes of part IV of the Luxembourg Act dated July 10, 2005, relating to prospectuses for securities.

AES Panamá was originally organized under the name Empresa de Generación Eléctrica Chiriquí, S.A. Upon our merger with Empresa de Generación Eléctrica Bayano, S.A., we changed our name to AES Panamá, S.A., which was perfected through public deed number 8,719 on August 17, 1999, by the Eighth Notary Public of the Circuit of Panama, registered in jacket 340437, document 39259 of the Commercial Section of the Public Register, since October 26, 1999. The Panamanian Securities Market Superintendency issued Resolution No. 341-15 dated June 10, 2015 whereby AES Panamá was authorized to offer to the public in Panama 6.000% Senior Notes due 2022 in an aggregate principal amount of up to U.S.\$375,000,000.

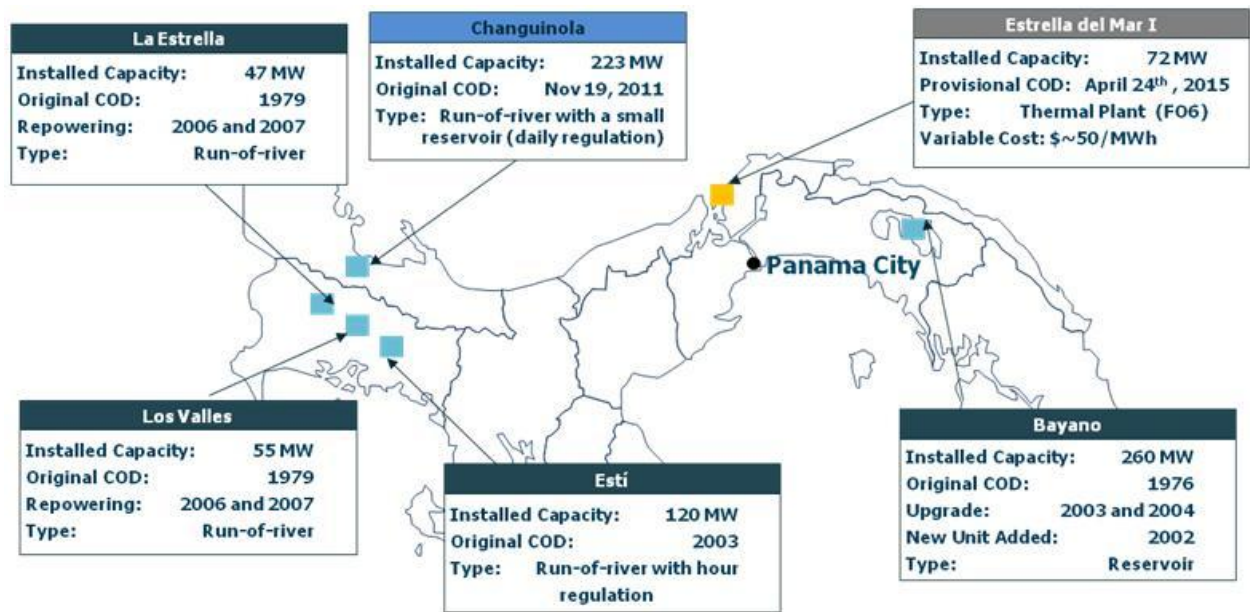
With respect to the original issuance of the Outstanding Notes, the Lead Managers, Joint Bookrunners and Arrangers were Deutsche Bank Securities and Banco General.

Lead Manager, Bookrunner and Arranger

Deutsche Bank Securities

The date of this offering memorandum is October 5, 2016.

AES Panamá Generating Facilities



The illustration above depicts the location and installed capacity of our electric generation facilities and AES Changuinola, S.R.L. We wholly own La Estrella, Los Valles, Estí, Bayano and Estrella del Mar I. We own a twenty percent (20%) ownership interest in AES Changuinola. Accordingly, as discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Principal Factors affecting Results of Operations", we do not consolidate the results of operations of AES Changuinola on a line by line basis. In addition, unless the context expressly states otherwise, operational data with respect to our Company does not include data for AES Changuinola.

TABLE OF CONTENTS

	Page
ENFORCEMENT OF CIVIL LIABILITIES	v
CAUTIONARY LANGUAGE REGARDING FORWARD-LOOKING STATEMENTS	vi
PRESENTATION OF FINANCIAL AND OTHER INFORMATION	vii
TERMS USED IN THIS OFFERING MEMORANDUM	viii
SUMMARY	1
THE OFFERING	7
SUMMARY FINANCIAL AND OPERATING DATA	11
RISK FACTORS	14
USE OF PROCEEDS	29
CAPITALIZATION	30
SELECTED FINANCIAL AND OPERATING DATA	31
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	35
OVERVIEW OF THE PANAMANIAN ELECTRICITY INDUSTRY	56
BUSINESS	71
MANAGEMENT	89
PRINCIPAL EQUITY HOLDERS	94
RELATED PARTY TRANSACTIONS	95
DESCRIPTION OF NOTES	98
TAXATION	154
CERTAIN ERISA AND RELATED CONSIDERATIONS	158
PLAN OF DISTRIBUTION	159
NOTICE TO INVESTORS	164
GENERAL INFORMATION	168
VALIDITY OF THE NOTES	169
INDEPENDENT AUDITORS	170
INDEX TO FINANCIAL STATEMENTS	F-1

You should rely only on the information contained in this offering memorandum or to which we have referred you. Neither the Issuer nor Deutsche Bank Securities Inc. as the initial purchaser, or the Initial Purchaser, has authorized anyone to provide you with information that is different or additional to the information contained in this offering memorandum. If anyone provides you with different or additional information, you should not rely on it. You should assume that the information in this offering memorandum is accurate only as of the date on its front cover, regardless of the time it is delivered or of any sale of any Notes. Our business, financial condition, results of operations and prospects may change after the date on the front cover of this offering memorandum.

Notwithstanding anything in this offering memorandum to the contrary, except as reasonably necessary to comply with applicable securities laws, you (and each of your employees, representatives or other agents) may disclose to any and all persons, without limitation of any kind, the U.S. federal income tax treatment and tax structure of the offering and all materials of any kind (including opinions or other tax analyses) that are provided to you relating to such tax treatment and tax structure. For this purpose, "tax structure" is limited to facts relevant to the U.S. federal income tax treatment of the offering.

Neither the United States Securities and Exchange Commission, or SEC, nor any state securities commission has approved or disapproved of these securities or determined if this offering memorandum is truthful, accurate, adequate or complete. Any representation to the contrary may be a criminal offense.

The Issuer is relying upon an exemption from registration under the Securities Act for an offer and sale of securities which does not involve a public offering in the United States. By purchasing Notes, investors will be deemed to have made certain acknowledgments, representations and agreements as set forth under "Notice to Investors" in this offering memorandum. The Issuer and the Initial Purchaser are not making and have not made any offer to sell the Notes in any jurisdiction, except where such offer or sale is permitted.

The Notes are subject to restrictions on transferability and resale and may not be offered, transferred or resold except as permitted under the Securities Act and applicable state and Panamanian securities laws pursuant to registration or exemption therefrom. Investors may not sell or transfer their Notes except in compliance with applicable laws in the United States or elsewhere. See "Plan of Distribution" and "Notice to Investors." Prospective investors should be aware that investors may be required to bear the financial risks of this investment for an indefinite period of time.

The Issuer has made available this offering memorandum as required by Panamanian laws and regulations in connection with the public offering of the Notes in Panama, and in the United States solely to qualified institutional buyers, and outside the United States to investors who are non U.S. persons, so they can consider a purchase of the Notes. The Issuer has not authorized the use of this offering memorandum for any other purpose. This offering memorandum may not be copied or reproduced in whole or in part. This offering memorandum may be distributed and its contents disclosed only to the prospective investors to whom it is provided. By accepting delivery of this offering memorandum, investors agree to these restrictions.

This offering memorandum is based on information provided by the Issuer, and other sources that the Issuer believes to be reliable. In making an investment decision, investors must rely on their own examination of the Issuer and the terms of this offering and the Notes, including the merits and risks involved in an investment in the Notes.

The Issuer is not making any representation to investors regarding the legality of an investment in the Notes by investors under any investment or similar laws or regulations. Investors should not consider any information in this offering memorandum to be legal, business or tax advice. Investors should consult their own counsel, accountant, business advisor and tax advisor for legal, financial, business and tax advice regarding any investment in the Notes.

The Issuer reserves the right to withdraw this offering at any time and the Issuer and the Initial Purchaser reserve the right to reject any commitment to subscribe for the Notes in whole or in part and to allot to any prospective investor less than the full amount of the Notes sought by that investor. The Initial Purchaser may acquire a portion of the Notes for its own account.

Investors must comply with all applicable laws and regulations in force in each such investor's jurisdiction and investors must obtain any consent, approval or permission required by each such investor for the purchase, offer or sale of the Notes under the laws and regulations in force in each such investor's jurisdiction to which each such investor is subject or in which each such investor makes such purchase, offer or sale, and neither the Issuer nor the Initial Purchaser will have any responsibility thereof.

Neither the delivery of this offering memorandum nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer since the date hereof or that there has been no adverse change in the financial position of the Issuer since the date hereof or that this offering memorandum is correct as of any time subsequent to the date hereof.

ENFORCEMENT OF CIVIL LIABILITIES

We are a limited liability company (*sociedad de responsabilidad limitada*) organized under the laws of the Republic of Panama. Substantially all of our administrators and executive officers reside outside the United States, all of our assets are located outside the United States, and certain of the experts named in this offering memorandum also reside outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon these persons, including with respect to matters arising under the federal securities laws of the U.S., or to enforce against any of us or them in U.S. courts judgments predicated upon the civil liability provisions of the federal securities laws of the United States. However, we have appointed CT Corporation System, with offices currently located at 111 Eighth Avenue, 13th Floor, New York, New York 10011, as our authorized agent in connection with the Notes and the Indenture, upon which process may be served in any suit or proceeding arising out of or relating to the foregoing that may be instituted against us in any federal or state court located in the County of New York, State of New York.

We have been advised by our Panamanian counsel that no treaty exists between the United States and Panama for the reciprocal enforcement of foreign judgments and that judgments of courts outside Panama, including but not limited to judgments of United States courts, may only be recognized and enforced by the courts of Panama in the event that the Supreme Court of Panama validates the judgment by the issuance of a *writ of exequatur*. Subject to a *writ of exequatur*, any final judgment rendered by any federal or state court located in the State of New York will be recognized, conclusive and enforceable in the courts of Panama without reconsideration of the merits, provided that (i) such foreign court grants reciprocity to the enforcement of judgments of courts of Panama, (ii) the party against whom the judgment was rendered, or its agent, was personally served (service by mail not being sufficient) in such action within such foreign jurisdiction, (iii) the judgment arises out of a personal action against the defendant, (iv) the obligation in respect of which the judgment was rendered is lawful in Panama and does not contradict the public policy of Panama, (v) the judgment is properly authenticated by diplomatic or consular officers of Panama or pursuant to the 1961 Hague Convention on the legalization of documents and (vi) a copy of the final judgment is translated into Spanish by a licensed translator in Panama.

We have been advised by our Panamanian legal counsel, that there is doubt as to the enforceability of original actions in Panamanian courts of liabilities predicated solely on the U.S. federal securities laws and as to the enforceability in Panamanian courts of judgments of U.S. courts obtained in actions predicated upon the civil liability provisions of the U.S. federal securities laws of the U.S.

See "Risk Factors—Risks relating to Panama—It may be difficult to enforce civil liabilities against us or our administrators and executive officers and controlling persons."

CAUTIONARY LANGUAGE REGARDING FORWARD-LOOKING STATEMENTS

This offering memorandum contains "forward-looking statements," as defined in Section 27A of the Securities Act and Section 21E of the U.S. Securities Exchange Act of 1934, or the Exchange Act, relating to our business. These statements are subject to change and uncertainty, which are, in many instances, beyond our control and have been made based upon management's current expectations, estimates and projections. Words such as "believes," "expects," "intends," "plans," "projects," "estimates," "anticipates" and similar words and expressions are used to identify such forward-looking statements. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict. Forward-looking statements are only our current expectations and are based on our management's belief and assumptions and on information currently available to our management. Therefore, actual outcomes and results may differ materially from these expressed or implied in such forward-looking statements.

By their very nature, forward-looking statements are subject to risks and uncertainties, and actual results may differ materially from those expressed or implied in the forward-looking statements as a result of various factors, including, but not limited to, those identified under the caption "Risk Factors." These factors include:

- trends in hydrology, including, but not limited to, those regarding climate and weather patterns;
- extensive government legislation and regulations that apply to us and the electricity generation business;
- our ability to adapt to changes in governmental regulations;
- adverse changes in applicable laws, regulations, rules, principles or practices governing tax, accounting and environmental matters;
- future economic conditions in the regional, national and international markets, including but not limited to regional and national wholesale electricity markets;
- extraordinary events affecting our operations, including unexpected system failures, strikes, emergency safety measures, military or terrorist attacks and natural disasters;
- our ability to carry out marketing and sales plans, as well as manage changes in business strategy, operations or development plans;
- our ability to attract and retain qualified management and other personnel;
- political, economic, regulatory and demographic developments in Panama;
- market perception of the energy industry and us;
- financial market conditions and performance including, but not limited to, changes in interest and inflation rates and in availability and costs of capital;
- effectiveness of risk management policies and procedures and the ability of counterparties to satisfy their contractual commitments;
- changes in oil, gas and fuel prices; and
- other risk factors as set forth under "Risk Factors."

Forward-looking statements speak only as of the date they are made, and we do not undertake any obligation to update them in light of new information or future developments or to release publicly any revisions to these statements in order to reflect later events or circumstances or to reflect the occurrence of unanticipated events. You should consider these cautionary statements together with any written or oral forward-looking statements that we may issue in the future.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Currencies and Exchange Rates

Unless otherwise specified herein or the context otherwise requires, in this offering memorandum references to "Central America" are to the region formed by the countries of Panama, El Salvador, Guatemala, Honduras, Nicaragua and Costa Rica, together; references to "Panama" are to the Republic of Panama; references to the "Panamanian government" are to the Government of the Republic of Panama; references to the "United States" or the "U.S." are to the United States of America; references to "U.S.\$" or "U.S. dollars" are to the lawful currency of the United States, which since 1904 is also legal tender in and the functional currency of Panama and references to the "*Balboa*" are to the official monetary unit of Panama, which serves only as coinage, and has been pegged at parity with the U.S. dollar since 1904.

Financial Statements

This offering memorandum contains our audited financial statements as of and for the years ended December 31, 2015, 2014 and 2013, which have been audited by Ernst & Young Limited Corp. (Panama), a member firm of Ernst & Young Global Limited. This offering memorandum also contains our unaudited financial statements as of and for the six-month periods ended June 30, 2016 and 2015. Our audited and unaudited financial statements included herein are prepared in accordance with accounting principles generally accepted in the United States of America, or U.S. GAAP.

This offering memorandum presents our Adjusted EBITDA information for convenience of investors. "Adjusted EBITDA" represents our operating income (loss) plus depreciation and amortization. Adjusted EBITDA is a supplemental measure of our financial performance that is not required under, or presented in accordance with, U.S. GAAP. Adjusted EBITDA is presented because we believe that some investors find it to be a useful tool for measuring a company's financial performance. Adjusted EBITDA should not be considered as an alternative to, in isolation from, or as a substitute for analysis of our financial condition or results of operations, as reported under U.S. GAAP. Other companies in our industry may calculate EBITDA or Adjusted EBITDA differently than we have for purposes of this offering memorandum, limiting EBITDA's and Adjusted EBITDA's usefulness as a comparative measure.

Rounding

Rounding adjustments have been made to figures included in this offering memorandum. Unless otherwise stated or the context otherwise requires, all financial information in this offering memorandum is rounded to the nearest one-tenth of million U.S. dollars, and percentage figures included in this offering memorandum are rounded to the nearest one-tenth of one percent. As a result, numerical figures shown as totals in some tables may not be an arithmetic aggregation of the figures that preceded them.

Market and Other Information

This offering memorandum contains and refers to information and statistics regarding the Panamanian electricity industry. This market data was obtained from independent public sources, including publications and materials from participants in the electricity industry and from governmental entities such as the Ministry of Economy and Finance (*Ministerio de Economía y Finanzas*), the Secretary of Energy (*Secretaría de Energía*), the Office of the Comptroller (*Contraloría General de la República*), the National Dispatch Center (*Centro Nacional de Despacho*), the Electricity Transmission Company (*Empresa de Transmisión Eléctrica*), the National Authority of Public Services (*Autoridad Nacional de los Servicios Públicos*) and the Environment Ministry (*Ministerio de Ambiente*), among others. Some data are also based on our estimates, which are derived from our review of internal reports, as well as independent sources. Other data have been provided to us by The AES Corporation, or AES. Although these sources are believed to be reliable, we have not independently verified, and do not guarantee the accuracy and completeness of this information.

See "Terms Used in this Offering Memorandum" for a description of terms referred to in this offering memorandum, including certain technical terms commonly used in the electricity generation industry in Panama.

TERMS USED IN THIS OFFERING MEMORANDUM

Terms referred to in this offering memorandum and otherwise not defined herein, including certain technical terms commonly used in the electricity distribution industry in Panama, are set out below.

"2016 Notes"	The U.S.\$300 million aggregate principal amount of 6.35% Senior Notes due 2016 issued by us in December 2006. As of June 30, 2016, U.S.\$82.7 million aggregate principal amount of 2016 Notes was outstanding.
"Adjusted EBITDA"	The Issuer's operating income (loss) plus depreciation and amortization
"AES" or "Parent Company"	The AES Corporation (NYSE: AES), our indirect parent company
"AES Changuinola"	AES Changuinola, S.R.L., the legal entity that owns and operates the Changuinola plant and in which we own a 20% ownership interest.
"AES Elsta"	AES Panamá Energy, S.A., managing equity holder of the Issuer
"AES MCA&C"	The regional group of AES to which AES Panamá belongs, and that includes Mexico, Central America and the Caribbean.
"AES Panamá," "Company," "Issuer," "we" or "us"	AES Panamá S.R.L., formerly AES Panamá S.A.
"annual energy sales"	The sum of electricity delivered in GWh to all customers for the relevant year
"ASEP"	The National Authority of Public Services (<i>Autoridad Nacional de los Servicios Públicos</i>), the governmental entity that regulates power generation, transmission, interconnection and distribution activities in the electric power sector in Panama
"Balboas"	Official monetary unit of the Republic of Panama
"Bontex Settlement"	The settlement agreement we entered into with Bontex S.A. on November 27, 2014 to settle the lawsuit they initiated against us in connection with the collapse of the main tunnel at our Estí plant and resulting shutdown of our plant for repairs, which they alleged reduced the amount of water available to their Gualaca plant, and pursuant to which we agreed to pay them U.S.\$7.5 million in four quarterly installments during 2015.
"Central America"	The region formed by the Republic of Panama, El Salvador, Guatemala, Honduras, Nicaragua and Costa Rica, together
"Changuinola Management Agreement"	The management agreement dated January 31, 2007 entered into by and between AES Panamá and AES Changuinola for the operation and management of the Changuinola I plant, as amended from time to time
"Changuinola plant"	The run-of-the-river hydroelectric facility located in the eastern region of Panama in the Bocas del Toro province with three operating units totaling 222MW of installed capacity operated by AES Panamá pursuant to the Changuinola Management Agreement
"Clearstream"	Clearstream Banking, <i>société anonyme</i> , Luxembourg
"CND"	The National Dispatch Center (<i>Centro Nacional de Despacho</i>), a dependency of ETESA responsible for planning, supervising and controlling the integrated operation of the National Interconnected System and for ensuring its safe and

	reliable operation
"Collateral Agent"	Deutsche Bank Trust Company Americas, as collateral agent under the Pledge and Security Agreement
"CPI"	Consumer Price Index
"DTC"	The Depository Trust Company
"EEA"	European Economic Area
"EGESA"	The Electricity Generation Company (<i>Empresa de Generación Eléctrica, S.A.</i>), the state owned generation company
"Environment Ministry"	Environment Ministry (<i>Ministerio de Ambiente</i>) created by way of Law No. 8 of March 25, 2015 to replace the National Environmental Authority (<i>Autoridad Nacional del Ambiente</i>), as the Panama's governing body for matters of the protection, conservation, preservation and restoration of the environment and the sustainable use of natural resources and to ensure compliance with and application of laws, regulations and the national environmental policy
"ERISA"	Employee Retirement Income Security Act of 1974, as amended
"Estrella del Mar I"	Estrella del Mar I Barge, a mobile thermo power generation plant constructed on a barge
"Estrella del Mar I Loan"	The U.S.\$57.3 million five year syndicated senior secured term loan entered into on October 28, 2014, to finance the acquisition, purchase, installation and commissioning of Estrella del Mar I
"Estrella PPA"	The Power Purchase Agreement executed by and between AES Panamá and EGESA
"ETESA"	The Electricity Transmission Company (<i>Empresa de Transmisión Eléctrica, S.A.</i>), the state owned transmission company
"Euroclear"	Euroclear Bank S.A./N.V
"Exchange Act"	U.S. Securities Exchange Act of 1934, as amended
"financial contract"	A PPA under which an agreed amount of capacity and its associated energy is sold to an offtaker independent of whether that electricity was generated by the company or purchased from the spot market
"firm capacity"	As defined in the market rules of the CND, the measurement of the capacity of a generating unit or group of units that can be guaranteed in maximum requirement conditions and that is a function of its operating and technical characteristics, reliability requirements and the commitment assumed by the market participant
"Fitch"	Fitch Ratings Ltd.
"FSMA"	Financial Services and Markets Act 2000, as amended
"GDP"	Gross domestic product
"GW"	One gigawatt, 1,000 megawatts or 1,000,000,000 watts; 10 ⁹ watts

"GWh" "gWh"	One gigawatt-hour, 1,000,000,000 watt-hours or 1,000 megawatt-hours of electrical energy
"Indenture"	The indenture governing the Notes entered into between the Trustee and us, as amended by that supplemental indenture, dated as of September 26, 2016 between the Issuer and the Trustee
"installed capacity"	Also known as the rated capacity, nominal capacity, name plate capacity, or maximum effect, is the intended full load sustained output of a generating facility
"ISO"	International Organization for Standardization
"km"	One kilometer or 1,000 meters
"kV," "KV" or "Kv"	One kilovolt, 1,000 units of electric potential energy
"kVA"	One kilovolt – ampere
"kVArh"	One kilovolt-ampere reactive hour or 1,000 volt-ampere reactive hours
"kW"	One kilowatt or 1,000 watts; 10^3 watts
"kWh"	One kilowatt-hour, a standard unit for measuring energy produced or used over time
"Large Customers"	Businesses with monthly energy consumption greater than one hundred (100) kilowatts (<i>Gran Cliente</i>)
"Latinclear"	Central Latinoamericana de Valores, S.A.
"LIBOR"	London Interbank Offered Rate
"MER"	Regional Electric Market (<i>Mercado Eléctrico Regional</i>), a seventh market superimposed over the six existing markets or national systems of the SIEPAC
"merit order"	The order of electricity dispatch set by the CND based on variable costs declared to the CND by generators that is calculated and reordered on a weekly basis
"Moody's"	Moody's Investor's Service, Inc.
"MVA"	One megavolt-ampere
"MW"	One megawatt or 1,000 kilowatts or 1,000,000 watts; 10^6 watts
"MWh"	One megawatt-hour, 1,000,000,000 watt-hours or 1,000 kilowatt-hours of electrical energy
"Notes"	The outstanding 6.000% Senior Notes due 2022 and the additional 6.000% Senior Notes due 2022 offered hereby
"offtaker"	The party under a PPA that is bound to purchase the electricity and capacity being generated pursuant thereto
"ohm"	A unit of electrical resistance equal to the resistance between two points on a conductor when a potential difference of one volt between them produces a current of one ampere

"OHSAS"	Occupational Health and Safety Assessment Series
"Panama"	Republic of Panama
"Panamanian government"	Government of Panama
"physical contract"	A PPA under which the total output capacity of a generation facility is committed to the offtaker and the energy sold through the PPA is equal to the generation dispatch
"PPA"	A power purchase agreement
"Prospectus Directive"	Directive 2003/71/EC
"reactive power"	A form of power which arises when alternating current and voltage do not remain in phase within a transmission or distribution network, which is inevitably present in such networks and must be carefully controlled in order to maintain network stability and optimize the operation of such networks. Reactive power provides no useful energy and is expressed in volt-amperes reactive (VAr)
"S&P"	Standard and Poor's Ratings Group, a division of the McGraw-Hill Companies, Inc.
"SCADA"	Supervisory Control and Data Acquisition
"SEC"	United States Securities and Exchange Commission
"Securities Act"	U.S. Securities Act of 1933, as amended
"SIEPAC"	Electrical Interconnection System for Central America (<i>Sistema de Interconexión Eléctrica de los Países de América Central</i>) a regional transmission system covering Guatemala, Honduras, Nicaragua, El Salvador, Costa Rica and Panama
"SMV"	Panama Securities Market Superintendency (<i>Superintendencia del Mercado de Valores de Panamá</i>)
"substation"	Electrical plant, containing or comprising one or more transformers and/or switchgear, that steps down electricity voltage between transmission cables and distribution cables
"switchgear"	Electrical plant or equipment in a transmission and distribution network used to connect components of that network and which can disconnect parts of that network automatically if overload or a fault occurs
"transformer"	Electrical plant or equipment in a transmission and distribution network used to alter the level of voltage and current
"Transparency Directive"	Directive 2001/34/EC
"Trustee"	Deutsche Bank Trust Company Americas, as trustee under Indenture governing the Notes

"United States" or "U.S."	United States of America
"U.S. Dollars"	United States dollars, the legal currency of the United States
"U.S. GAAP"	Generally accepted accounting principles in the United States
"V"	A volt, the standard measure used for measuring electrical potential, electrical pressure or electromotive force which forces an electrical current to flow within a circuit. One volt is equal to the difference of electric potential between two points on a conducting wire carrying a constant current of one ampere when the power dissipated between the points is one watt
"VAr"	One volt-ampere reactive or a unit of reactive power
"watt"	A common measure of electrical power equal to one joule per second or the power dissipated by a current of one ampere flowing across a resistance of one ohm
"watt-hour"	A measure of energy production or consumption equal to one watt produced or consumed for one hour

SUMMARY

This summary highlights information presented in greater detail elsewhere in this offering memorandum. This summary is not complete and does not contain all the information you should consider before investing in the Notes. You should carefully read this entire offering memorandum before investing, including "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business" and our financial statements. See "Presentation of Financial and Other Information" for information regarding our financial statements, definitions of technical terms and other introductory matters. Unless otherwise indicated or the context otherwise requires, all references in this offering memorandum to "AES Panamá," "our company," "we," "our," "ours," "us" or similar terms refer to AES Panamá, S.R.L.

General

We believe we are the largest electricity generation company in Panama in terms of installed capacity based on information provided by the CND and believe we are the largest privately controlled hydroelectric generation company in Central America. Our total assets as of June 30, 2016 were U.S.\$618.3 million. Our electricity sales for the year ended December 31, 2015 were U.S.\$299.1 million, which consisted of U.S.\$269.9 million from sales under PPAs and U.S.\$29.2 million from spot market sales and regional exports and, for the six months ended June 30, 2016, were U.S.\$154.0 million, which consisted of U.S.\$144.2 million from sales under PPAs and U.S.\$9.8 million from spot market sales.

We derive substantially all of our revenues from the sale of electricity through firm capacity and energy supply agreements, spot market sales and regional market sales. Our principal customers are Panama's three energy distribution companies, Elektra Noreste, S.A., Empresa de Distribución Eléctrica Metro-Oeste, S.A. and Empresa de Distribución Eléctrica Chiriquí, S.A., or collectively, the Distribution Companies. We also have capacity and energy supply agreements with nine Large Customers. Together, the revenues derived from capacity and energy supply agreements with the Distribution Companies and Large Customers and from our reserve contracts with AES Changuinola, S.R.L represented approximately 90% of our total electricity sales in 2015. The remaining 10% of our remaining electricity sales revenues derives from spot market sales and regional exports. As of June 30, 2016, our installed capacity was 554 MW, which represented 17.1% of the total installed capacity in Panama, according to information provided by the CND, and our firm capacity was 373.6 MW. In the six months ended June 30, 2016, we supplied 1,105 GWh of energy to the market, including the energy supplied by the Changuinola plant pursuant to our physical contract with AES Changuinola.

Our electricity generation facilities are composed of five geographically diverse facilities (four hydroelectric plants and one thermal plant) that contain 16 generation units located in eastern and western Panama. The majority of Panama's hydroelectric resources are located in the western region of Panama, where rainfall tends to be highest, although the main demand for energy is in the eastern region of the country at the main population center of Panama City. We believe that the location of our hydroelectric plants in different hydrology regions, together with the recent addition of our thermal plant, Estrella del Mar I, increase the diversity of our generation portfolio and help mitigate the impact on our business of weather-related volatility as well as of potential transmission constraints. Our main generation assets include:

- Bayano, a reservoir-based hydroelectric facility in the eastern region with three operating units totaling 260 MW of installed capacity;
- Estí, a run-of-the-river hydroelectric facility in the western region with a regulation reservoir, composed of two operating units totaling 120 MW of installed capacity;
- La Estrella, a run-of-the-river hydroelectric facility in the western region with two operating units totaling 47 MW of installed capacity;
- Los Valles, a run-of-the-river hydroelectric facility in the western region with two operating units totaling 55 MW of installed capacity; and

- Estrella del Mar I, a thermal power generation facility in the eastern region with seven operating units housed on a barge totaling 72 MW of installed capacity, and that uses Fuel Oil No. 6 and Fuel Oil No. 2 as its base fuels.

We operate and maintain our hydroelectric plants under four renewable 50-year concessions, which terminate in 2048 (Bayano, La Estrella, Los Valles) and 2052 (Estí). Our Estrella del Mar I plant operates under a 40-year renewable license, terminating in 2054, that was initially granted in favor of EGESA but transferred to us in December 2015. Our plants have different dispatch priorities and include run-of-the-river facilities, which are typically the first hydroelectric plants to be dispatched, as well as reservoir-based power plants. La Estrella and Los Valles, both run-of-the-river facilities, are the first units in our portfolio to be dispatched in the system. Estí is normally dispatched similar to run-of-the-river facilities given the limited size of its reservoir. Bayano is generally dispatched by the CND during the peak load hours, ahead of thermal units. Due to its high efficiency, Estrella del Mar I enjoys a highly competitive position and is usually among the first five thermal generation facilities dispatched. In addition, through a physical contract with AES Changuinola, we purchase all of the generated electricity and firm capacity of the Changuinola I plant, a run-of-the-river hydroelectric facility comprised of three operating units totaling 222 MW of installed capacity.

As described above, we sell most of the electricity we generate to the Distribution Companies and to our Large Customers through firm capacity and energy supply agreements, with the remaining electricity generation sold in the spot market and in the SIEPAC regional market. Currently, our firm capacity is largely under contract pursuant to PPAs with the Distribution Companies and Large Customers at a level in excess of 90% through 2018, and 70% through 2030. Depending on conditions in the electricity market and our operating circumstances, high or low spot market prices for electricity can affect our results of operations negatively or positively, as the case may be. When our actual generation is lower than our contracted capacity, as was often the case during 2013, 2014 and 2015, due to poor hydrology conditions, we must purchase the amount of the shortage in the spot market to fulfill our contractual obligations. When we have to make these purchases, high spot prices increase our operating costs and adversely affect our operating results. Conversely, during periods when our actual generation is higher than our contracted capacity, we are able to sell our excess capacity on the spot market at the then-current spot market price and under these circumstances higher spot market prices generate more revenues and improve our operating results.

The Current Panamanian Electricity Market

As of December 31, 2015, Panama had a mixed hydro-thermal electricity system with a current installed generating capacity (including auto-generators) of approximately 3,235MW. Over 43% of the generating capacity is located in western Panama, close to the Costa Rican border, where the majority of Panama's hydroelectric resources are located. The demand for hydroelectric energy in Panama, however, comes mostly from the eastern region and in particular, Panama City. Panama used hydroelectric power to generate 61% of its electricity in 2015. The Panamanian hydrology conditions for 2011 and 2012 allowed us to generate sufficient power to meet our contracted PPA obligations and sell additional power on the spot market, which reflected positively in our results of operations for those years. See "Selected Financial Information" for more information regarding our results of operations for the years ended 2011 and 2012. However, during 2013 and 2014, Panama experienced one of its worst droughts in over 40 years which in turn negatively impacted the ability of hydroelectric plants such as ours to generate electricity. This situation led to rationing alerts in both years, the implementation of energy-saving measures and some regulatory changes and efforts by the Panamanian government to reduce Panama's dependence on hydroelectric generation by promoting other sources of energy, such as thermal generation. Although hydrology conditions in Panama improved during the first half of 2015 and are expected to improve during the second half of 2016, El Niño, which we experienced in Panama in the second half of 2015 and first half of 2016, negatively impacted hydrology conditions. As a result, hydrology conditions remain below the historical average but have nevertheless improved as compared to 2013 and 2014.

In addition, delays in construction and improvements to electricity transmission lines have resulted in bottlenecks in the transmission system that have limited the amount of energy that can flow from the western region of Panama to the main population center in Panama City. Although these bottlenecks can place and have in the past placed upward pressure on spot prices, their impact was offset in the six months ended June 30, 2016 by other factors such as lower commodity prices. As a result of the bottlenecks leading up to 2015, regulators in Panama changed certain aspects of the way the market operates to mitigate the impact on operating cost for the overall

system, including temporarily removing the value of water from spot price calculations (but retaining it for purposes of determining the merit order) and doubling the requirement for minimum reservoir water reserves (including at our Bayano reservoir). As a result of these actions by regulators, as well as poor hydrological conditions, our hydroelectric plants (particularly our reservoir-base facilities) were dispatched less frequently, and we were forced to purchase electricity in the spot market during a period of significantly higher spot prices in order to meet our contractual obligations under our PPAs, which negatively impacted our results of operations in 2013 and 2014. However, improved hydrology, especially in the first half of 2015, and decreasing commodities prices caused the spot price to decrease in 2015, mitigating the financial impact of our purchases in the spot market.

To reduce the impact of high spot market prices on hydroelectric companies due in part to the transmission bottleneck that resulted from inefficient management of the dispatch system and delays in new projects and in transmission line improvements, in 2013, among other measures, the Panamanian government began to negotiate compensation arrangements with the two hydroelectric companies that were affected, including us. Under our agreement with the Ministry of Finance of Panama, the government agreed to reimburse us for the difference between the cost at which we purchase energy in the spot market and certain prices at which we sell that energy under our PPAs. For further discussion of the reimbursement arrangement, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Principal Factors Affecting Results of Operations—Reimbursement Agreement with the Panamanian government."

Business Strategy

In consideration of the developing dynamics of the Panamanian electricity sector, we believe we have successfully implemented key strategies to reduce the pressures on our business, particularly during the dry season. Current and expected market conditions, including commodity prices, new project additions and changes in hydrology, have reduced our economic incentives to negotiate the early termination of our PPAs in order to free up our contracted capacity, in accordance with our strategy from 2013 to early 2015. Our business focus going forward will be to rebalance our asset and contract portfolio while increasing our flexibility to react to changes in market conditions.

Rebalancing and Diversification of Our Generation Assets – Purchase of Estrella del Mar I

We intend to preserve our leading position in the generation market and reduce our dependency on hydrology by diversifying our existing portfolio of hydroelectric plants through the acquisition of other types of facilities that will complement our existing generation assets. For example, we acquired the Estrella del Mar I thermal generation barge in the fourth quarter of 2014 in the Dominican Republic and moved it to the Colon Province in Panama. The purchase and use of Estrella del Mar I has allowed us to both diversify our generation assets away from solely hydroelectric power, and hedge against the seasonality of hydrology because Estrella del Mar I's dispatch increases in the dry season when our hydroelectric plants are dispatched less frequently and decreases in the wet season when our hydroelectric plants are dispatched more frequently. Estrella del Mar I began operating on March 25, 2015 and has positively impacted our results by contributing additional revenues and stabilizing our variable operating margin.

The total cost of Estrella del Mar I, including purchase price, upgrades, transportation and connection to the grid, was U.S.\$55.8 million. Estrella del Mar I was initially contracted through a five-year physical contract with EGESA. That contract was terminated on July 1, 2015 and replaced with three five-year financial PPAs with the three Distribution Companies. Although these three financial PPAs have the same term as our original physical contract with EGESA, they went into effect five months later, in effect extending our contracted capacity and energy by five months. Under the new financial PPAs, we expect to receive more than U.S.\$40 million per year for our capacity in addition to a variable energy margin based on the dispatch of the plant and the difference between the cost of diesel, which is used as a reference point for setting the price at which the energy is sold, and the actual cost of the bunker fuel purchased to run the barge. Because the new PPAs are financial contracts, when Estrella del Mar I is not dispatched, we will realize an energy margin determined by the difference between the price at which the energy is sold under the PPA and the spot price associated with the replacement energy we purchase in the market. For further discussion on the purchase of Estrella del Mar I and its new PPAs, see "Business—Power Purchase Agreements—Power Purchase agreements with Distribution Companies."

Developing the Large Customer Market

We expect to replace our PPAs that will expire in the short-term with new and renewal contracts with Large Customers whose peak demand is at least 100 kW. Although we believe there is a large number of regulated clients connected to the Distribution Companies' medium voltage grid that meet this 100 kW minimum demand, only 11 of them are under contract with us or with Enel Fortuna, S.A., one of our principal competitors. We believe we will be able to engage these new customers on an incremental basis, and that we will be able to obtain more attractive pricing and greater flexibility from these target customers than under our expiring PPAs. PPAs with Large Customers are negotiated on a bilateral basis and prices are set based on each Large Customer's opportunity cost, which depends on the fees that the Distribution Companies charge based on energy sourced from different production methods, the most competitive of which are the hydroelectric plants. Under PPAs with Large Customers, suppliers are not usually required to post guarantees or face high penalties as is the case with PPAs with the Distribution Companies.

Competitive Strengths

We believe our competitive strengths include the following:

Leading Company Scale and Agility

We are the largest electricity generation company in Panama in terms of installed capacity based on information provided by the CND and we believe we are the largest privately controlled hydroelectric generation company in Central America. Our total assets as of June 30, 2016 were U.S.\$618.3 million. As of June 30, 2016, our installed capacity was 554 MW, which represented 17% of the total installed capacity in Panama, according to information provided by the CND. Due to our scale and position in the market, we believe we are able to identify and react to market conditions with flexibility and from a strong negotiating position. For example, in response to the adverse market environment we experienced in 2013, 2014 and 2015 resulting from low hydrology, delays in upgrades to the transmission system and high spot market prices, we:

- negotiated an agreement with the Panamanian government to offset the high cost of energy in the spot market during 2014, 2015 and 2016;
- purchased the Estrella del Mar I thermal generation barge to diversify our generation assets and to avoid relying solely on hydroelectric power, thus providing a hedge against the seasonality of hydrology; and
- replaced the initial physical contract with EGESA for Estrella del Mar I with three five-year financial PPAs with each of the three Distribution Companies, effectively extending our contracted capacity and energy by five months, and earning us an additional variable margin on sales of energy produced by Estrella del Mar I.

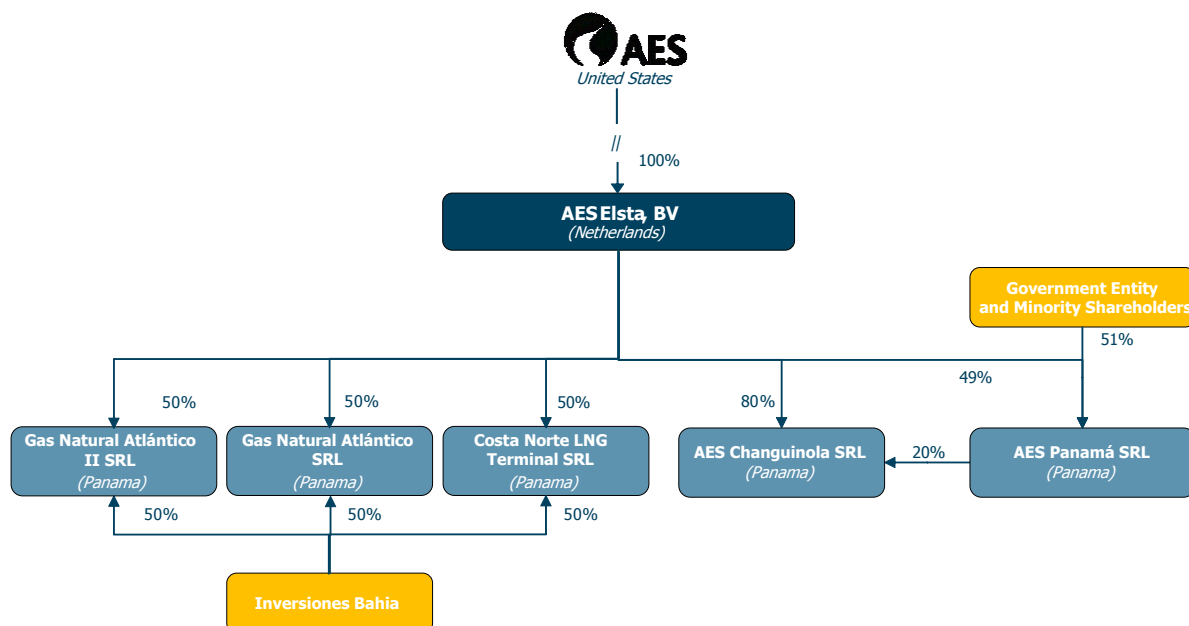
We believe our results of operations have benefited from these actions. For the years ended December 31, 2014 and 2013, when market conditions were highly unfavorable, our Adjusted EBITDA was U.S.\$12.0 million and U.S.\$56.7 million, respectively. For the year ended December 31, 2015 our Adjusted EBITDA was U.S.\$99.7 million. While we do not believe these adverse conditions have entirely abated, our results of operations for the six months ended June 30, 2016 have improved as compared to the six months ended June 30, 2015, with our Adjusted EBITDA reaching U.S.\$50.4 million.

Principal Equity Holders

We benefit from our relationships with the direct and indirect holders of our equity, The AES Corporation (which owns our direct managing equity holder, AES Elsta) and the Panamanian government. The AES Corporation, or AES, is a Fortune 200 global power company that provides affordable, sustainable energy to 17 countries on three continents (America, Asia and Europe) through a diverse portfolio of distribution businesses as well as thermal and renewable generation facilities. AES manages U.S.\$37.0 billion in total assets. AES currently distributes electricity through its various electric utility subsidiaries to approximately 10.5 million customers worldwide. AES also has 35,687 MW in gross capacity in operation globally. AES and its affiliates provide us with

technical expertise and financial and operational management, support and training to help grow our business. Our majority equity holder is the Panamanian government. We benefit from our strong relationship with the government as a result of our shared interest and commitment to the growth of energy generation in Panama. As Panama's GDP has grown and the need for power generation has increased, we believe our interests and those of our majority equity holder are aligned.

Our organizational chart is set forth below.



Low-Cost Provider

Our hydroelectric plants, which comprise the majority of our assets, use freely-available water to generate electricity in a market where high-cost thermal facilities effectively set the price. We believe our low generation costs compared to the higher generation cost for thermal power is a key contributing factor to our maintaining a leading market share and to maximizing our gross profit margin from the sale of electricity in the spot market in an environment of escalating prices, as was the case in 2014 and 2013. In addition, according to the CND, we are the largest electricity generation company in Panama, which provides us with certain economies of scale.

Unique and Diversified Geography and Generation Portfolio

We are the only hydroelectric generation company in Panama with multiple plants in both the western and eastern regions of Panama. With the purchase of Estrella del Mar I, we have a total of 16 individual electricity generation units in five separate locations, resulting in more flexible operations and a more reliable electricity output. Our geographical diversity in the western and eastern regions of Panama mitigates the impact of weather-related volatility as well as existing transmission constraints on our business. We also benefit from diverse hydro-generation designs, including dam-based (reservoirs with small and large regulation), run-of-river and bunker fueled engines, which enable us to be dispatched at several points along the dispatch curve. As run-of-river facilities, the La Estrella and Los Valles hydroelectric plants are typically among the first to be dispatched in the system. Given the different sizes of their reservoirs, the Estí plant is dispatched at similar points in the dispatch order as a run-of-river facility while the Bayano hydroelectric plant is usually dispatched just before the thermal power plants. Due to its high efficiency, Estrella del Mar I has achieved a highly competitive position and priority and is usually dispatched among the top five thermal generation plants dispatched in the system. Also, Estrella del Mar I is located in the eastern region at Colón Province, close to a Chevron fuel supply facility, which decreases our transportation and fuel costs and helps us avoid the transmission bottleneck that affects other generation facilities located in

western Panama. In addition, through a physical contract with AES Changuinola, we buy all of the electricity generated by and firm capacity of Changuinola I.

Experienced management and strong operational systems

Our management team is composed of individuals with extensive knowledge of and vast experience with the Panamanian energy sector. We believe our management team's capabilities and core understanding of both our own business and the related regulatory environment, enable us to operate efficiently and manage risk effectively.

We are certified under the OHSAS 18001 and ISO 14001 standards for integrated safety and environmental management systems in our hydroelectric facilities. We continue to develop our strategic and operational management, which allows us to efficiently plan, prioritize and achieve our objectives. We operate under strict internal financial controls and have historically managed our working capital with a view towards financing growth while limiting excess liquidity. We continuously review and improve our internal procedures and training methods in order to strengthen our relationship with, and improve the safety of, our employees.

Recent Developments

In June 2016, we granted a U.S.\$30.1 million unconditional and irrevocable guarantee in favor of Gas Natural Atlántico II, S.R.L, our affiliate, for payments of principal and interest on a U.S.\$60.0 million loan obtained by it for the construction of the transmission line required by the system to support natural gas generation growth projects in the province of Colon in return for a fee of 1.5% of the guaranteed amount (or U.S.\$0.5 million).

In July 2016, we paid a U.S.\$35.3 million dividend to our shareholders in accordance with our dividend policy.

In September 2016, we solicited and obtained requisite consents from the holders of the Outstanding Notes to amend the Limitation on Restricted Payments covenant of the Indenture to increase the amount of Restricted Payments, including dividends that we may make pursuant to that clause over the life of the Notes, from U.S.\$25 million to U.S.\$60 million. We paid consent fees to the consenting holders totaling U.S.\$564,900. We and the Trustee entered into a supplemental indenture which effectuated the relevant amendment to the Indenture to which the Notes offered hereby are subject and which is reflected in the discussion of the Limitation on Restricted Payments covenant under the caption "Description of Notes" herein.

Corporate Information

Our principal executive offices are located at Ave. La Rotonda, Business Park II, Torre V, Piso 11, Panama City, Panama. Our telephone number is +507 206 2600. Our main website is <http://www.aespanama.com>. The information included on our website or that may be accessed through our website is not part of this offering memorandum and is not incorporated by reference herein or otherwise.

THE OFFERING

The information that follows is a summary of the principal terms and conditions of the Offering and is not intended to be complete. Potential investors in the Notes should read this section together with all of the information presented in this offering memorandum, including a more detailed description of the terms of the Notes under the caption "Description of the Notes." Capitalized terms used but not defined in this summary have the meaning ascribed to such terms under the caption "Description of the Notes."

Issuer	The Notes will be issued by AES Panamá S.R.L., a limited liability company (<i>sociedad de responsabilidad limitada</i>) organized under the laws of Panama.
Notes Offered	We are offering U.S.\$75,000,000 aggregate principal amount of our 6.000% Senior Notes due 2022. The Notes offered hereby are an additional issuance of our 6.000% Senior Notes due 2022. Pursuant to Resolution SMV No. 314-15 of the Superintendence of the Securities Market, we were authorized to issue Notes in an aggregate principal amount up to U.S.\$375,000,000. On June 25, 2015, we issued the aggregate principal amount of U.S.\$300,000,000, or the Outstanding Notes. Other than the issue date and the issue price, the Notes offered hereby will have identical terms and will be consolidated and form a single series and be fungible with the Outstanding Notes, except that until the expiration of the 40-day distribution compliance period commencing on the date of issuance of the Notes offered hereby, the Notes offered hereby and sold in compliance with Regulation S will be issued and maintained under temporary ISIN and CUSIP numbers.
Interest	Interest on the Notes accrues at the rate of 6.00% per annum, calculated on the basis of a 360-day year of twelve 30-day months. Like the Outstanding Notes, the Notes offered hereby will accrue interest from June 25, 2016, which is the most recent date that interest was paid on the Outstanding Notes.
Interest Payment Dates	Semi-annually in arrears on June 25 and December 25 of each year.
Maturity Date.....	The Notes will mature on June 25, 2022, or the Maturity Date.
Debt Service Reserve Account	The Collateral Agent maintains a Debt Service Reserve Account for the benefit of the Trustee and the holders of the Notes. The account will either have sufficient cash to meet the next scheduled interest payment on the Notes or a letter of credit with respect to that amount.
Ranking.....	<p>The Notes are our general unsubordinated obligations, secured by the collateral in the Debt Service Reserve Account. Other than to the extent of the collateral in the Debt Service Reserve Account, to which the Notes will effectively rank senior to any of our other indebtedness, except for obligations of the Issuer that are afforded preference under mandatory provisions of Panamanian law, the Notes will rank:</p> <ul style="list-style-type: none"> • <i>pari passu</i> in right of payment to all of our existing and future senior unsecured indebtedness; • senior in right of payment to any of our future subordinated indebtedness; • effectively subordinated to any of our existing and future secured indebtedness to the extent of the value of the collateral securing such indebtedness; and

- structurally subordinated to all indebtedness and other liabilities of any subsidiary that we may have in the future that is designated as an Unrestricted Subsidiary in accordance with the provisions of the Indenture and does not guarantee the Notes.

However, under the Panamanian civil code, previously issued senior unsecured indebtedness could be treated as senior to any subsequently issued senior unsecured indebtedness. Accordingly, under the Panamanian civil code the Notes may be subordinated to any of our senior unsecured indebtedness that is outstanding on the date the Notes are issued. See "Risk Factors—Our obligations under the Notes are subordinated to our payment of certain statutory liabilities and could be subordinated to any of our senior unsecured indebtedness that is outstanding on the date the Notes are issued" and "Risk Factors—The Notes will be effectively subordinated to all of our secured debt and if a default occurs, we may not have sufficient funds to fulfill our obligations under the Notes."

As of June 30, 2016, we had a total of U.S.\$382.7 million aggregate principal amount of indebtedness outstanding that was comprised of:

- U.S.\$300 million aggregate principal amount of the Outstanding Notes; and
- U.S.\$82.7 million aggregate principal amount of 6.35% Senior Notes due 2016, which constituted senior unsecured indebtedness (except for a debt service reserve account which is pledged for their benefit) and mature on December 21, 2016 (the "2016 Notes").

We currently have no subsidiaries, although we may establish subsidiaries in the future and conduct our operations through those new subsidiaries. As described under the caption "Description of the Notes—Certain Covenants—Future Subsidiary Guarantors," we will be required to cause any future subsidiaries to guarantee the Notes, unless we designate any such subsidiary as an Unrestricted Subsidiary in accordance with the terms of the Indenture.

The Notes are the obligations of the Issuer only and are not obligations of, nor guaranteed in any manner by, the Panamanian government, AES or any other entity.

Use of Proceeds

We used the net proceeds from the issuance and sale of the Outstanding Notes to fund the purchase (as repayment) of the 2016 Notes tendered in our Tender Offer and a benefit in the form of consent fees in the related consent solicitation and to repay all or a portion of the Estrella del Mar I Loan and for general corporate purposes. We intend to use the net proceeds of the Notes offered hereby for general corporate purposes, in particular to repay an equivalent portion of our 2016 Notes, of which U.S.\$82.7 million remains outstanding, at their final maturity on December 21, 2016. See "Use of Proceeds."

Optional Redemption.....

Before June 25, 2019, we may redeem the Notes, at our option, in whole at any time or in part from time to time, at a redemption price equal to the principal amount of the Notes to be redeemed, plus a make-whole premium described herein, and accrued and unpaid interest and additional amounts, if any, to the date of redemption.

On or after June 25, 2019, we may redeem the Notes, at our option, in whole at any time or in part from time to time, at redemption prices

	described herein, plus accrued and unpaid interest and additional amounts, if any, to the date of redemption. See "Description of the Notes—Optional Redemption."
Redemption for Changes in Panamanian Withholding Taxes	We may redeem the Notes in whole but not in part at 100% of their principal amount, plus accrued and unpaid interest, if any, to the date of redemption and any additional amounts then due and payable, at our option upon the occurrence of any specified event affecting taxation of the Notes. See "Description of the Notes—Withholding Tax Redemption."
Change of Control	If we experience a Change of Control (as defined herein), we may be required to offer to repurchase the Notes at a purchase price equal to 101% of the principal amount of the Notes, plus any accrued and unpaid interest and additional amounts, if any, in each case to the date of repurchase. See "Description of the Notes—Change of Control."
Additional Amounts	Payments in respect of the Notes will be made without withholding or deduction for or on account of any Panamanian taxes payable on the Notes, regardless of the applicability of any such taxes, subject to certain exceptions, as described in "Description of the Notes—Additional Amounts."
Certain Covenants.....	<p>The Indenture governing the Notes will, among other things, restrict our ability to:</p> <ul style="list-style-type: none"> • incur additional indebtedness or issue preferred stock; • declare or pay dividends or make distribution on, or repurchase our capital stock; • make investments or other restricted payments; • sell or transfer assets; • create liens on our assets to secure other indebtedness; • enter into sale and leaseback transactions; • enter into transactions with affiliates; • enter into mergers, consolidations or sales of all or substantially all of our assets.
Book-Entry; Form and Denomination	The Notes will be issued in the form of one or more global Notes without coupons, and will be issued in book-entry form and registered in the name of a nominee of DTC and deposited on behalf of the purchasers of the Notes represented thereby with a custodian of DTC and will trade in DTC's Same-Day Funds Settlement System. Investors may hold their interests in a global note representing the Notes through organizations that are participants in DTC, including Euroclear and Clearstream. Beneficial interests in the Regulation S Global Note may be held in Panama through Latinclear, a clearing house that is a participant in Clearstream. For a description of certain factors relating to clearance and settlement, see "Book-Entry, Delivery and Form." The Notes will be issued in minimum denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof. Owners of beneficial interests in Notes held in book-entry form will not be entitled to receive physical delivery of certificated notes

	except in certain limited circumstances. See "Description of the Notes—Book-Entry; Delivery and Form."
Listing.....	<p>The listing and trading of the Notes have been authorized by the Panama Stock Exchange.</p> <p>Application has also been made to admit the Notes offered hereby on the Official List of the Luxembourg Stock Exchange and to be admitted to trading on the Euro MTF. This offering memorandum constitutes a prospectus for the purposes of part IV of the Luxembourg Act dated July 10, 2005 relating to prospectuses for securities.</p>
Governing Law	Our capacity and corporate authorization to execute and deliver the Notes, the Indenture and the Pledge and Security Agreement, and the Panama Securities Market Superintendency's authorization for the public offering of the Notes in Panama are governed by applicable Panamanian laws. As to all other matters, the Notes, the Indenture and the Pledge and Security Agreement will be governed by, and construed in accordance with, the laws of the State of New York.
Transfer Restrictions.....	The Notes have not been registered and will not be registered with the SEC under the Securities Act. The Notes are subject to certain restrictions on transfer and may not be offered, transferred or resold in the United States or to U.S. persons except as permitted under the Securities Act and applicable state laws pursuant to registration or exemption therefrom. See "Plan of Distribution," "Notice to Investors" and "Notice to Non-U.S. Investors."
Indenture Trustee	Deutsche Bank Trust Company Americas
Principal Paying Agent, Transfer and Registrar.....	Deutsche Bank Trust Company Americas
Collateral Agent.....	Deutsche Bank Trust Company Americas
Luxembourg Paying Agent.....	Deutsche Bank Luxembourg S.A.
Local Broker in Panama	BG Investment Co., Inc. and BG Valores, S.A.
Risk Factors	Investing in the Notes involves certain risks. See "Risk Factors."

SUMMARY FINANCIAL AND OPERATING DATA

The following tables set forth our selected financial and operating data as of and for each of the periods indicated. The selected statement of comprehensive income and cash flows data for the years ended December 31, 2015, 2014 and 2013 and the selected balance sheet data as of December 31, 2015, 2014 and 2013 are derived from, should be read in conjunction with and are qualified in their entirety by reference to our audited financial statements which are included elsewhere in this offering memorandum. The selected statement of comprehensive income, cash flows and balance sheet data as of and for the six-month period ended June 30, 2016 and 2015 are derived from our unaudited interim financial statements and related notes thereto which are included elsewhere in this offering memorandum. The selected historical financial data are not necessarily indicative of results to be expected in future periods, and results for interim periods are not necessarily indicative of results for the full year. Our audited financial statements and our unaudited interim financial statements are referred to collectively as our "financial statements."

Our financial statements included herein have been prepared in accordance with U.S. GAAP. The following selected financial and operating data for AES Panamá should be read in conjunction with the information under the captions "Presentation of Financial and Other Information," "Selected Financial Information," "Management's Discussion and Analysis of Financial Condition and Results of Operations," our financial statements and related notes thereto, included elsewhere in this offering memorandum.

Statement of Comprehensive Income Data

	Six months ended June 30, (unaudited)		Years ended December 31,		
	2016	2015	2015	2014	2013
	<i>(U.S.\$ thousands)</i>				
Electricity sales	153,997	136,679	299,106	261,849	301,579
Operating costs and expenses:					
Electricity purchases	60,978	56,588	123,044	207,716	196,151
Other costs of electricity sales	12,964	13,075	29,745	3,022	—
Transmission costs	1,465	1,753	3,553	4,202	11,207
Operating lease expense ⁽¹⁾	9,293	3,692	7,385	7,385	—
Operating and maintenance expenses	15,777	13,161	29,583	21,686	31,868
Depreciation and amortization	16,868	13,485	30,323	24,074	23,567
Management fee	3,151	2,887	6,092	5,829	5,642
Total operating costs and expenses	120,496	104,641	229,725	273,914	268,435
Operating income (loss)	33,501	32,038	69,381	(12,065)	33,144
Other (expenses) income:					
Interest income	37	97	135	955	2,268
Interest expense	(11,475)	(11,307)	(23,061)	(21,526)	(19,681)
Accretion expense	(27)	(26)	(53)	—	—
Other income (expenses), net ⁽²⁾	515	(14,581)	5,077	(6,030)	68
Equity earnings (loss) in investment in affiliate	1,670	1,915	5,242	5,387	(3,341)
Total other expenses	(9,280)	(23,902)	(12,660)	(21,214)	(20,686)
Income (loss) before income tax	24,221	8,136	56,721	(33,279)	12,458
Income tax (expense) benefit	(6,589)	(1,585)	(13,772)	5,127	(8,573)
Net income (loss)	17,632	6,551	42,949	(28,152)	3,885
Other comprehensive income of affiliate	323	—	1,292	—	—
Total comprehensive income of the year	17,955	6,551	44,241	(28,152)	3,885

(1) For the six months ended June 30, 2016, U.S.\$5.6 million of this amount reflects changes associated with the fourth amendment to the Changuinola PPA signed on December 7, 2015, which set the power and energy prices contracted from 2023 to 2030 and impacted the straight line capacity payments under lease accounting. For the year ended December 31, 2014, the change was caused in its entirety by the conversion of the Changuinola PPA into a physical contract, which resulted in a reclassification of the agreement as an operating lease under our accounting policies.

(2) For the six months ended June 30, 2015, represents a U.S.\$14.6 million payment of the premium and deferred financing costs in connection with the buyback of our 2016 Notes in 2015.

Balance Sheet Data

	As of June 30, (unaudited)	As of December 31,		
	2016	2015	2014	2013
	(U.S.\$ thousands)			
Current assets:				
Cash and cash equivalents	37,443	33,089	56,469	26,853
Accounts receivable:				
Trade.....	3,436	4,859	6,485	3,373
Related parties	60,273	57,790	54,521	34,479
Affiliates	5,269	6,818	3,643	11,556
Other.....	59	79	150	220
Total current assets	116,581	109,738	133,722	84,819
Total property, plant and equipment, net.....	423,160	432,212	426,603	404,926
Total assets ⁽¹⁾	618,264	620,383	623,179	538,713
Current liabilities:				
Loans payable	—	—	53,186	—
Bonds payable, net.....	82,496	82,296	—	—
Accounts payable:				
Suppliers.....	10,818	23,478	21,323	13,941
Related parties	2,981	4,656	3,808	8,744
Affiliates.....	28,562	34,519	42,486	31,172
Total current liabilities	135,636	159,535	129,854	60,939
Non-current liabilities:				
Loans payable	—	—	47,562	—
Bonds payable, net ⁽¹⁾	295,024	294,688	298,226	297,259
Total non-current liabilities	343,621	339,833	388,112	344,443
Total stockholders' equity.....	139,007	121,015	105,213	133,331
Total liabilities and stockholders' equity	618,264	620,383	623,179	538,713

(1) As discussed in note 3 of our financial statements, due to changes in accounting standards applicable beginning in 2016, we reclassified certain items in a reduction in total assets and total liabilities for the amounts stated above as of and for the years ended December 31, 2013, 2014 and 2015 for the purpose of comparability with 2016.

Cash Flow Data

	Six months ended June 30, (unaudited)		Year ended December 31,		
	2016	2015	2015	2014	2013
	(U.S.\$ thousands)				
Net cash provided by (used in) operating activities	13,405	24,365	83,020	(27,815)	23,783
Net cash used in investing activities	(9,051)	(13,098)	(33,459)	(43,317)	(344)
Net cash provided by (used in) financing activities	—	(17,213)	(72,941)	100,748	(36,788)

Other Financial Data (unaudited)

	Six months ended June 30, (unaudited)		Year ended December 31,		
	2016	2015	2015	2014	2013
(U.S.\$ thousands, except for ratios and percentages)					
Adjusted EBITDA ⁽¹⁾	50,369	45,523	99,704	12,009	56,711
Adjusted EBITDA margin ⁽²⁾	32.7%	33.3%	33.3%	4.6%	18.8%
Adjusted EBITDA/interest expense ⁽³⁾	4.5	3.8	4.3	0.6	2.9
Total debt	377,520	397,450	376,984	398,974	297,259
Total debt/Adjusted EBITDA ⁽³⁾⁽⁴⁾	3.6	4.7	3.8	33.2	5.2
Total debt/capitalization ⁽⁵⁾	0.7	0.8	0.8	0.8	0.7

- (1) Adjusted EBITDA represents operating income (loss) plus depreciation and amortization. Adjusted EBITDA is a supplemental measure of our financial performance that is not required under, or presented in accordance with, U.S. GAAP. Adjusted EBITDA is presented because we believe that some investors find it to be a useful tool for measuring a company's financial performance. Adjusted EBITDA should not be considered as an alternative to, in isolation from, or as a substitute for analysis of our financial condition or results of operations, as reported under U.S. GAAP. Other companies in our industry may calculate EBITDA or Adjusted EBITDA differently than we have for purposes of this offering memorandum, limiting EBITDA's and Adjusted EBITDA's usefulness as a comparative measure. The definition of Adjusted EBITDA used here differs from the definition used in the "Description of the Notes" section (defined as "Consolidated EBITDA"). See "Description of the Notes."
- (2) Represents Adjusted EBITDA divided by total revenues.
- (3) Calculated using Adjusted EBITDA for the twelve months ended on the indicated date.
- (4) For the periods ended June 30, 2016 and 2015, the Adjusted EBITDA amount used in the ratio of Total debt/Adjusted EBITDA is Adjusted EBITDA for the twelve months ended June 30, 2016 and 2015.
- (5) Represents total debt divided by the sum of total debt and total stockholders' equity.

Reconciliation of Adjusted EBITDA to Operating Income (Loss)

The following table provides a reconciliation of our Adjusted EBITDA to operating income (loss). For additional information regarding the use of Adjusted EBITDA, see "Presentation of Financial and Other Information."

	Six months ended June 30, (unaudited)		Year ended December 31,		
	2016	2015	2015	2014	2013
(U.S.\$ thousands)					
Operating income (loss)	33,501	32,038	69,381	(12,065)	33,144
Depreciation and amortization	16,868	13,485	30,323	24,074	23,567
Adjusted EBITDA	<u>50,369</u>	<u>45,523</u>	<u>99,704</u>	<u>12,009</u>	<u>56,711</u>

Operating and Other Data

	Six months ended June 30,		Years ended December 31,		
	2016	2015	2015	2014	2013
Total installed capacity (MW)	554.0	554.0	554.0	482.0	482.0
Net generation (GWh)	752.1	726.8	1,512.3	1,150.0	1,426.0
Backup generation (GWh)	352.9	514.7	1,064.0	823.4	716.0
Equivalent availability (%)	80.2	89.5	85.1	96.6	95.0
Contractual volumes (GWh)	1,458.4	1,197.8	2,682.7	2,474.8	2,581.7
Net Spot market volumes (GWh)	(385.6)	(102.0)	(305.6)	(564.3)	(339.3)
Average spot price (U.S.\$/MWh)	66.3	99.1	91.1	217.1	211.4

RISK FACTORS

An investment in the Notes involves risk. You should carefully consider the risks and uncertainties described below and the other information in this offering memorandum before making an investment in the Notes. Our business, financial condition or results of operations could be materially adversely affected by any of these risks. The risks described below are not the only ones facing us or investments in Panama in general. Additional risks not presently known to us or that we currently deem immaterial may also impair our business operations.

This offering memorandum also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks faced by us described below and elsewhere in this offering memorandum.

Risks Relating to the Issuer's Business

Adverse hydrology conditions, including low rainfall and drought, may result in shortages in the water supply for our hydroelectric generators.

Because most of our facilities are hydroelectric, we are dependent on the prevailing hydrological conditions in the geographic regions in which we operate. Our regions are subject to unpredictable hydrological conditions, with non-cyclical deviations in the availability of water from rainfall or aquifers. Recently, Panama has experienced a severe drought causing domestic water levels to drop significantly. We experienced below-average inflows in 2013 and for most of 2014 at all of our plants, and particularly at our Los Valles and La Estrella plants, resulting in the lowest inflows in the last twelve years. We experienced the strongest El Niño event in 20 years during the period between June 2015 and June 2016 (despite a slight increase in 2015 in inflows at Changuinola and Chiriqui as compared to previous years). Bayano was the most adversely affected of our facilities by this phenomenon. Below-average inflows result in lower generation of electricity and, therefore, may reduce our revenues. A recurrence of low hydrological conditions that result in low supply of electricity to the Panamanian market could result in the implementation of broad electricity conservation programs, including mandated reductions in electricity consumption. In addition, periods of severe or sustained below average rainfall may require us to purchase electricity on the spot market at higher prices than we have contracted to sell. Hydrological conditions fluctuate, and we cannot assure you that these fluctuations will not adversely affect our operating results. For example, extraordinarily low hydrology in 2013 and 2014 and, to a lesser extent, during the period between June 2015 and June 2016, resulted in our plants generating significantly less energy than in previous years, and in order to meet our contractual commitments under our PPAs, we were forced to purchase energy on the spot market, which increased our operating costs in each of those years. See "Risk Factors—Risks Relating to Our Business—We may find it difficult to fulfill our contractual obligations and may need to purchase energy from other generation companies at the prevailing spot market price which may be higher than the price we sell energy under our PPAs" for more information regarding risks associated with purchasing electricity in the spot market. In either case, drought or below average hydrology could adversely affect our financial condition and our results of operations. For a further discussion of how hydrology affects our financial results, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Principal Factors affecting our Operations," and "Overview of the Panamanian Electricity Industry."

We derive a significant portion of our revenue from Panama's three Distribution Companies and Large Customers.

Our revenues derived from capacity and energy supply agreements with the Distribution Companies and Large Customers and from our reserve contracts with AES Changuinola S.R.L. represented approximately 90% of our total electricity sales in 2015. The remaining 10% of our revenues derive from spot market sales and regional exports. We typically deliver electricity approximately forty days prior to receiving payment under our PPAs and are therefore vulnerable to any inability of the Distribution Companies or Large Customers to meet their respective payment obligations. Accordingly, any adverse change in the assets, financial condition or results of operations of any of the Distribution Companies or Large Customers may materially adversely affect us or our results of operations.

We may find it difficult to fulfill our contractual obligations and are subject to prevailing spot market and fuel prices which may be mismatched with the levels assumed.

Under the Panamanian market rules, generation facilities are centrally dispatched by CND, beginning with renewable variable energy such as run-of-river hydroelectric plants (in our case, Estí, La Estrella and Los Valles), followed by hydroelectric plants with reservoirs (in our case, Bayano) and resorting finally to thermoelectric plants (in our case, Estrella de Mar I). As a result of this dispatch hierarchy and our contractual commitments, we try to attain high levels of availability and dispatch all of our power plants as much as possible in order to operate profitably. Developments that could adversely affect the dispatch rate of our plants include (but are not limited to) (i) equipment problems and changes in price-setting mechanisms and dispatch rules that could result in other plants being dispatched ahead of our plants (primarily Bayano and Estrella del Mar I), and (ii) the construction of new low-cost power plants that may displace Estrella del Mar I in the dispatch order and cause it to be dispatched less. Currently, we believe that we are over-contracted with respect to our capacity. Through 2018, we are contracted in excess of 90% of our firm capacity, which is much higher than our target level. If the electricity dispatched from our plants is less than the level we have contracted to provide or sell under our PPAs, we must purchase the difference in the spot market or be subject to penalties up to five times the price of the electricity we fail to deliver under the contract. This can negatively impact our results of operations because the replacement costs can be substantially higher than the average price at which we sell under our PPAs. In 2015, due to the CND's dispatch hierarchy, we were unable to meet our contractual obligations under hydro-based PPAs from our generation facilities and were required to purchase U.S.\$36 million of electricity at the average price of approximately U.S.\$92 per MWh, which was higher than our average hydro-based PPA sales price of U.S.\$84.0 per MWh.

Conversely, during periods when our actual generation is higher than our contracted capacity, we are able to sell our excess capacity into the market at the then-current spot price, and under these circumstances lower spot prices result in lower revenues and negatively impact our operating results.

Spot prices for energy can be affected by a number of factors that are beyond our control, such as weather conditions, seasonality, reductions in electricity usage, new market entrants, transmission congestion and new regulations. Fuel prices also affect the spot price for electricity because the spot price is set using the highest variable cost thermal unit to be dispatched to meet the system demand on an hourly basis, and the variable cost of thermal units depends heavily on the price of the fuel used to run them. Similarly, spot prices respond to the number of individual generation technologies available in a specific market. The Panamanian market is relatively less developed, making it more sensitive and volatile with respect to technological changes by its few generation companies.

With the exception of some of our recently negotiated contracts with Large Customers and the Estrella del Mar I PPAs, pricing terms under our PPAs for both capacity and energy are fixed with no indexation. The average all-in price under our hydro-based PPAs during 2015 was approximately U.S.\$84 per MWh, which was lower than the average spot market price of U.S.\$92 per MWh during the same period, which adversely affected our operating margins and profitability to the extent that we were required to purchase electricity on the spot market during that period to cover our obligations under our PPAs.

Our thermal-based PPAs, all of which are entered into with the Distribution Companies, incorporate fuel indexations in their contracted energy price calculation. Under these PPAs, operating margins result primarily from capacity payments, and we earn an additional, smaller margin from our contracted energy, which consists of (i) the difference between the energy price used to calculate energy costs under the PPAs and the actual cost of fuel used to run Estrella del Mar I when the plant is dispatched or (ii) the cost of spot market purchases for replacement energy when the plant is not dispatched. In 2015, our thermal-based PPAs contributed an additional operating margin of U.S.\$40 million in capacity and energy. If the price of the fuel we use to operate Estrella del Mar I drops below the reference price used to calculate the payments we receive for our contracted energy under these PPAs or if the spot price of replacement energy drops below the contract price of the energy we sell, we would not be entitled to payments for contracted energy, which may negatively impact our results of operations.

Bottlenecks in or the failure of transmission lines may adversely affect our operating results.

Bottlenecks in, damage to or failures in either the National Transmission System, or the connection line linking us to the National Transmission System, could prevent us from selling most or all of our electricity. We

have experienced technical difficulties with the National Transmission System in the past and we cannot guarantee that technical difficulties related to either the connection line linking us to the National Transmission System, or to the National Transmission System itself, will not arise in the future. In addition, other significant equipment failures could cause an interruption in our ability to generate electricity. The National Transmission System is owned by ETESA, the state-owned transmission company, which pursuant to the market rules issued by the ASEP is required to indemnify generators for the energy purchases in the spot market during constraints in the transmission system. However, ETESA's ability to indemnify generators such as us depends on its financial condition and, ultimately, the budget or liquidity of the Panamanian government. We cannot guarantee that ETESA will meet its indemnity obligations in a timely manner or at all.

Bottlenecks and other failures in the transmission system affect the dispatch of generation facilities and may cause spot market prices to increase because additional plants in eastern Panama, generally thermal plants, which produce energy at a higher cost (further driving up prices) must be dispatched to replace the energy generated by the more cost-effective hydroelectric plants in western Panama. When we generate less energy than provided for under our PPAs and we are forced to purchase energy in the spot market to meet our contractual obligations, higher spot market prices caused by bottlenecks or failures in the transmission system negatively affect our results of operations.

We are also negatively affected by bottlenecks in the transmission system in other ways. For example, in the past, the transmission bottleneck in the western region of Panama during the wet season has caused us to effectively forgo some profits at the Bayano reservoir. Bayano is located in the eastern part of Panama and therefore is unaffected by the bottleneck. During the wet season when the bottleneck tends to occur more frequently, the electricity system uses Bayano's electricity, depleting its water reserves. However, the wet season is the period during which spot market prices tend to be at their lowest. As Bayano's reservoir is depleted during the wet season, at lower spot market prices, in an effort to offset the costs to the overall system, Bayano is forced to forgo additional profit by not conserving the water in its reservoir to generate energy to sell during the dry season at higher spot market prices. As another example, the Panamanian system has experienced spillage at its reservoirs that results when bottlenecks in the transmission lines cause back-ups in generation at the reservoirs and prevent the generators from processing water fast enough to keep rainwater from overflowing. During a dry season or periods of poor hydrology, this has the cost of wasting rainwater that otherwise could be used to generate energy that could be used to satisfy our capacity obligations under our PPAs or could be sold in the spot market for a profit.

Termination of, or delays in payments we receive under, our reimbursement agreement with the Panamanian government could adversely affect our results.

To reduce the impact of high spot market prices on hydroelectric companies due in part to the transmission bottleneck that resulted from inefficient management of the dispatch system and delays in expansion projects and in transmission line improvements, in 2013, among other measures, the Panamanian government began to negotiate compensation arrangements with the two hydroelectric companies affected, including us. Under our agreement with the Ministry of Finance of Panama, the government agreed to reimburse us for the difference between the cost at which we purchase energy in the spot market and the price at which we sell that energy under our PPAs with the Distribution Companies for an agreed quantity of 70 MW per hour, but subject to a maximum reimbursement of U.S.\$40 million in 2014 and U.S.\$30 million in each of 2015 and 2016. If either the maximum quantity or the maximum reimbursement amount is reached, we bear the full cost of generating (or purchasing) the remainder of the contracted power for the rest the year, even if the costs continue to exceed the contracted sale prices. In 2014, we invoiced U.S.\$39.5 million and as of December 31, 2015 we have collected U.S.\$36.6 million in reimbursements, reducing the costs of our purchases of electricity. We invoiced but have not collected an additional U.S.\$5.8 million and U.S.\$0.9 million in 2015 and in the six months ended June 30, 2016, respectively. As of the date of this offering memorandum, the total amount we have invoiced the Panamanian government but have not collected was U.S.\$9.6 million. We do not expect to collect this amount until the Supreme Court issues a final ruling regarding the constitutionality of the compensation mechanism, which was challenged by the Comptroller in early 2015. If the resolution passed by the Panamanian government authorizing the reimbursement agreement is held to be unconstitutional, we will no longer be entitled to pending or future payments under the reimbursement agreement (see "Business—Legal Proceedings" for a discussion of this challenge).

Because the reimbursement program was meant to protect us from high spot market prices and given our current expectations for lower spot prices due to market factors such as low commodities prices and higher reserve

margins, in 2016, we expect to invoice significantly less in reimbursements compared to previous years. For a further discussion of this challenge to the reimbursement agreement see "Business—Reimbursement Agreement with the Panamanian government" for a further discussion of the reimbursement agreement generally.

Early termination of our concession agreements with the Panamanian government could adversely affect our results.

We operate four hydroelectric facilities pursuant to concession agreements with the Panamanian government. These concession agreements, which expire on December 2048 (Bayano, La Estrella and Los Valles) and February 2052 (Estí), contain several requirements regarding the operation of our hydroelectric facilities and compliance with applicable Panamanian laws and regulations. Violation of the concession agreements could result in sanctions, termination and, in certain circumstances (including bankruptcy or dissolution of or suspension of payments by us), payment to the Panamanian government under our performance bonds in the amount of U.S.\$10 million for each of Bayano and Estí and U.S.\$4 million for each of La Estrella and Los Valles. In those circumstances, the Panamanian government would be entitled to exercise the applicable performance bond and to acquire the assets of the applicable facility at 90% of its fair market value. Additionally, the Panamanian government may unilaterally terminate the concession agreements in case of war, serious disturbance of the public order or urgent social interest. See "Related Party Transactions—Concession Agreements."

We also have concession agreements that allow us to use water resources to operate our hydroelectric facilities. These concession agreements, which expire when our concessions to operate our hydroelectric facilities expire, contain several requirements regarding the use of water resources and compliance with applicable Panamanian laws and regulations. Such laws and regulations require us to comply with applicable environmental restrictions, pay any applicable fees and grant technicians from the Environment Ministry access to our facilities. Violation of these concession agreements could result in sanctions or termination of such concessions, which would have an adverse effect on our results of operations. See "Business—Concession Agreements."

The Panamanian government currently owns a majority of our equity and its interests may be different from the interests of Noteholders.

As of June 30, 2016, the Panamanian government owned 50.5% of the outstanding equity of AES Panamá. See "Principal Equity Holders." In addition, although we have in place an administration agreement with AES Energy dated January 1, 2009, or the Administration Agreement, which was effectively transferred to AES Elsta on September 30, 2015 and grants AES Elsta managerial and operational control over AES Panamá, certain matters remain subject to approval by the Panamanian government. Such matters include, among others, any amendment of our articles of association or by laws, mergers or spin offs, our dissolution, the encumbrance of our concession agreements, authorization for us to engage in new lines of business and the transfer of our corporate domicile to another country. The Panamanian government's interests in our Company may be different from ours and those of AES Elsta or any of our stakeholders, including holders of the Notes. We have entered into a number of agreements with affiliates of the Panamanian government. For example, we entered into PPAs with the Distribution Companies, in which the government has a minority participation. The Distribution Companies are our largest customers, and these PPAs resulted in our contracting more than 90% of our firm capacity through 2018, in excess of our target. We cannot assure you that the Panamanian government will not encourage us to enter into other agreements which may not necessarily be in the best interest of our company or our stakeholders, including holders of the Notes. See also "—AES, our managing equity holder, may exercise management control in a manner that differs from our interests or your interests as a Noteholder" for more risks related to our equity holders, as well as "Management—Certain Provisions of Our Articles of Association Relating to Managerial Control of AES Panamá" and "Related Party Transactions."

AES, our managing equity holder, may exercise management control in a manner that differs from our interests or your interests as a Noteholder.

Our management is controlled by AES. AES is a global conglomerate whose economic interests may be different from ours or yours as a Noteholder. Accordingly, AES may exercise control over us in a manner that differs from your interests. We have entered into a number of agreements with affiliates of AES. For example, under a management agreement with AES Solutions, a subsidiary of AES, we pay AES Solutions an annual management fee of at least U.S.\$4.0 million in return for their management of our business. Another example is our

relationship with AES Changuinola, a subsidiary of AES. In August 2013, following a request by AES Changuinola to be relieved of its electricity supply commitment due to the extremely poor hydrological conditions, we amended our PPA with AES Changuinola from a financial contract (whereby AES Changuinola was obligated to supply us with a specified amount of energy at fixed prices by either generating the energy itself or purchasing it in the spot market) to a physical contract whereby we are now obligated to purchase only the energy that AES Changuinola generates. As a result of this amendment, during 2014 we needed to buy more electricity in the spot market at higher prices than we would have otherwise paid to AES Changuinola under the original arrangement. See "—We may find it difficult to fulfill our contractual obligations and are subject to prevailing spot market and fuel prices which may be mismatched with the levels assumed." Additionally, in November 2013, we acquired a 20% ownership stake in AES Changuinola through the capitalization of a U.S.\$63.2 million account receivable from AES Changuinola. AES indirectly owns 80% of AES Changuinola and an indirect 49.1% equity interest in us and, therefore, AES has a greater equity interest in AES Changuinola than in us, which could result in a conflict of interest. We also do not have an exclusivity agreement in place with AES and cannot ensure that AES will not directly or indirectly compete with us in our market. For example, Gas Natural Atlántico I, S.R.L., an affiliate of ours and fellow subsidiary of AES, was awarded a ten-year contract for the operation of a 350 MW combined cycle natural gas thermal plant beginning in May 2018. As a further example, in June 2016, we granted a U.S.\$30.1 million unconditional and irrevocable guarantee in favor of Gas Natural Atlántico II, S.R.L, for payments of principal and interest on a U.S.\$60.0 million loan obtained by it for the construction of the transmission line required by the system to support this and other natural gas generation growth projects in the province of Colon (including the 350 MW combined cycle natural gas thermal plant described above) in return for a fee of 1.5% of the guaranteed amount (or U.S.\$0.5 million). See "—The Panamanian government currently owns a majority of our stock" for more risks related to our equity holders. Also see "Management—Certain Provisions of our Articles of Association Relating to Managerial Control of AES Panamá" and "Related Party Transactions."

Changes in technology could negatively affect our operating results.

The development of new technologies with lower variable costs may reduce the variable costs, including the opportunity cost of water, assigned by hydroelectric generators such as ourselves for purposes of determining spot market prices. Any reduction in the variable costs assigned to hydroelectric generators will correspondingly reduce spot market prices and may reduce yet-to-be-signed bilateral contract prices. Such a reduction in system electricity prices may adversely affect our operating results during the wet season.

Our property may be damaged and our business interrupted or impaired by the occurrence of natural disasters.

Natural disasters, such as hurricanes, floods, earthquakes or tsunamis, could severely impact our physical assets or cause an interruption in our ability to generate electricity. In addition, any significant damage to our equipment could cause an interruption in our ability to generate electricity. We cannot assure you that the scope of damages we may suffer in the event of a natural disaster would not exceed the policy limits of our insurance. In addition, the effects of a natural disaster on Panama's economy could be severe and prolonged, leading to a decline in demand for electricity. The occurrence of a natural disaster, particularly one that causes damages in excess of our insurance policy limits, could have an adverse effect on our business, financial condition and results of operations.

Labor relations could affect our business.

As of June 30, 2016, we employed 177 people. While none of our employees are members of an external labor union, our workers, in coordination with management, established their own union and entered into a collective bargaining agreement with us, which will be effective until 2019. Under applicable labor regulations, utility workers are allowed to strike provided they follow certain procedures established in the Labor Code. While utility workers are not allowed under labor regulations to engage in complete work stoppages or strikes that would stop the delivery of utilities services, if our employees were to nonetheless engage in strikes, work stoppages, slowdowns or other adverse activities, including sabotage, we could experience a significant disruption of our operations and higher ongoing labor costs, which could have an adverse effect on our business, financial position or results of operations.

The loss of key personnel or our ability to recruit or retain qualified personnel could adversely affect our results of operations.

We rely on the ability, expertise, judgment, discretion, integrity and good faith of our senior management team. Our success also depends upon our personnel and our ability to recruit and train high quality employees. We must continue to recruit, retain and motivate management and other employees at reasonable rates of compensation to be able to maintain our current business and support our projected growth. The loss of services of any of our key management could have an adverse effect on our business.

We may be adversely affected by the application and interpretation of regulations affecting our revenues.

As an electricity generation company, we are subject to extensive regulation by the Panamanian government through ASEP. Accordingly, the results of our operations depend on the applicable regulatory framework and its interpretation by ASEP. We are generally required to obtain and comply with a wide variety of concessions, licenses, permits and other approvals in order to operate our generation facilities. As of the date of this offering memorandum, we were in compliance with existing regulations, but we may incur significant additional costs as a result of our need to comply with future requirements. If we fail to comply with these regulations or the terms of the performance guarantees we were required to grant to the Panamanian government pursuant to our concession agreements, we could be subject to penalties such as the imposition of liens or fines, the termination of the concession agreements and the exercise of the performance bond. In addition, existing ASEP regulations may be revised or reinterpreted, new laws and regulations may be adopted or become applicable to us or to our facilities, and future changes in laws and regulations including changes to rules and regulations with respect to transmission charges and pricing for distributors may have a detrimental effect on our business and financial results.

Because electricity is a utility with high social impact, there has been public debate and pressure to modify the existing regulatory framework in recent years. The dramatic increase in the costs of electricity over the past few years has resulted in increased government intervention in the sector to curb the impact of high energy prices for end users. We cannot predict what future changes may be made to the regulatory framework or the effect that any changes may have on our business or results of operations. See "Overview of the Panamanian Electricity Industry—Tariff Structure" and "Summary—Recent Developments."

Our ability to generate electricity depends on a limited number of assets.

Our most significant assets are our concessions with ASEP and the Environment Ministry to operate the Bayano, La Estrella, Los Valles and Estí hydroelectric facilities and to use the water resources at each of these facilities for the generation and sale of electricity and to operate Estrella del Mar I. We are therefore dependent upon successfully operating these five facilities and selling electricity generated therefrom at prices sufficient to continue operations and to meet our financial and debt payment obligations. Any one of our facilities could fail to generate electricity due to, among other things, physical damage, operational error and other operational and technical problems. If the ability of any of our facilities to generate electricity is adversely affected, it could adversely affect our business, financial condition and result of operations.

We may be unable to generate cash flow from operations or, if necessary, obtain financing in sufficient amounts and on favorable terms to fund our future obligations.

Our forecasted cash flows from future operations may be adversely affected by various factors, including, but not limited to, those listed in "Cautionary Language Regarding Forward-Looking Statements" and other factors noted elsewhere under this "Risk Factor" section. To the extent that we are required to fund future cash requirements, including current and future contractual commitments and debt repayments, from sources other than cash flow from operations, available cash and committed lines of credit, there is no guarantee that any such debt or equity financings will be available on reasonable terms or at all. Our access to funding will depend on many factors, including factors beyond our control, such as conditions in the international capital markets and investor perceptions of the risks of investing in Panama and in emerging markets generally. If we are unable to source sufficient funds by accessing the international capital markets on favorable terms or at all, we may not be able to implement our strategy, which could have an adverse effect on our ability to grow our business.

We may be adversely affected by unfavorable outcomes in pending legal proceedings.

We are involved in a number of significant legal proceedings for which we have not recorded provisions. We cannot predict whether we will prevail in these or other proceedings, or whether we will have to pay significant amounts, including penalties and interest, as payment of our liabilities, which could materially and adversely impact our business and results of operations. For more information regarding certain significant legal proceedings, see "Business—Legal Proceedings."

Risks Relating to Our Industry

Excess supply of electricity to the Panamanian market with lower variable cost could cause a decrease in energy spot prices, adversely affecting our revenues.

Low or no growth in demand, coupled with the addition of new generation capacity, could create oversupply of electricity in the Panamanian market, which may reduce yet-to-be-signed bilateral contract prices. Oversupply of electricity with lower variable cost could adversely affect our revenues by causing a decrease in energy spot prices. Energy spot prices could decrease if the capacity added to the system by new generators is not absorbed by corresponding demand growth. In this case, the energy spot price could decrease to the extent that the new generators displace relatively expensive generators from the dispatch order. To the extent that an excess supply of electricity to the Panamanian market causes a decrease in our revenues from sales, our operating margins could be adversely affected. See "Business—Competition" and "Overview of the Panamanian Electricity Industry—The Spot Market."

Lower demand for electricity in the Panamanian electricity market could cause a decrease in energy sold under PPAs and cause a decrease in energy spot prices, adversely affecting our revenues.

The amount of electricity that we sell pursuant to our PPAs is linked to the fraction of the forecasted peak generation demand we have contracted to supply, and the actual energy demand. If actual energy demand decreases, we would be able to sell less energy under our PPAs and more on the spot market. Spot market prices could decrease to the extent that the lower demand does not require relatively expensive generators to be dispatched. To the extent that lower demand for electricity in the Panamanian electricity market results in a decrease in our revenues from sales, our operating margins could be adversely affected. See "Business—Competition" and "Overview of the Panamanian Electricity Industry—The Spot Market."

We could lose business to competitors, which could adversely affect our operations and financial condition.

We face significant competition from other energy generators for market share for new projects, renewing or entering to new PPAs and generation that is dispatched into the market. In the event that we do not compete effectively with other energy generators, our results of operations and financial condition could be adversely affected.

Under Law No. 6 of 1997, or the Electricity Law, and ASEP regulations, the Panamanian electricity industry is market-driven and competitive. In this environment, we compete with international private sector operators as well as government-owned entities. In addition, new entrants to the market, such as the Panama Canal Authority or the ACP, may have certain competitive advantages over us as they are not obligated to pay certain taxes or to comply with certain employment regulations as we are. In the event that the ACP were to use its competitive advantages to expand its role in power generation generally (on hydroelectric power specifically), the prevailing price of electricity under yet-to-be-signed long-term bilateral contracts and on-the-spot market may decrease, which, in turn, could materially adversely affect our financial condition and results of operations.

Our business performance may be affected by the nature of our response to various operating risks typically faced by electricity generation companies.

We face a number of operating risks applicable to electricity generation companies including:

- failures and faults in the electricity transmission system in Panama or in the electricity distribution facilities of electricity distribution and transmission companies in Panama, neither of which we control;

- system failure affecting our information technology systems or those of other electricity industry participants, which could result in loss of certain operational capacities or critical data;
- injuries to third parties or our employees in connection with our electricity generation services, which may result in higher insurance costs or denial of insurance coverage; and
- any failure by us to successfully negotiate and enter into future collective bargaining agreements with the union representing our employees, which may result in work stoppages.

As we engage only in the electricity generation business, our results of operations may also be exposed to a greater degree of fluctuation as compared to electricity companies that have more diversified operations, such as those that vertically integrate electricity generation, transmissions and distribution.

Our industry is subject to government control and regulation.

Power generators in Panama are required to follow the power generation and dispatch rules of the Panamanian government. The Wholesale Electricity Spot Market is based on a minimum fuel and variable operating and maintenance costs objective. The hydro-thermal dispatch of the generation plants in the system is determined using a Stochastic Dual Dynamic Programming Model, or SDDP, that calculates the value of water at hydroelectric dams, based on their opportunity cost and on a set of system constraints. Using this model, the market operator, or CND, determines when and how hydroelectric plants can use the water in the system, particularly at reservoirs, as well as the dispatch order that governs which plants must supply electricity first. For a detailed discussion of how the system dispatch is determined, see "Overview of the Panamanian Electricity Industry—Dispatch". Because ASEP has enacted these rules expressly in order to optimize the system, the rules may not be inherently optimal for each generators' individual profitability.

For example, we do not control when water at our Bayano reservoir is used; rather CND has full and unilateral control over that determination. This means that although there could be optimally profitable moments when we could sell electricity generated from the Bayano facility, the CND's control and interest in conserving water or reducing the costs in the overall system can be an overriding determinant. This has happened in the past when bottlenecks have occurred in the transmission lines in the western region of Panama during the wet season, in which case the system has drawn from Bayano's reservoir, causing it to sell electricity at lower prices and depleting its water reserves such that they cannot be used during more profitable dry seasons. Conversely, during the dry season Bayano is generally dispatched much later in the process due to CND's objective to preserve water, which prevents us from selling any excess capacity that could have been generated at this facility during period of high spot prices.

We are also subject to a broad range of environmental, health and safety laws and regulations in Panama which expose us to the risk of substantial costs and liabilities. These laws and regulations relate to, among others, limits on emissions, water and air quality, noise, the forest habitat, minimizing risks to the environment while maintaining the quality, safety and efficiency of the electricity sector and the use and handling of hazardous materials and waste disposal practices. In July 1998, the Panamanian government enacted environmental legislation creating an environmental protection agency (ANAM), which through Law No. 8 of March 25, 2015 was replaced by the Environment Ministry (*Ministerio de Ambiente*), and imposing new environmental standards affecting our operations. Failure to comply with applicable environmental standards, stricter laws and regulations, or stricter interpretation of existing laws or regulations, may impose new liabilities, resulting in the need for additional investments, or adversely impact our ability to complete future projects. This may adversely affect our business, financial condition and results of operations in the future. See "Overview of the Panamanian Electricity Industry—Environmental Regulation."

Risks Relating to Panama

We are dependent on the political, legal and economic climate of Panama.

All of our operations and all of our current customers are located in Panama. Accordingly, our financial condition and results of operations, including our ability to meet our obligations under the Notes, are substantially dependent on the economic and political conditions of Panama.

The Panamanian economy is small and relatively undiversified, being largely focused on the services sector, which represents the largest stake of the GDP as of December 31, 2015. A significant portion of Panama's economic activity is linked directly or indirectly to the Panama Canal, shipping and port activities, a large free trade zone, an international banking center and tourism services. Due to the small size and limited focus of the Panamanian economy, adverse developments in Panama could have a more pronounced effect than would be the case if the developments occurred within the context of a larger, more diversified economy. Investing in an emerging market country, such as Panama, carries economic risks. These risks include many different factors that may affect Panama's economic results, including the following:

- interest rates in the United States and financial markets outside Panama;
- changes in economic or tax policies;
- the imposition of trade barriers;
- general economic and business conditions in Panama and the global economy;
- the ability of Panama to effect key economic reforms;
- the impact of hostilities or political unrest in other countries that may affect international trade, commodity prices and the global economy; and
- the decisions of international financial institutions regarding the terms of their financial agreements with Panama.

Any adverse effect on the Panamanian economy could adversely affect our business, thereby impairing the ability to meet our payment obligations under the Notes.

We may be adversely affected by future political crises in Panama.

Panama has experienced different types of government and governmental policies. Prior to 1968, Panama generally had a constitutional democracy and a growing economy. In 1968, the military secured control over the government and military rule continued until 1989. A political crisis erupted in 1987 among the then ruling military dictator, General Manuel Antonio Noriega, civilian organizations, political parties and the business community, which had been agitating for a return to democratic rule. In December 1989, Mr. Noriega was deposed, largely as a result of U.S. military intervention, and Guillermo Endara, who had been elected by a majority of the Panamanian electorate in a popular vote earlier in the year, was sworn in as President. Since the end of 1989, the Panamanian government has maintained political and economic stability under successive democratically elected governments, and favorable relations with the U.S. have been fully restored. In the event that Panama experiences future political crises, our financial condition and results of operations may be adversely affected.

We may be adversely affected by governmental policies.

The Panamanian government has exercised, and continues to exercise, significant influence over the Panamanian economy. The Panamanian government has had a significant impact on the economy through various statutory and other governmental initiatives, including enforcement of a rigid labor code, electricity subsidies related to the rise in fuel prices, tariff policies, regulatory policy, taxation and price controls. Accordingly, the Panamanian government's actions regarding the economy could have significant adverse effects on private sector entities in general and on us in particular. It is not possible to determine what effect such plans or actions or the implementation thereof could have on the Panamanian economy or on our financial condition or results of operations. In addition, we cannot assure you that the Panamanian government will not interfere or intervene in certain sectors of the economy, including power generation. Any interference or intervention could have a material adverse effect on our business and our ability to meet our obligations under the Notes.

Because the Panamanian monetary system is dependent on the U.S. dollar, any downturns in the U.S. economy may adversely affect us. Our ability to make required payments on the Notes may be adversely affected if Panama were to impose exchange controls.

Since shortly after its independence from Colombia in 1903, Panama has used the U.S. dollar as legal tender and sole paper currency, using the Balboa only as coinage and as a unit of account with an exchange rate set at parity with the U.S. dollar. Inflation was 4.0% in 2013, 2.6% in 2014 and 0.2% in 2015. Given the dependence on the U.S. dollar and the U.S. economy, there can be no assurance that appreciation or depreciation of the U.S. dollar against other currencies or the existence of sustained higher levels of inflation in the U.S. economy (and the resultant effect on the value of the U.S. dollar) or increases or decreases in interest rates generally in the United States will not adversely affect the Panamanian monetary system or, indirectly, us. In addition, there are currently no exchange controls or other restrictions imposed by Panamanian law on payments in U.S. dollars by us, and capital moves freely in and out of the country, without local currency risk. However, in the event that foreign exchange or payment restrictions are imposed by the Panamanian government, our liability to repay the Notes could be adversely affected.

Because Panama is a service-based economy, fluctuation of prices in basic goods and commodities such as oil may have a significant impact on the Panamanian economy and us.

Panama is an importer of goods and commodities and, particularly, a net importer of crude oil. Several other Panamanian industries are directly affected by high crude oil prices, including transportation, maritime (Panama Canal), manufacturing and agriculture. Increases in the price of crude oil have contributed to higher costs of electricity, which has become a source of economic instability that has affected the competitiveness of Panamanian businesses. Higher global oil prices as well as higher interest rates in the U.S. and other countries may negatively impact the growth of the economy in Panama, and could also contribute to higher rates of inflation, further constraining the Panamanian economy.

With respect to public consumption, according to data from the Ministry of Economy and Finance, the price during 2015 for basic consumption goods (consisting of a basket of 59 basic goods for a three and a half member family) decreased on average 8.6% (U.S.\$28.35) to U.S.\$301.31 and during 2014 increased 0.3% (U.S.\$0.86) to U.S.\$329.66. During 2013, the price of the basket rose to U.S.\$328.80, a 5.7% increase compared to 2012 due to an increase in the supply of certain products and mitigative measures imposed by the Panamanian government to control prices. If prices should begin to increase again, the country runs the risk of deceleration of demand, consumption and employment. This, in turn, may adversely affect the growth of our industry as well as our customers' ability to meet their financial obligations to us, thereby potentially impacting our ability to repay the Notes.

Adverse political and economic conditions in other Latin American countries may adversely affect us.

From time to time, the economies of other Latin American countries, particularly those in Central America, Brazil, Mexico and Argentina, have suffered from high rates of inflation, currency devaluation and/or other developments that have had an adverse effect not only on their economies but also on the economies of other countries in the region. Although all of our activities are concentrated in Panama, we may still be affected by adverse developments in other Latin American economies.

Following the currency devaluation crises and the ensuing financial and economic crises in the 1990s in Mexico, Russia, Argentina and Asia, the economies of certain Latin American countries experienced reduced levels of economic activity. As a result, we cannot assure you that high inflation rates, volatility in exchange rates or declines in economic activity in other Latin American countries or world markets in general will not have an adverse effect on the Panamanian economy, on our customers, on us or on the trading values of the Notes.

Risks Relating to the Notes

You may be subject to withholding for Panamanian capital gains taxes upon a sale of the Notes, for which we will not indemnify you.

On June 19, 2006, Panama passed Law 18, or the 2006 Tax Law, which adopted a number of changes to Panama's tax law, which were further regulated through Executive Decree No.135 of February 6, 2012. Under the 2006 Tax Law and its regulations, if the Notes are not sold through an exchange or another organized market, (i) the seller will be subject to income tax in Panama on capital gains on the sale of the Notes at a fixed rate of 10% on the gain realized and (ii) the buyer would be required to withhold from the seller and remit to the Panamanian fiscal authorities, within the following ten days, as an advance on the seller's capital gains tax payment, an amount equal to 5% of the aggregate proceeds of the sale by withholding for the capital gains tax of the seller. The seller may, at its option, consider the amount so withheld by the buyer as definitive payment in full of the capital gains tax, or in the event of overpayment, exceeding 10% of the capital gain actually realized on the sale, the seller may file, a sworn declaration before the tax authorities claiming a tax credit or refund in respect of amounts paid in excess. See "Taxation—Panamanian Taxation—Taxation of Dispositions." The capital gains income tax provisions of the 2006 Tax Law and its regulations, do not exempt from income tax in Panama capital gains on sales of Notes outside of Panama by holders not resident in Panama and, therefore, such provisions would apply to sales of Notes by "qualified institutional buyers" in the United States, including sales through the facilities of DTC.

On June 27, 2006, the Panamanian Bureau of Revenue issued Tax Opinion 201 01 706, or the Tax Opinion, stating that capital gains by noteholders not resident in Panama on the sale or other disposition of Notes that is executed and effected outside Panama, and which payment thereof is made outside of Panama, would not be deemed Panamanian source income under the 2006 Tax Law and its regulations. However, we have been advised by our Panamanian counsel that the Tax Opinion is not a legally binding interpretation of the 2006 Tax Law.

We will not indemnify you if you are subject to withholding for Panamanian capital gains taxes under the 2006 Tax Law and its regulations upon a sale of the Notes.

The ability to transfer the Notes may be limited by the absence of an active trading market, and we cannot assure you that any active trading market will develop for the Notes.

We have not registered, and will not register, the Notes under the Securities Act or any other applicable U.S. securities laws. Accordingly, the offering of the Notes in the U.S. will be made pursuant to exemptions from, and in transactions not subject to, the registration provisions of the Securities Act and state securities laws. The Notes are subject to certain restrictions on resale and other transfers in the U.S., and you may be required to bear the risk of your investment for an indefinite period of time. See "Notice to Investors." Consequently, a holder of Notes and an owner of beneficial interests in those Notes must be able to bear the economic risk of their investment in the Notes for the term of the Notes.

There is currently no market for the Notes in the U.S. The Notes are currently listed on the Panama Stock Exchange and the Official List of the Luxembourg Stock Exchange and the Euro MTF. However, we cannot assure you that the Notes will remain listed thereon or that active trading markets for the Notes will develop. Although we have been advised by the Initial Purchaser that it currently intends to make a market in the Notes following completion of the offering, the Initial Purchaser is not obligated to do so and may discontinue any such market-making activities at any time without notice. The Notes could trade at prices that may be higher or lower than their initial offering price depending on many factors, including some that are beyond our control. The liquidity of, and trading market for, the Notes may be adversely affected by changes in interest rates and declines and volatility in the market for similar securities, as well as by any changes in our financial condition or results of operations and by declines in the market for high-yield and emerging market securities generally. Historically, the market for non investment-grade debt has been subject to disruptions that have caused substantial volatility in the prices of securities similar to the Notes. We cannot assure you that the market, if any, for the Notes will be free from similar disruptions or that any such disruptions may not adversely affect the prices at which you may sell your Notes. Therefore, we cannot assure you will be able to sell your Notes at a particular time or the price that you receive when you sell will be favorable.

It may be difficult to enforce civil liabilities against us or our administrators and executive officers and controlling persons.

We are a *sociedad de responsabilidad limitada*, or limited liability company, organized under the laws of Panama. All of our administrators, executive officers and controlling persons reside in Panama. In addition, all or a substantial portion of the assets of these persons and of our assets are located outside the U.S. As a result, it may not be possible for investors to effect service of process within the U.S. upon such persons, or to enforce judgments in U.S. courts against them or us predicated upon the civil liability provisions of the federal securities laws of the U.S. or otherwise obtained in U.S. courts. Because a substantial portion of our assets is located outside the U.S., any judgment obtained in the U.S. against us may not be fully collectible in the U.S. We have been advised by our Panamanian counsel that no treaty exists between the U.S. and Panama for the reciprocal enforcement of foreign judgments. However, subject to the issuance of a *writ of exequatur* by the Supreme Court of Panama, a final judgment rendered in a foreign court (including the U.S.) could be recognized and enforceable in the courts of Panama without reconsideration of the merits, provided that (i) such foreign court grants reciprocity to the enforcement of judgments of courts of Panama, (ii) the party against whom the judgment was rendered, or its agent, was personally served in such action within such foreign jurisdiction, (iii) the judgment arises out of a personal action against the defendant, (iv) the obligation in respect of which the judgment was rendered is lawful in Panama and does not contradict the public policy of Panama, (v) the judgment is properly authenticated by diplomatic or consular officers of Panama or pursuant to the 1961 Hague Convention on the legalization of documents and (vi) a copy of the final judgment is translated into Spanish by a Panamanian licensed translator. We have been advised by our Panamanian legal counsel that there is doubt as to the enforceability of original actions in Panamanian courts of liabilities predicated solely on the U.S. federal securities laws and as to the enforceability in Panamanian courts of judgments of U.S. courts obtained in actions predicated upon the civil liability provisions of the U.S. federal securities laws. In addition, we have been advised by our Panamanian legal counsel that pursuant to Article 3 of Panama Law No. 26 dated January 29, 1996 and due to our status as a concession recipient in Panama's energy sector, creditors and other plaintiffs may not have access to certain pre-judgment measures that would otherwise be available in Panamanian courts under normal circumstances, such as the right to request an attachment or embargo or other precautionary measure, in order for the court to grant such plaintiff control of our operations for the duration of any proceeding instituted against us.

Enforcing your rights as a holder of Notes in Panama may prove difficult.

Your rights under the Notes will be subject to the insolvency and administrative laws of Panama, and we cannot assure you that you will be able to effectively enforce your rights in such insolvency or similar proceedings. In addition, insolvency, administrative and other laws of Panama may be materially different from, or in conflict with, each other, including in the areas of rights of creditors, priority of government entities and related party creditors, and the ability to obtain post-bankruptcy filing loans or to pay interest. The application of these laws, or any conflict among them, could call into question what and how Panamanian laws should apply. The laws of Panama may not be as favorable to your interests as the laws of jurisdictions with which you are familiar. Such issues may adversely affect your ability to enforce your rights under the Notes in Panama, as the case may be, or limit any amounts that you may receive.

Under the Panamanian civil code, previously issued senior unsecured indebtedness could be treated as senior to any subsequently issued senior unsecured indebtedness. Accordingly, under the Panamanian civil code the Notes may be subordinated to any of our senior unsecured indebtedness that is outstanding on the date the Notes are issued. As of June 30, 2016, we had a total of U.S.\$382.7 million aggregate principal amount of indebtedness outstanding consisting of U.S.\$82.7 million aggregate principal amount of our 2016 Notes and U.S.\$300.0 million aggregate principal amount of our Outstanding Notes. The 2016 Notes could be senior to the Notes under the Panamanian civil code in the event of our bankruptcy, liquidation, reorganization, winding-up or similar proceeding. Furthermore, our local creditors (particularly our creditors of indebtedness represented by negotiable instruments or other instruments governed by Panamanian law that grant rights to executory proceedings, the Panamanian tax administration, and other governmental entities and municipalities) could be in a better position than holders of the Notes to obtain pre-judgment attachment of our assets from a Panamanian court. If our assets are attached by any of these creditors, creditors benefitting from the attachment will have priority against other creditors (including holders of the Notes) over the assets attached.

The terms of the Notes will contain covenants limiting our financial and operating flexibility.

The Indenture governing the Notes will contain various covenants intended to benefit the interests of the Noteholders that limit our ability to, among other things:

- pay dividends, make distributions, redeem capital stock and make certain other restricted payments or investments;
- incur additional indebtedness or issue certain equity interests;
- merge, consolidate or sell all or substantially all of our assets;
- issue or sell capital stock of any future subsidiaries;
- create any restrictions on the ability of any future subsidiary to pay dividends, make distributions or loans or transfer assets to us;
- sell or create liens on assets;
- enter into sale and lease back transactions; and
- enter into certain transactions with affiliates or related persons.

All of these limitations are subject to exceptions and qualifications described under the section entitled "Description of the Notes."

These restrictive covenants could limit our ability to pursue our growth plan, restrict our flexibility in planning for, or reacting to, changes in our business and industry, and increase our vulnerability to general adverse economic and industry conditions. We may enter into additional financing arrangements in the future, which could further restrict our flexibility.

In addition, our ability to comply with these provisions may be affected by general economic conditions, political decisions, industry conditions and other events beyond our control. As a result, we cannot assure you that we will be able to comply with these covenants or obtain waivers for any future non-compliance. Our failure to comply with the covenants contained in these agreements, including failure as a result of events beyond our control, could result in an event of default, which could materially adversely affect our operating results and our financial condition.

We may not be able to repurchase the Notes upon a change of control.

Upon the occurrence of specific kinds of change of control events, we will be required to offer to repurchase all outstanding Notes at 101% of their principal amount plus accrued and unpaid interest. We may not be able to repurchase the Notes upon a change of control because we may not have sufficient funds. Further, we may be contractually restricted under the terms of our other senior indebtedness from repurchasing all of the Notes tendered by holders upon a change of control. Accordingly, we may not be able to satisfy our obligations to purchase your Notes unless we are able to refinance or obtain waivers under our credit facilities. Our failure to repurchase the Notes upon a change of control would cause a default under the indenture. The agreements governing our future debt facilities may provide that a change of control will be a default that permits lenders to accelerate the maturity of borrowings thereunder and, if such debt is not paid, to enforce security interests in the collateral securing such debt, thereby limiting our ability to raise cash to purchase the Notes, and reducing the practical benefit of the change of control provisions to the holders of the Notes.

In addition, the change of control provisions in the indenture may not protect you from certain important corporate events, such as a leveraged recapitalization (which would increase the level of our indebtedness), reorganization, restructuring merger or other similar transaction, unless such transaction constitutes a "Change of Control" under the indenture. Such a transaction may not involve a change in voting power or beneficial ownership or, even if it does, may not involve a change that constitutes a "Change of Control" as defined in the indenture that

would trigger our obligation to repurchase the Notes. Therefore, if an event occurs that does not constitute a "Change of Control" as defined in the indenture, we will not be required to offer to repurchase your Notes despite the event. See "Description of the Notes—Change of control."

Our credit ratings may be lowered or withdrawn.

The credit ratings of the Notes may not reflect the potential impact of all risks relating to the value of the Notes. In addition, real or anticipated changes in our credit ratings or the credit ratings of the Notes will generally affect the market value of the Notes. Thus, even though we are making interest payments when due, the price of our Notes in the secondary market that may develop may be considerably less than the price you paid for your Notes. We have experienced downgrades of credit ratings in the past. For example, in April 2014, Fitch downgraded our foreign and local currency issuer default ratings from BBB- to BB+ and in July 2014, S&P downgraded our 2016 Notes from BB+ to BB-. In June 2015, Fitch reaffirmed our ratings at BB+ with a stable outlook and S&P reaffirmed its ratings of our 2016 Notes at BB- with a stable outlook. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

The Notes will be effectively subordinated to all of our secured debt and if a default occurs, we may not have sufficient funds to fulfill our obligations under the Notes.

Except to the extent of the value of the collateral in the Debt Service Reserve Account, the Notes will be effectively subordinated to all our secured indebtedness to the extent of the value of the assets securing that indebtedness. As of June 30, 2016, we had a total of U.S.\$382.7 million in indebtedness outstanding, consisting of U.S.\$82.7 million aggregate principal amount of our 2016 Notes, secured by their own debt service reserve account, and U.S.\$300.0 million aggregate principal amount of our outstanding Notes. (see "Management's Discussion and Analysis of Financial Conditions and Results of Operations—Indebtedness—Long Term Indebtedness"). In addition, the indenture governing the Notes, subject to some limitations, permits us to incur additional secured indebtedness and your Notes will be effectively junior to any additional secured indebtedness we may incur.

In the event of our bankruptcy, liquidation, reorganization or other winding up, our assets that secure our secured indebtedness will be available to pay obligations on the Notes only after all secured indebtedness, together with accrued interest, has been repaid in full from our assets. If we are unable to repay our secured indebtedness, the lenders could foreclose on substantially all of our assets which serve as collateral. In this event, our secured lenders would be entitled to be repaid in full from the proceeds of the liquidation of those assets before those assets would be available for distribution to other creditors, including holders of the Notes. Except for creditors of obligations of the Issuer afforded preference under mandatory provisions of Panamanian law, holders of the Notes will participate in the proceeds of the liquidation of our remaining assets ratably with all holders of our unsecured indebtedness that is deemed to be *pari passu* with the Notes, and potentially with all of our other general creditors. We advise you that there may not be sufficient assets remaining to pay amounts due on any or all of the Notes then outstanding.

Our obligations under the Notes are subordinated to our payment of certain statutory liabilities and could be subordinated to any of our senior unsecured indebtedness that is outstanding on the date the Notes are issued.

Except with respect to the collateral in the Debt Service Reserve Account, the Notes will be our general, unsecured unsubordinated obligations. Under Panamanian law, such unsecured obligations are subordinated to certain statutory preferences. In the event of our bankruptcy, insolvency or liquidation, such statutory preferences, such as claims for salaries, wages and credits guaranteed over assets (but up to the value of such assets), social security contributions, taxes, court fees and expenses, will have preference over any other unsecured claims, including the claims by any investor in respect of the Notes. In addition, the Notes are not obligations of, or guaranteed by, AES or any other entity.

In addition, under the Panamanian civil code, previously issued senior unsecured indebtedness could be treated as senior to any subsequently issued senior unsecured indebtedness. Accordingly, under the Panamanian civil code the Notes may be subordinated to any of our senior unsecured indebtedness that is outstanding on the date the Notes are issued. As of June 30, 2016, we had a total of U.S.\$382.7 million aggregate principal amount of indebtedness outstanding, consisting of U.S.\$82.7 million aggregate principal amount of our 2016 Notes and

U.S.\$300.0 million aggregate principal amount of our Outstanding Notes. The 2016 Notes could be senior to the Notes under the Panamanian civil code in the event of our bankruptcy, liquidation, reorganization, winding-up or similar proceeding.

The Notes are the obligations of the Issuer only and are not obligations of, nor guaranteed in any manner by, the Panamanian government, AES or any other entity.

The Notes will be structurally subordinated to the indebtedness and other liabilities of any subsidiary we may establish in the future.

We currently have no subsidiaries or joint ventures. We may, however, establish subsidiaries in the future and engage in additional operations through those new subsidiaries. The Notes will be structurally subordinated to any outstanding indebtedness and other liabilities of these subsidiaries to the extent they are designated as "Unrestricted Subsidiaries" and do not guarantee the Notes in accordance with the terms of the Indenture. If any such future subsidiary were to be liquidated, the creditors of that subsidiary would be paid in full from the assets of the liquidated subsidiary before holders of the Notes would be paid from those assets.

The perception of higher risk in other countries, especially in emerging economies, may adversely affect the Panamanian economy, our business and the market price of Panamanian securities issued by Panamanian issuers, including the Notes.

The market price of the Notes may be adversely affected by developments in the international financial markets and world economic conditions. Panamanian securities markets are influenced, to varying degrees, by economic and market conditions in other countries, especially those in Latin America and other emerging markets. Emerging markets like Panama are subject to greater risks than more developed markets, and financial turmoil in any emerging market could disrupt business in Panama and adversely affect the price of the Notes. Moreover, financial turmoil in any important emerging market country may adversely affect prices in stock markets and prices for debt securities of issuers in other emerging market countries as investors move their money to more stable, developed markets. An increase in the perceived risks associated with investing in emerging markets could dampen capital flows to Panama and adversely affect the Panamanian economy in general, and the interest of investors in the Notes, particularly in Panama. We cannot assure you that the value of the Notes will not be negatively affected by events in other emerging markets or the global economy in general.

Different disclosure requirements in Panama and the United States may provide you with different or less information about us than you expect.

Securities disclosure requirements in Panama differ from those applicable in the United States. Accordingly, the information about us that is available to you may not be the same as the information available to security holders of a U.S. company. There may be less publicly available information about us than is regularly published about companies in the U.S. and certain other jurisdictions. We are not subject to the periodic reporting requirements of the Exchange Act and, therefore, are not required to comply with the information disclosure requirements that it imposes.

USE OF PROCEEDS

The net proceeds of this offering, after deduction of the Initial Purchaser's discount and other expenses relating to this offering, will be approximately U.S.\$75,579,725. The net proceeds of the offering of the Outstanding Notes after deduction of the Initial Purchaser's discount and other expenses related to the offering of the Outstanding Notes, was US\$297,750,000.

We used the net proceeds from the issuance and sale of the Outstanding Notes to fund the purchase (as repayment) of the 2016 Notes tendered in our Tender Offer and a benefit in the form of consent fees in the related consent solicitation and to repay all or a portion of the Estrella del Mar I Loan and for general corporate purposes.

We intend to use the net proceeds of the Notes offered hereby for general corporate purposes, in particular to repay an equivalent portion of our 2016 Notes, of which U.S.\$82.7 million remains outstanding, at their final maturity on December 21, 2016.

CAPITALIZATION

The following table sets forth our unaudited capitalization as of June 30, 2016, on an actual basis and an as adjusted basis after giving effect to the issuance of the Notes and the application of the net proceeds as described under "Use of Proceeds".

You should read the following table in conjunction with our unaudited financial statements and related notes together with the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this offering memorandum.

From June 30, 2016, to the date of this offering memorandum, there has been no material change in our capitalization other than as stated herein.

	As of June 30, 2016	
	(unaudited)	
	Actual	As Adjusted
	(U.S.\$ thousands)	
Cash and cash equivalents⁽¹⁾	37,443	32,955
Restricted Cash – Debt Service Reserve Account – 2016 Notes⁽²⁾	2,636	-
Short-term debt :		
Short term loans (credit line).....	-	-
2016 Notes ⁽³⁾	82,496	-
Total short-term debt	82,496	-
Long-term debt :		
6.000% Senior Notes due 2022 ⁽³⁾	295,024	370,604
Total long-term debt	295,024	370,604
Total debt	377,520	370,604
Stockholders' equity:		
Total stockholders' equity	139,007	138,799
Total capitalization	516,527	509,403

- (1) Does not include a reduction for accrued interest on the 2016 Notes from June 25, 2016 to but excluding the maturity date on December 21, 2016.
- (2) Reflects the amount of cash in the debt service reserve account for the 2016 Notes. The debt service reserve account for the Outstanding Notes is funded by a standby letter of credit in the amount of U.S.\$9.0 million. Concurrently with the issuance of the Notes offered hereby, the standby letter of credit in the debt service reserve account for the Notes will be increased to U.S.\$11.3 million.
- (3) Net of debt issuance costs and premium.

SELECTED FINANCIAL AND OPERATING DATA

The following tables set forth our selected financial and operating data as of and for each of the periods indicated. The selected statement of comprehensive income and cash flows data for the years ended December 31, 2015, 2014 and 2013 and the selected balance sheet data as of December 31, 2015, 2014 and 2013 are derived from, should be read in conjunction with and are qualified in their entirety by reference to our audited financial statements which are included elsewhere in this offering memorandum. The selected statement of comprehensive income and cash flows data for the years ended December 31, 2012 and 2011 are derived from our financial statements which are not included in this offering memorandum. The selected statement of comprehensive income, cash flows and balance sheet data as of and for the six-month periods ended June 30, 2016 and 2015 are derived from our unaudited interim financial statements and related notes thereto which are included elsewhere in this offering memorandum. The selected historical financial data are not necessarily indicative of results to be expected in future periods, and results for interim periods are not necessarily indicative of results for the full year. Our audited financial statements and our unaudited interim financial statements are referred to collectively as our "financial statements."

Our financial statements included herein have been prepared in accordance with U.S. GAAP. The following selected financial and operating data for AES Panamá should be read in conjunction with the information under the captions "Presentation of Financial and Other Information," "Management's Discussion and Analysis of Financial Condition and Results of Operations," our financial statements and related notes thereto, included elsewhere in this offering memorandum.

Statement of Comprehensive Income Data

	Six months ended June 30, (unaudited)		Years ended December 31,				
	2016	2015	2015	2014	2013	2012	2011
	<i>(U.S.\$ thousands)</i>						
Electricity sales	153,997	136,679	299,106	261,849	301,579	305,844	316,370
Operating costs and expenses:							
Electricity purchases	60,978	56,588	123,044	207,716	196,151	186,618	130,055
Other costs of electricity sales	12,964	13,075	29,745	3,022	—	—	—
Transmission costs	1,465	1,753	3,553	4,202	11,207	9,932	11,603
Operating lease expense ⁽¹⁾	9,293	3,692	7,385	7,385	—	—	—
Operating and maintenance expenses	15,777	13,161	29,583	21,686	31,868	27,186	23,635
Depreciation and amortization	16,868	13,485	30,323	24,074	23,567	18,066	4,767
Management fee	3,151	2,887	6,092	5,829	5,642	4,858	19,808
Total operating costs and expenses	120,496	104,641	229,725	273,914	268,435	246,660	189,868
Operating income (loss)	33,501	32,038	69,381	(12,065)	33,144	59,184	126,502
Other (expenses) income:							
Interest income	37	97	135	955	2,268	3,701	1,613
Interest expense	(11,475)	(11,307)	(23,061)	(21,526)	(19,681)	(18,868)	(19,809)
Accretion expense	(27)	(26)	(53)	—	—	—	—
Other income(expenses), net ⁽²⁾	515	(14,581)	5,077	(6,030)	68	37,851	(204)
Equity earnings (loss) in investment in affiliate	1,670	1,915	5,242	5,387	(3,341)	—	—
Total other (expenses) income	(9,280)	(23,902)	(12,660)	(21,214)	(20,686)	22,684	(18,400)
Income (loss) before income tax	24,221	8,136	56,721	(33,279)	12,458	81,868	108,102
Income tax (expense) benefit	(6,589)	(1,585)	(13,772)	5,127	(8,573)	(22,144)	(28,363)
Net income (loss)	17,632	6,551	42,949	(28,152)	3,885	59,724	79,739
Other comprehensive income of affiliate	323	—	1,292	—	—	—	—
Total comprehensive income of the year ...	17,955	6,551	44,241	(28,152)	3,885	59,724	79,739

(1) For the six months ended June 30, 2016, U.S.\$5.6 million of this amount reflects changes associated with the fourth amendment to the Changuinola PPA signed on December 7, 2015, which set the power and energy prices contracted from 2023 to 2030 and impacted the straight line capacity payments under lease accounting. For the year ended December 31, 2014, the change was caused in its entirety by the conversion of the Changuinola PPA into a physical

- contract, which resulted in a reclassification of the agreement as an operating lease under our accounting policies.
- (2) For the six months ended June 30, 2015, represents a U.S.\$14.6 million payment of the premium and deferred financing costs in connection with the buyback of our 2016 Notes in 2015.

Balance Sheet Data

	As of June 30, (unaudited)	As of December 31,				
	2016	2015	2014	2013	2012	2011
	(U.S.\$ thousands)					
ASSETS						
Cash and cash equivalents	37,443	33,089	56,469	26,853	40,202	36,182
Accounts receivable:						
Trade	3,436	4,859	6,485	3,373	7,028	12,952
Related parties	60,273	57,790	54,521	34,479	45,896	45,193
Affiliates	5,269	6,818	3,643	11,556	39,275	83,731
Other	59	79	150	220	368	286
Total current assets	116,581	109,738	133,722	84,819	140,088	183,844
Total property, plant and equipment, net	423,160	432,212	426,603	404,926	428,692	385,338
Total non-current assets	78,523	78,433	62,854	48,968	10,599	10,506
Total Assets⁽¹⁾	618,264	620,383	623,179	538,713	579,379	579,688
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current liabilities						
Loans payable	—	—	53,186	—	237	231
Bonds payable, net	82,496	82,296	—	—	—	—
Accounts payable:						
Suppliers	10,818	23,478	21,323	13,941	11,994	18,348
Related parties	2,981	4,656	3,808	8,744	3,416	1,992
Affiliates	28,562	34,519	42,486	31,172	32,445	44,014
Total current liabilities	135,636	159,535	129,854	60,939	63,226	96,020
Loans payable	—	—	47,562	—	1,246	1,503
Accounts payable	717	267	267	267	—	—
Bonds payable, net ⁽¹⁾	295,024	294,688	298,226	297,259	296,448	295,686
Total non-current liabilities	343,621	339,833	388,112	344,443	338,802	319,346
Total stockholders' equity	139,007	121,015	105,213	133,331	177,351	164,322
Total liabilities and stockholders' equity	618,264	620,383	623,179	538,713	579,379	579,688

(1) As discussed in note 3 of our financial statements, due to changes in accounting standards applicable beginning in 2016, we reclassified certain items in a reduction in total assets and total liabilities for the amounts stated above as of and for the years ended December 31, 2013, 2014 and 2015 for the purpose of comparability with 2016.

Cash Flow Data

	Six months ended June 30, (unaudited)		Years ended December 31,				
	2016	2015	2015	2014	2013	2012	2011
<i>(U.S.\$ thousands)</i>							
Net cash provided by (used in) operating activities	13,405	24,365	83,020	(27,815)	23,783	78,187	60,904
Net cash used in investing activities	(9,051)	(13,098)	(33,459)	(43,317)	(344)	(29,392)	(17,736)
Net cash provided by (used in) financing activities	—	(17,213)	(72,941)	100,748	(36,788)	(44,775)	(53,263)

Other Financial Data (Unaudited)

	Six months ended June 30, (unaudited)		Years ended December 31,				
	2016	2015	2015	2014	2013	2012	2011
<i>(U.S.\$ thousands, except for ratios and percentages)</i>							
Adjusted EBITDA ⁽¹⁾	50,369	45,523	99,704	12,009	56,711	77,250	146,310
Adjusted EBITDA margin ⁽²⁾	32.7%	33.3%	33.3%	4.6%	18.8%	25.3%	46.2%
Adjusted EBITDA/interest expense ⁽³⁾	4.5	3.8	4.3	0.6	2.9	4.2	7.6
Total debt	377,520	397,450	376,984	398,974	297,259	298,832	300,315
Total debt/Adjusted EBITDA ⁽³⁾⁽⁴⁾	3.6	4.7	3.8	33.4	5.2	3.9	2.1
Total debt/capitalization ⁽⁵⁾	0.7	0.8	0.8	0.8	0.7	0.6	0.6

- (1) Adjusted EBITDA represents operating income (loss) plus depreciation and amortization. Adjusted EBITDA is a supplemental measure of our financial performance that is not required under, or presented in accordance with, U.S. GAAP. Adjusted EBITDA is presented because we believe that some investors find it to be a useful tool for measuring a company's financial performance. Adjusted EBITDA should not be considered as an alternative to, in isolation from, or as a substitute for analysis of our financial condition or results of operations, as reported under U.S. GAAP. Other companies in our industry may calculate EBITDA or Adjusted EBITDA differently than we have for purposes of this offering memorandum, limiting EBITDA's and Adjusted EBITDA's usefulness as a comparative measure. The definition of Adjusted EBITDA used here differs from the definition used in the "Description of the Notes" section (defined as "Consolidated EBITDA"). See "Description of the Notes."
- (2) Represents Adjusted EBITDA divided by total revenues.
- (3) Calculated using Adjusted EBITDA for the twelve months ended on the indicated date.
- (4) For the periods ended June 30, 2016 and 2015, the Adjusted EBITDA amount used in the ratio of Total debt/Adjusted EBITDA is Adjusted EBITDA for the twelve months ended to June 30, 2016 and 2015.
- (5) Represents total debt divided by the sum of total debt and total stockholders' equity.

Reconciliation of Adjusted EBITDA to Operating Income (Loss)

The following table provides a reconciliation of our Adjusted EBITDA to operating income (loss). For additional information regarding the use of Adjusted EBITDA, see "Presentation of Financial and Other Information."

	Six months ended June 30, (unaudited)		Years ended December 31,				
	2016	2015	2015	2014	2013	2012	2011
<i>(U.S.\$ thousands)</i>							
Operating income (loss)	33,501	32,038	69,381	(12,065)	33,144	59,184	126,502
Depreciation and amortization	16,868	13,485	30,323	24,074	23,567	18,066	19,808
Adjusted EBITDA	50,369	45,523	99,704	12,009	56,711	77,250	143,310

Operating and Other Data (Unaudited)

	Six months ended June 30,		Years ended December 31,		
	2016	2015	2015	2014	2013
Total installed capacity (MW)	554.0	554.0	554.0	482.0	482.0
Net generation (GWh)	752.1	726.8	1,512.3	1,150.0	1,426.0
Backup generation (GWh)	352.9	514.7	1,064.0	823.4	716.0
Equivalent availability (%)	80.2	89.5	85.1	96.6	95.0
Contractual volumes (GWh)	1,458.4	1,197.8	2,682.7	2,474.8	2,581.7
Net Spot market volumes (GWh)	(385.6)	(102.0)	(305.6)	(564.3)	(339.3)
Average spot price (U.S.\$/MWh)	66.3	99.1	91.1	217.1	211.4

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

The following discussion and analysis is derived from and should be read together with our historical financial statements and the notes thereto included elsewhere in this offering circular. The following discussion includes certain forward-looking statements. For a discussion of important factors, including the continuing development of our business, actions of regulatory authorities and competitors and other factors which could cause actual results to differ materially from the results referred to in the forward-looking statements, see "Forward-Looking Statements" and "Risk Factors."

Overview

We are the largest electricity generation company in Panama in terms of installed capacity based on information provided by the CND and believe we are the largest privately controlled hydroelectric company in Central America. Our total assets as of June, 2016 were U.S.\$618.3 million. Our electricity sales for the year ended December 31, 2015 were U.S.\$299.1 million, which consisted of U.S.\$269.9 million from sales under PPAs and U.S.\$29.2 million from spot market sales and regional exports and, for the six months ended June 30, 2016, amounted to U.S.\$154.0 million, which consisted of U.S.\$144.2 million from sales under PPAs and U.S.\$9.8 million from spot market sales.

Our electricity generation facilities are composed of five geographically diverse facilities (four hydroelectric plants and one thermal plant) that contain 16 generation units located in eastern and western Panama. Our revenues, which we call electricity sales, come from the sales of electricity under long-term bilateral contracts, or PPAs, spot market sales and regional exports. Our results of operations, financial condition and liquidity have been and will continue to be influenced by a variety of factors, including:

- hydrology and seasonality;
- our ability to dispatch power, particularly at optimal times in terms of pricing;
- transmission system capabilities;
- spot market energy prices;
- oil prices;
- our ability to meet our contractual obligations to generate electricity;
- the tariff and regulatory climate in Panama;
- our ability to sell through SIEPAC; and
- the demand for power in Panama and local macroeconomic conditions.

We derive substantially all of our revenues from the sale of electricity through firm capacity and energy supply agreements, spot market sales and regional market sales. We sell most of the electricity we generate to the Distribution Companies and to our Large Customers through firm capacity and energy supply agreements, with the remaining generation sold in the spot market and in the SIEPAC regional market through the MER. Currently, our firm capacity load is highly contracted with the Distribution Companies and Large Customers at a level in excess of 90% through 2018. Depending on electricity market conditions and our operational circumstances, high or low spot market prices for electricity can each affect our results of operations negatively or positively. If the electricity dispatched from our plants is less than the level we have contracted to provide or sell under our PPAs, we must purchase the difference in the spot market, or be subject to penalties of up to five times the price of the electricity we fail to deliver under the contract. This can negatively impact our results of operations because spot prices can be substantially higher than the average price at which we sell under our PPAs. Conversely, during periods when our actual generation is higher than our contracted capacity, we are able to sell our excess capacity into the spot market

at the then current spot market price and under these circumstances higher spot market prices generate more revenues and improve our operating results.

The Panamanian hydrology conditions in 2011 and 2012 allowed us to generate sufficient power to meet our contracted obligations under our PPAs and sell additional power on the spot market, which was reflected in our results of operations for those years. See "Selected Financial and Operating Information" for more information regarding our results of operations for years ended December 31, 2011 and 2012. However, during 2013 and 2014, Panama experienced one of its worst droughts in over 40 years which negatively impacted the ability of hydroelectric plants such as ours to generate electricity. This situation led to rationing alerts in both years as well as the implementation of energy saving measures by the Panamanian government. Although hydrology conditions in Panama improved during the first half of 2015 and are expected to improve during the second half of 2016, El Niño, which we experienced in Panama in the second half of 2015 and first half of 2016, negatively impacted hydrology conditions. As a result, hydrology conditions remain below the historical average but have nevertheless improved as compared to 2013 and 2014.

In addition, delays in construction and improvements to electricity transmission lines have resulted in bottlenecks in the transmission system that have limited the amount of energy that can flow from the western region of Panama to the main population center in Panama City. These bottlenecks have caused upward pressure on spot prices in the past. As a result of the bottlenecks leading up to 2015, regulators in Panama changed certain aspects of the way the market operates to mitigate the impact on operating cost for the overall system, including doubling the requirement for minimum reservoir water reserves (including at our Bayano reservoir). As a result of these actions by regulators, as well as poor hydrological conditions, our hydroelectric plants (particularly our reservoir-base facilities) were dispatched less frequently, and we were forced to purchase electricity in the spot market during a period of significantly higher prices in order to meet our contractual obligations under our PPAs, which negatively impacted our results of operations in 2013 and 2014. However, improved hydrology, especially in the first half of 2015, and decreasing commodities prices caused the spot price to decrease in 2015, softening the financial impact of our purchases in the spot market. As a result of these factors, in April 2014, Fitch downgraded our long-term debt rating from an investment grade of BBB- to a sub-investment grade rating of BB+. In July 2014, S&P downgraded its rating on our outstanding 2016 Notes from BB+ to BB-. In June 2015, Fitch reaffirmed our ratings at BB+ with a stable outlook and S&P reaffirmed its ratings of our 2016 Notes at BB- with a stable outlook.

In response to the negative impacts of low hydrology, delays in the upgrades to the transmission system and high spot market prices and, in line with our financial and market strategies, we took the following actions:

- negotiated an agreement with the Panamanian government to offset our high cost for purchases of energy in the spot market during 2014, 2015 and 2016;
- purchased the Estrella del Mar I thermal generation barge to diversify our generation assets away from solely hydroelectric power and hedge against the seasonality of hydrology; and
- replaced the initial physical contract with EGESA for Estrella del Mar I, with three five year financial PPAs with each of the three Distribution Companies, effectively extending our contracted capacity and energy by 5 months, and earning us an additional variable margin on sales of energy produced by Estrella del Mar I.

As a result of these actions, as well as improved hydrology conditions, our results of operations improved in 2015 and 2016.

Principal Factors Affecting Results of Operations

A number of principal factors affected our financial performance during fiscal years 2013, 2014 and 2015 and the six-month periods ended June 30, 2016 and 2015 including the Panamanian economy, the Panamanian electricity sector, hydrology and seasonality, our long-term contracts and the spot market, our maintenance of and improvements to our facilities and our purchase of Estrella del Mar I. These factors continue to affect our results of operations and financial performance and are discussed below.

Panamanian Economic Conditions

Our results of operations and financial condition depend on the Panamanian economy, inflation rates, interest rates, regulation, taxation, social instability, political unrest and other developments in or affecting Panama. In 2013, 2014 and 2015, Panama's economy registered growth of 8.4%, 6.2% and 5.8%, respectively. If the growth of the Panamanian economy continues to slow, it could adversely affect our results of operations and financial condition. Due to the small size and limited focus of the Panamanian economy, adverse developments in Panama (even developments affecting a single activity) could have a more pronounced effect than in a larger, more diversified economy.

The Panamanian Electricity Sector

We believe the Panamanian government, our largest equity holder, considers the electricity sector as vitally important to the continued economic growth of Panama. As the leading electricity generation company in Panama and given that the government is our majority equity holder, we believe the Panamanian government is committed to the success of AES Panamá and understands the importance of our generation assets to the Panamanian power sector. Accordingly, we believe the government has an interest in the continued success of AES Panamá as well as the Panamanian power generation sector.

Hydrology and Seasonality

Our results of operations are directly affected by hydrology, the amount of water that feeds into the rivers or reservoirs that supply our facilities, as well as seasonality. The wet season in Panama typically runs from May to December, and during those months our facilities (especially our run-of-river facilities) dispatch significantly more electricity. On the other hand, during the dry season, applicable regulation limits reservoir facilities like Bayano from being dispatched even though prices on the spot market might be higher and they may be a lower cost provider than thermal plants.

In 2013 and first quarter of 2014, spot prices were severely impacted by abnormally adverse hydrology and other factors. Since the second quarter of 2014, spot prices have significantly declined given the decline in oil prices and better year-over-year hydrological conditions. Because we typically access the spot market during the dry season, spot prices in December can be more relevant in terms of our cost. For the month of December 2014, the average spot price was U.S.\$127.5/MWh compared to U.S.\$212.6/MWh for the month of December 2013. The average all-in price with respect to our power purchase agreements was approximately U.S.\$90.70 per MWh in 2014 and U.S.\$96.96 per MWh in 2015. For a breakdown of average annual spot prices since 2010, see "Overview of The Panamanian Electricity Industry—The Spot Market—Spot Market for Energy."

Our Long-term Contracts and the Spot Market

Our contracted capacity, which is the portion of our firm capacity that we have contractually committed to make available to third parties including the Distribution Companies and Large Customers, reached 90.7%, 91.5% and 93.0% for the years ended December 31 2013, 2014 and 2015 respectively. The energy associated with our PPAs is calculated based on a percentage of the energy demanded by our clients and it has no relation to the energy generation capacity of our plants. The differences (shortages or surpluses) between our actual generation capacity and the contracted generation capacity are purchased or sold in the spot market from other Panamanian generation companies at the spot market price. This calculation is done on an hourly basis by the CND. When we are short, if the spot price exceeds the contract price, our results of operation are negatively impacted. Conversely, if we have a surplus to sell in the spot market and the prevailing energy spot prices are relatively high, our results of operations will be positively impacted. In 2013 and 2014, because of the dry hydrology conditions, we generated less electricity than our contracted amount, and as a result we were obligated to purchase additional electricity on the spot market. From 2013 through 2014, the spot market price of electricity in Panama remained high, from an average of U.S.\$211.43 per MWh in 2013 to U.S.\$217.05 per MWh in 2014; however, in 2015, the spot market price decreased to U.S.\$91.13 per MWh. The spot price continued to decrease to U.S.\$66.28 per MWh in the six months ended June 30, 2016 due to an improvement in hydrology and the reduction in oil prices globally. By contrast, the average all-in price with respect to our power purchase agreements was approximately U.S.\$96.96 per MWh in 2015, U.S.\$90.70 per MWh in 2014 and U.S.\$83.0 per MWh in 2013 and U.S.\$99.0 per MWh for the six months ended June 30, 2016. For a further discussion of the recent trend of spot market electricity prices for

electricity in Panama from 2013 through the six months ended June 30, 2016, see "Overview of the Panamanian Electricity Industry—System Operation." We have contracted to sell an average of 90% of our firm capacity through 2018 at which point we will have the option to allow certain of our PPAs to lapse, which would result in the reduction of the percentage of firm capacity we are obligated to sell.

Our PPAs represented approximately 93.0% of our firm capacity for 2015, 91.0% for 2014 and 93.0% for 2013. The slight increase in our firm capacity between 2014 and 2015 was related to the acquisition in 2015 of a new PPA for Estrella del Mar I that commits an additional 13 MW from our hydroelectric asset portfolio and to the renewal of certain PPAs with existing Large Customers. During 2015, our short-term excess capacity sales to other generators represented a total revenue of U.S.\$1.4 million as compared to U.S.\$2.7 million in 2014. These additional 13 MW of contracted capacity exceed the generation capacity of Estrella del Mar I. Even though our hydroelectric plants generate sufficient energy to cover the additional 13 MW, market regulations require that we maintain backup reserve contracts as evidence that we can cover that deficit. In June 2015, we entered into two 5-year reserve contracts with AES Changuinola, pursuant to which we sell 13 MW to AES Changuinola and AES Changuinola sells back those 13 MW to us at the same price and conditions. These contracts have a net zero effect on our and AES Changuinola's results.

The price terms contained in most of our hydro-based PPAs with the Distribution Companies and many of our Large Customers are fixed, with no indexation; however, our most recently-signed PPAs with Large Customers include inflation adjustments. The average all-in price under our hydro-based PPAs during 2015 was approximately U.S.\$84 per MWh, which was lower than the average spot market price of U.S.\$92 per MWh during the same period, which adversely affected our operating margins and profitability to the extent that we were required to purchase electricity on the spot market during that period to cover our obligations under our PPAs.

Our thermal-based PPAs, all of which are entered into with the Distribution Companies, incorporate fuel indexations in their contracted energy price calculation. Under these PPAs, operating margins result primarily from capacity payments, and we earn an additional, smaller margin from our contracted energy, which consists of (i) the difference between the energy price used to calculate energy costs under the PPAs and the actual cost of fuel used to run Estrella del Mar I when the plant is dispatched or (ii) the cost of spot market purchases for replacement energy when the plant is not dispatched. In 2015, our thermal-based PPAs contributed an additional operating margin of U.S.\$40 million in capacity and energy. If the price of the fuel we use to operate Estrella del Mar I drops below the reference price used to calculate the payments we receive for our contracted energy under these PPAs or if the spot price of replacement energy drops below the contract price of the energy we sell, we are not entitled to payments for contracted energy, which may negatively impact our results of operations.

Purchase of Estrella del Mar I

In July 2014, we purchased the Estrella del Mar I thermal generation barge to diversify our generation assets and hedge against the low hydrology and high spot prices we experienced in 2013 and 2014. Estrella del Mar I added 72 MW to our installed capacity. For a further discussion of Estrella del Mar I, see "Business—Power-Generating Facilities—Estrella del Mar I."

The total cost of Estrella del Mar I, including purchase price, upgrades, transportation and connection to the grid, was U.S.\$55.8 million. Estrella del Mar I was initially contracted through a five-year physical contract with EGESA. That contract with EGESA was terminated by mutual agreement on July 1, 2015 and replaced with three five-year financial PPAs with the three Distribution Companies. Although these three financial PPAs have the same term as our original physical contract with EGESA, they went into effect five months later, in effect extending our contracted capacity and energy by five months. Under the new financial PPAs, we expect to receive more than U.S.\$40 million per year for our capacity in addition to a variable energy margin based on the dispatch of the plant and in addition to a larger variable energy margin. For a discussion of the energy margin we earn under the Estrella del Mar I financial contracts, see "Business—Power Purchase Agreements—Power Purchase Agreements with Distribution Companies." Since the new PPAs are financial contracts, when Estrella del Mar I is not dispatched, we will realize an energy margin determined by the difference between the price at which the energy is sold under the PPA and the spot price associated with the replacement energy we purchase in the market. For further discussion on the purchase of Estrella del Mar I and its new PPAs, see "Business—Power Purchase Agreements—Power Purchase agreements with Distribution Companies."

The table below shows the installed capacity of our facilities as of the dates indicated below:

Facility and Unit	As of June 30,	As of December 31,		
	2016	2015	2014	2013
Bayano				
Unit 1.....	87.0	87.0	87.0	87.0
Unit 2.....	87.0	87.0	87.0	87.0
Unit 3.....	86.0	86.0	86.0	86.0
Total.....	260.0	260.0	260.0	260.0
Estí				
Unit 1.....	60.0	60.0	60.0	60.0
Unit 2.....	60.0	60.0	60.0	60.0
Total.....	120.0	120.0	120.0	120.0
Los Valles				
Unit 1.....	27.4	27.4	27.4	27.4
Unit 2.....	27.4	27.4	27.4	27.4
Total.....	54.8	54.8	54.8	54.8
La Estrella				
Unit 1.....	23.6	23.6	23.6	23.6
Unit 2.....	23.6	23.6	23.6	23.6
Total.....	47.2	47.2	47.2	47.2
Estrella del Mar I				
Total.....	72.0	72.0	0	0
Total AES Panamá.....	554.0	554.0	482.0	482.0
Changuinola				
Unit 1.....	106.2	106.2	106.2	106.2
Unit 2.....	106.2	106.2	106.2	106.2
Mini Chan.....	9.8	9.8	9.8	9.8
Total AES Changuinola.....	222.2	222.2	222.2	222.2

Source: CND Annual Reports for 2013, 2014 and 2015 and AES estimates for the six months ended June 30, 2016.

Electricity Sales

We earn revenues, which we call electricity sales, through the sale of electricity under long-term bilateral contracts, in the spot market and regional exports. In general, hydroelectric power is relatively low in cost compared to other methods of electricity generation. However, even though our hydroelectric facilities may be the lower cost provider, during periods of low hydrology as were experienced during 2013 and 2014, our facilities (especially our reservoir facilities) may not be dispatched by the regulator due to low inflows in the case of run of the river plants and rationing and other system concerns in the case of our reservoir plant, Bayano. In such instances, since we are not generating electricity to fulfill our capacity requirements under our PPAs with the Distribution Companies and the Large Customers, we must purchase electricity in the spot market and, as described above, if the spot price exceeds the contract price, our results will be negatively impacted. Furthermore, it is always possible that we will have to compete against lower cost producers, which could impact our profitability. Our revenues could also be negatively affected if our competitors introduce new technologies which could reduce their variable costs of hydroelectric generation which could result in a reduction in system energy prices. See "Risk Factors—Risks Related to Our Business—Changes in technology or increased electricity generating capacity could negatively affect our operating results" and "—Risks Related to Our Industry—New entrants to the market could present greater competition than we have historically faced." Our revenues are comprised of revenues derived from sales of electricity pursuant to PPAs and in the spot market. Our revenues from the electricity we sell by contract are the product of the contract price and contract quantity. Our revenues from the spot market are the difference between our actual dispatch quantity and our contract quantity multiplied by the spot market price, which is calculated on an hourly basis. The dispatch priority in Panama tends to be run-of-river facilities first (including Estí, La Estrella and Los Valles) followed by either reservoir plants, such as Bayano, or lower cost thermal plants, depending on the available cost of water.

Reimbursement Agreement with the Panamanian government

To reduce the impact of high spot market prices on hydroelectric companies due in part to the transmission bottleneck that resulted from inefficient management of the dispatch system and delays in expansion projects and in transmission line improvements, in 2013, among other measures, the Panamanian government began to negotiate compensation arrangements with the two hydroelectric companies affected, including us. Under our agreement with the Ministry of Finance of Panama, the government agreed to reimburse us for the difference between the cost at which we purchase energy in the spot market and the price at which we sell that energy under our PPAs with the Distribution Companies for an agreed quantity of 70 MW per hour, but subject to a maximum reimbursement of U.S.\$40 million in 2014 and U.S.\$30 million in each of 2015 and 2016. If this annual limit is reached, we bear the full cost of generating (or purchasing) the remainder of the contracted power for the rest the year, even if the costs continue to exceed the contracted sale prices. The period of time during which we are entitled to receive reimbursement under the agreement was intended to correspond to the date when the transmission line improvements are scheduled to be completed, although there is no assurance that the upgrades to the transmission system will be completed by the end of 2016. In 2014, we invoiced U.S.\$39.5 million and as of December 31, 2015 we have collected U.S.\$36.6 million in reimbursements, reducing the costs of our purchases of electricity. We invoiced but have not collected an additional U.S.\$5.8 million and U.S.\$0.9 million in 2015 and in the six months ended June 30, 2016, respectively. As of the date of this offering memorandum, the total amount we have invoiced the Panamanian government but have not collected was U.S.\$9.6 million. We do not expect to collect this amount until the Supreme Court issues a final ruling regarding the constitutionality of the compensation mechanism, which was challenged by the Comptroller in early 2015. If the resolution passed by the Panamanian government authorizing the reimbursement agreement is held to be unconstitutional, we will no longer be entitled to pending or future payments under the reimbursement agreement. See "Business—Legal Proceedings" for a discussion of this challenge. For a further discussion of this challenge to the reimbursement agreement see "Business—Reimbursement Agreement with the Panamanian government" for a further discussion of the reimbursement agreement generally. For a more detailed description of the current state of Panama's hydroelectric sector, see "Summary—The Current Panamanian Electricity Market."

Generation by Changuinola

Our affiliate, AES Changuinola, is the owner of the Changuinola plant. On March 9, 2007, we entered into a financial PPA with AES Changuinola for the purchase and sale of firm capacity and energy for a period of ten years. On June 25, 2012, we extended the term of the PPA until December 31, 2030. As a result of the extreme hydrological conditions in Panama, and in accordance with the terms of the PPA, on May 30, 2013, AES Changuinola requested a reduction in its supply commitments. As a result, and following negotiations with AES Changuinola, in August 2013, we amended the PPA from a financial contract to a physical contract. As a result of this amendment, during 2014 we needed to buy more electricity in the spot market at higher prices than we would have otherwise paid to AES Changuinola under the original arrangement. On November 25, 2013, we capitalized an account receivable from AES Changuinola in the amount of U.S.\$63.2 million into a 20% equity interest in the corporate capital of AES Changuinola. In December 2015, we entered into a fourth amendment through which we set a fixed price for all of the energy we purchase from the Changuinola plant until the contract expires in 2030.

As part of the business strategy of AES Changuinola, we are its sole interface with the market, since it conducts all of its sales and purchases of energy through us. This means that we both buy energy from and sell energy to AES Changuinola. We account for (i) the revenues we generate from amounts we were paid by Changuinola through 2013 (when the PPA was a financial contract) to purchase electricity on the spot market on their behalf as electricity sales, (ii) the costs of our electricity purchases from Changuinola, as expenses from electricity purchases and (iii) income (loss) from our ownership interest as equity earnings (loss) in affiliate.

Results of Operations

The following discussion should be read in conjunction with and is qualified in its entirety by reference to our financial statements and related notes thereto which have been prepared in accordance with U.S. GAAP.

Six months ended June 30, 2016 Compared to the six months ended June 30, 2015

Electricity Sales

Our electricity sales increased U.S.\$17.3 million, or 12.7%, from U.S.\$136.7 million for the six months ended June 30, 2015 to U.S.\$154.0 million for the six months ended June 30, 2016. For the six months ended June 30, 2016, we earned U.S.\$144.2 million from PPAs and U.S.\$9.8 million from sales in the spot market, while in 2015, we earned U.S.\$123.2 million from PPAs and U.S.\$13.5 million from sales at higher prices in the spot market. The increase in electricity sales mainly resulted from the following:

- U.S.\$18.7 million from PPA sales mainly from Estrella del Mar I which commenced operations on March 25, 2015;
- U.S.\$2.8 million from higher sales to AES Changuinola mainly associated with the capacity reserve contract for a period of five years, beginning in July 1, 2015 (see "Business—Generation Highlights" for a discussion of this capacity reserve contract); and
- U.S.\$1.7 million from higher auxiliary services in 2016 than 2015 mainly from the non-economic dispatch of the Bayano plant.

These increases in sales were partially offset by the following decreases:

- U.S.\$5.4 million from lower spot sales, of which U.S.\$4.6 million was attributable to lower sales volumes (78 GWh in 2015 as compared to 43 GWh in 2016) due to lower generation due to the effect of El Niño on hydrology conditions in the six months ended June 30, 2016 and U.S.\$0.8 million attributable to lower sales prices (U.S.\$128.3/MWh in 2015 as compared to U.S.\$109.3/MWh in 2016); and
- U.S.\$0.5 million from lower PPA sales by our hydroelectric plants in 2016 as compared to 2015.

Operating Costs and Expenses

Our operating costs and expenses increased U.S.\$15.9 million, or 15.2%, from U.S.\$104.6 million for the six months ended June 30, 2015 to U.S.\$120.5 million for the six months ended June 30, 2016. Our operating costs and expenses were comprised of the following items:

	Six months ended June 30, (unaudited)	
	2016	2015
	<i>(U.S.\$ thousands)</i>	
Electricity purchases.....	60,978	56,588
Other costs of electricity sales	12,964	13,075
Transmission costs	1,465	1,753
Operating lease expense	9,293	3,692
Operating and maintenance expenses	15,777	13,161
Depreciation and Amortization	16,868	13,485
Management fee	3,151	2,887
Total	120,496	104,641

Electricity purchases increased U.S.\$4.4 million, or 7.8%, from U.S.\$56.6 million for the six months ended June 30, 2015 to U.S.\$61.0 million for the six months ended June 30, 2016, mainly due to:

- U.S.\$10.4 million in increased purchases of electricity in the spot market (corresponding to 185.8GWh in 2015 as compared to 443GWh in 2016), of which U.S.\$6.1 million was attributable to the effect of El Niño on hydrology conditions in the six months ended June 30, 2016 resulting in decreased generation by our hydroelectric plants and U.S.\$4.3 million attributable to energy purchases in connection with Estrella del Mar I; and

- a decrease in the amount of the reimbursements received from the Government in accordance with the reimbursement agreement, from U.S.\$3.6 million for in the six months ended June 30, 2015 to U.S.\$0.9 million in the six months ended June 30, 2016 (see "Business—Legal Proceedings" for a discussion of a challenge to the constitutionality of the resolution passed by the Panamanian Government that authorizes the reimbursement agreement).

These increases were partially offset by lower energy purchases from AES Changuinola in 2016 as compared to 2015 resulting in a decreased expense of U.S.\$8.7 million, as a reflection of the decreased energy it produced due to the effect of El Niño on hydrology conditions in the six months ended June 30.

Other costs of electricity sales decreased U.S.\$0.1 million, from U.S.\$13.1 million for the six months ended June 30, 2015 to U.S.\$13.0 million for the six months ended June 30, 2016. Fuel purchases for Estrella del Mar I increased U.S.\$3.2 million, from U.S.\$8.2 million in 2015 to U.S.\$11.4 million in 2016 because Estrella del Mar I operated for six months in 2016 in contrast to three months during the first half of 2015. Additionally, during 2015, we recorded U.S.\$2.7 million in penalties in connection with fines assessed by EGESA due to a delay in the commercial operations date of Estrella del Mar I and U.S.\$0.5 million of lower other cost in 2016 as compared to 2015 related to variable transmission costs which are set on an annual basis.

Our fixed transmission costs decreased from U.S.\$1.8 million for the six months ended June 30, 2015 to U.S.\$1.5 million for the six months ended June 30, 2016, mainly due to lower transmission tariffs.

Our operating lease expense increased by U.S.\$5.6 million from U.S.\$3.7 million in 2015 to U.S.\$9.3 million in 2016, mainly in connection with the fourth amendment to the Changuinola PPA signed on December 7, 2015 (that sets the power and energy prices contracted from 2023 until 2030), which impacted the straight line capacity payments under lease accounting. The PPA is classified as an operating lease under our accounting policies and in accordance with Accounting Standards Codifications 840.

Our operating and maintenance expenses increased by U.S.\$2.6 million, or 19.9%, from U.S.\$13.2 million in 2015 to U.S.\$15.8 million in 2016, mainly as a result of six months of commercial operation of Estrella del Mar I in the first half of 2016 compared to three months of commercial operation during the first half of 2015, consisting of U.S.\$0.8 million for an increase in salaries, wages and benefits, U.S.\$1.0 million for an increase in service and maintenance contracts, and U.S.\$0.9 million for an increase in other operating and maintenance expenses.

Operating Income

For the reasons set forth above, our operating income increased U.S.\$1.5 million, or 4.6%, from U.S.\$32.0 million for the six months ended June 30, 2015 to U.S.\$33.5 million for the six months ended June 30, 2016.

Other (Expenses) Income

Our other (expenses) income consisted of the following line items:

	Six months ended June 30, (unaudited)	
	2016	2015
	<i>(U.S.\$ thousands)</i>	
Interest income	37	97
Interest expense	(11,475)	(11,307)
Accretion expense	(27)	(26)
Other (expenses) income, net	515	(14,581)
Equity earnings (loss) in affiliate	1,670	1,915
Total	(9,280)	(23,902)

Interest expense, net increased by U.S.\$0.2 million, or 1.5%, from U.S.\$11.3 million for the six months ended June 30, 2015 to U.S.\$11.5 million for the six months ended June 30, 2016, mainly because we had lower capitalized interest associated with the financing for the acquisition of Estrella del Mar I in the six months ended June 30, 2015.

In the six months ended June 30, 2016, we realized other income, net of U.S.\$0.5 million. In the six months ended June 30, 2015, we recorded other expense, net of U.S.\$14.6 million. This difference was the result of U.S.\$14.6 million in payments made in the six months ended June 30, 2015 corresponding to a premium and a write-off of deferred financing costs in connection with the buyback of U.S.\$217.3 million aggregate principal amount of our 2016 Notes in June 2015 (the "2016 Note Repurchase").

Equity earnings in investments in our affiliate decreased U.S.\$0.3 million from U.S.\$2.0 million for the six months ended June 30, 2015 to U.S.\$1.7 million for the six months ended June 30, 2016, mainly due to lower results of our affiliate AES Changuinola as a result of the effect of El Niño on hydrology conditions in the six months ended June 30, 2016.

Income Before Income Taxes

For the reasons set forth above, our income before income tax increased from an income of U.S.\$8.1 million for the six months ended June 30, 2015 to U.S.\$24.2 million for the six months ended June 30, 2016.

Income Taxes

We incurred an income tax expense of U.S.\$1.6 million for the six months ended June 30, 2015, which increased to U.S.\$6.6 million for the six months ended June 30, 2016, mainly due to higher taxable income for the six months ended June 30, 2016 than for the six months ended June 30, 2015. Our effective tax rate was 27.2% for the six months ended June 30, 2016 as compared to 19.5% for the six months ended June 30, 2015.

Net Income

For the reasons set forth above, our net income increased from U.S.\$6.6 million for the six months ended June 30, 2015 to U.S.\$17.6 million for the six months ended June 30, 2016.

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

Electricity Sales

Our electricity sales increased U.S.\$37.3 million, or 14.2%, from U.S.\$261.8 million for 2014 to U.S.\$299.1 million for 2015, mainly due to:

- U.S.\$58.5 million from PPAs sales mainly from Estrella del Mar I which commenced operations on March 25, 2015; and
- U.S.\$2.5 million from higher sales to AES Changuinola mainly associated with the capacity reserve contract for a period of five years, beginning in July 1, 2015 (see "Business—Generation Highlights" for a discussion of this capacity reserve contract).

These increases in sales were partially offset by:

- U.S.\$15.5 million from lower PPAs from hydroelectric plants, mainly as a result of lower average contract prices in 2015 (U.S.\$90.23/MWh in 2014 as compared to U.S.\$85.82/MWh in 2015);
- U.S.\$5.0 million from lower spot sales, due to lower average price in 2015 (U.S.\$179.73/MWh in 2014 as compared to U.S.\$144.08/MWh in 2015) caused by a decrease in international commodities prices; and
- U.S.\$3.3 million lower auxiliary services in 2015 mainly associated with higher must run compensation received during the first half of 2014 for required generation of Bayano plant.

Operating Costs and Expenses

Our operating costs and expenses decreased U.S.\$44.2 million or 16.1%, from U.S.\$273.9 million for 2014 to U.S.\$229.7 million for 2015. Our operating costs and expenses are composed of the following line items:

	Years ended December 31,	
	2015	2014
	<i>(U.S.\$ thousands)</i>	
Electricity purchases	123,044	207,716
Other costs of electricity sales	29,745	3,022
Transmission costs	3,553	4,202
Operating lease expense	7,385	7,385
Operating and maintenance expenses	29,583	21,686
Depreciation and Amortization	30,323	24,074
Management fee	6,092	5,829
Total operating costs and expenses	229,725	273,914

Our expense for purchases of electricity decreased U.S.\$84.7 million, or 40.8%, from U.S.\$207.7 million for 2014 to U.S.\$123.0 million for 2015, mainly due to:

- U.S.\$71.9 million related to better hydrology conditions in 2015, that resulted in higher generation by our hydroelectric plants (1,111 GWh in 2014 as compared to 1,172 GWh in 2015), reducing the need to purchase electricity in the spot market;
- U.S.\$65.4 million associated with spot prices, which decreased 61.2% in 2015 as compared to 2014, mainly because of the decrease of the international prices of commodities; and
- U.S.\$9.1 million due to the purchase of electricity in 2014 from our affiliate in El Salvador, AES CLESA y Cia, Sociedad en Comandita de Capital Variable, and its affiliate Empresa Eléctrica de Oriente, S.A. de C.V., through the regional market as a way to take advantage of lower energy prices than in the local spot market.

These decreases in expenses were partially offset by:

- an increase in energy purchases related to our contract with AES Changuinola, which increased 34.0%, from U.S.\$65.2 million in 2014 to U.S.\$87.4 million in 2015 as a result of higher generation by AES Changuinola due to better hydrology conditions in 2015;
- a decrease in reimbursements received pursuant to our reimbursement agreement with the Panamanian Government from U.S.\$39.5 million in 2014 to U.S.\$5.8 million in 2015 (see "Business—Legal Proceedings" for a discussion of a recent challenge to the constitutionality of the resolution passed by the Panamanian Government that authorizes the reimbursement agreement); and
- U.S.\$5.7 million in energy purchases made in 2015 in connection with the Estrella del Mar PPAs, which were not in effect in 2014.

Others costs of electricity sales increased U.S.\$26.7 million, from U.S.\$3.0 million for 2014 to U.S.\$29.7 million for 2015, mainly due to fuel costs and generation costs associated with the barge Estrella del Mar I, which commenced operations on March 25, 2015.

Our transmission costs decreased U.S.\$0.6 million, or 15.4%, from U.S.\$4.2 million for 2014 to U.S.\$3.6 million for 2015, mainly due to periodic adjustments made to the transmission tariff.

In 2015 and 2014, we incurred operating lease expense, totaling U.S.\$7.4 million due to the conversion of the AES Changuinola PPA into a physical contract in 2014, which resulted in a classification of the agreement as an operating lease under our accounting policies and U.S. GAAP.

Our operating and maintenance expenses increased U.S.\$7.9 million, or 36.4%, from U.S.\$21.7 million for 2014 to U.S.\$29.6 million for 2015, mainly as a result of the commencement of operations of Estrella del Mar I on March 25, 2015, of which U.S.\$4.7 million was attributable to salaries, wages and benefits, U.S.\$1.4 million to

service and maintenance contracts, U.S.\$0.6 million to insurance, U.S.\$0.2 million to advisory and professional fees, and U.S.\$0.9 million to other operating and maintenance expenses.

Our depreciation expenses increased 26%, from U.S.\$24.1 million for 2014 to U.S.\$30.3 million for 2015, mainly as a result of the depreciation of Estrella del Mar I and the amortization of intangible assets recorded in 2015 as a result of the accounting treatment given to a U.S.\$20 million payment made to Erryl Capital Inc. and International Electric Power, LLC in 2015, for the acquisition of the three PPAs with the Distribution Companies that replaced the PPA with EGESA.

Our management fee with AES Solutions LLC, a subsidiary of AES, increased 4.5% from U.S.\$5.8 million in 2014 to U.S.\$6.1 million in 2015. Our Board of Administrators approves the yearly management fee every six months based on the services rendered by AES management personnel employed by our affiliates but not included in our payroll, as adjusted for inflation. The fee under the agreement must equal at least U.S.\$4.0 million a year.

Operating Income

For the reasons set forth above, our operating income increased U.S.\$81.4 million from a loss of U.S.\$12.1 million for 2014 to an income of U.S.\$69.4 million for 2015.

Other (Expenses) Income

Our other (expenses) income consisted of the following line items:

	Years ended December 31,	
	2015	2014
	<i>(U.S.\$ thousands)</i>	
Interest income.....	135	955
Interest expense.....	(24,091)	(22,170)
Accretion expense.....	(53)	-
Other income (expenses), net.....	5,077	(6,030)
Equity earnings in investment in affiliate.....	5,242	5,387
Total other expenses, net.....	(12,660)	(21,214)

Our interest income decreased 85.9%, from U.S.\$1 million for 2014 to U.S.\$0.1 million for 2015, because we sold the receivables from Oficina de Electrificación Rural (OER) to Banco Panamá, S.A. in December 2014; therefore no interest income related to those receivables was earned in 2015.

Interest expense increased 7.1%, from U.S.\$21.5 million for 2014 to U.S.\$23.1 million for 2015, as a result of interest payable under the Estrella del Mar I Loan, which was paid during 2015. In addition, in June 2015, we repurchased U.S.\$217.3 million aggregate principal amount of our 2016 Notes in connection with the 2016 Note Repurchase and issued U.S.\$300 million aggregate principal amount of Outstanding Notes. The increase in the amortization of deferred financing costs is associated with the deferred financing costs of the Outstanding Notes.

In connection with the asset retirement obligation generated by the land lease with Refinería Panamá, S.R.L., for the operation of Estrella del Mar I, we recognized an accretion expense of U.S.\$0.1 million.

In 2015, we realized other income of U.S.\$5.1 million. In 2014, our other expenses, net resulted in expenses of U.S.\$6.0 million. This difference was mainly due to U.S.\$20.0 million recorded in 2015 as compensation received for the unilateral termination of our PPA with EGESA. Additionally, in 2014, we recognized an expense of U.S.\$7.5 million in connection with the payment for the Bontex Settlement, which was partially offset in 2015 by (i) the payment of the premium, deferred financing costs and debt discount of U.S.\$14.6 million related to the redemption of our 2016 Notes and (ii) U.S.\$1.7 million in other expenses.

The equity earnings in investments in affiliates decreased 2.7%, from U.S.\$5.4 million in 2014 to U.S.\$5.2 million in 2015, mainly due to lower results at AES Changuinola during 2015, associated with El Niño.

Income Before Income Taxes

For the reasons set forth above, our income before income tax increased from a loss of U.S.\$33.3 million in 2014 to an income of U.S.\$56.7 million in 2015.

Income Taxes

Our income tax expense increased from a tax benefit of U.S.\$5.1 million for the year ended December 31, 2014 to a tax expense of U.S.\$13.8 million for the year ended December 31, 2015, mainly due to 2015 taxable income that generated income tax expense. In 2014, we had tax loss.

Net Income

For the reasons set forth above, our net income grew from a loss of U.S.\$28.2 million in 2014 to a net income of U.S.\$42.9 million in 2015.

Year Ended December 31, 2014 Compared to the Year Ended December 31, 2013

Electricity Sales

Our electricity sales decreased U.S.\$39.7 million, or 13.2%, from U.S.\$301.6 million for 2013 to U.S.\$261.8 million for 2014. In 2014, we earned U.S.\$224.3 million from PPAs and U.S.\$37.5 million from sales in the spot market, while in 2013, we earned U.S.\$267.4 million from PPAs and U.S.\$34.2 million from sales at higher prices in the spot market. The decrease in electricity sales was mainly due to a decrease in sales in the spot market of electricity generated by AES Changuinola in the amount of U.S.\$53.1 million, corresponding to 250GWh. This decrease was due to the modification of the underlying PPA from a financial contract to a physical contract in the fourth quarter of 2013, following which we began buying from AES Changuinola (and therefore selling to the market) only the electricity it generated at contract prices that at that time were significantly less than spot prices.

This decrease was partially offset by increases in our sales under other PPAs totaling U.S.\$10.1 million, sales of our own electricity in the spot market totaling U.S.\$1.9 million and auxiliary services billing of U.S.\$1.4 million.

Operating Costs and Expenses

Our operating costs and expenses increased U.S.\$5.5 million or 2.0%, from U.S.\$268.4 million for 2013 to U.S.\$273.9 million for 2014. Our operating costs and expenses are composed of the following line items:

	Years ended December 31,	
	2014	2013
	<i>(U.S.\$ thousands)</i>	
Electricity purchases	207,716	196,151
Other costs of electricity sales	3,022	—
Transmission costs	4,202	11,207
Operating lease expense	7,385	—
Operating and maintenance expenses	21,686	31,868
Depreciation and Amortization	24,074	23,567
Management fee	5,829	5,642
Total	273,914	268,435

Our expense for purchases of electricity increased U.S.\$11.6 million, or 5.9%, from U.S.\$196.2 million for 2013 to U.S.\$207.7 million for 2014, mainly due to:

- increased purchases of electricity in the spot market of U.S.\$35.8 million (corresponding to 571GWh in 2013 as compared to 711GWh in 2014), due to the more adverse hydrology conditions prevailing in 2014 that limited the electricity we could generate and to the change in

our contract with Changuinola which required us to purchase more energy in the spot market, as well as the higher spot market price of electricity in 2014;

- the purchase of electricity in 2014 from our affiliate in El Salvador, AES CLESA y Cia, Sociedad en Comandita de Capital Variable, and its affiliate, Empresa Eléctrica de Oriente, S.A. de C.V., for U.S.\$9.1 million through the regional market as a way to take advantage of lower energy prices than in the local spot market; and
- the receipt in 2013 of U.S.\$31.3 million from the EPC contractor in connection with the Estí tunnel collapse settlement.

These increases in expenses were partially offset by:

- in 2014, the Company recorded U.S.\$39.5 million in connection with the reimbursement agreement from the Panamanian government, reducing purchases of electricity (see "Business—Legal Proceedings" for a discussion of a recent challenge to the constitutionality of the resolution passed by the Panamanian government that authorizes the reimbursement agreement); and
- the purchase of less energy from AES Changuinola in 2014 resulting in a decrease of U.S.\$25.2 million in expenses due to the change in the contractual terms of our PPA and the more adverse hydrology conditions in 2014.

Other costs of electricity sales were U.S.\$3.0 million for 2014 due to a new variable portion of the new transmission tariff introduced by the Government in 2014, which is recorded as other costs of electricity sales. Before 2014, all transmission costs were reflected in the transmission cost line of our statement of comprehensive income.

Our transmission costs decreased U.S.\$7.0 million, or 62.5%, from U.S.\$11.2 million for 2013 to U.S.\$4.2 million for 2014, mainly due to a new transmission tariff structure introduced by the government in 2014, that reduced overall transmission costs by U.S.\$4.0 million, and a U.S.\$3.0 million reduction due to a classification of a portion of the transmission costs under purchases of electricity.

In 2014, we incurred operating lease expense for the first time, totaling U.S.\$7.4 million due to the modification of the Changuinola PPA to a physical contract, which resulted in a classification of the agreement as an operating lease under our accounting policies and in accordance with Accounting Standards Codifications 840.

Our operating and maintenance expenses decreased U.S.\$10.2 million, or 32.0%, from U.S.\$31.9 million for 2013 to U.S.\$21.7 million for 2014, due to advisory and professional fees mainly in connection with the Estí tunnel claim during 2013 which contributed to a U.S.\$3.1 million decrease, a U.S.\$3.6 million decrease in salaries and wages mainly as a result of a reorganization at the Company, a U.S.\$1.4 million decrease in maintenance and additionally a U.S.\$1.0 million decrease in insurance expense.

Our depreciation expenses increased 2.2%, from U.S.\$23.6 million for 2013 to U.S.\$24.1 million for 2014.

Our management fee with AES Solutions LLC, a subsidiary of AES, increased 3.3% from U.S.\$5.6 million for 2013 to U.S.\$5.8 million for 2014. Our Board of Administrators determines the yearly management fee every six months based on the rate of inflation. The fee under the agreement must equal at least U.S.\$4.0 million a year.

Operating Income

For the reasons set forth above, our operating income decreased U.S.\$45.2 million from an income of U.S.\$33.1 million for 2013 to a loss of U.S.\$12.1 million for 2014.

Other (Expenses) Income

Our other (expenses) income consisted of the following line items:

	Years ended December 31,	
	2014	2013
	(U.S.\$ thousands)	
Interest income	955	2,268
Interest expense	(21,526)	(19,681)
Other (expenses) income, net	(6,030)	68
Equity earnings (loss) in investment in affiliate	5,387	(3,341)
Total	(21,214)	(20,686)

Our interest income decreased 57.9%, from U.S.\$2.3 million for 2013 to U.S.\$1 million for 2014, due to the acquisition in November 2013 of a 20% equity interest in AES Changuinola through the capitalization of an account receivable from AES Changuinola that previously generated interest income.

Interest expense increased 9.1%, from U.S.\$19.7 million for 2013 to U.S.\$21.5 million for 2014, as a result of the execution of the Estrella del Mar I Loan and an increase in drawings under our working capital lines of credit and in the amortization of deferred financing cost.

For 2014, our other expenses, net resulted in expenses of U.S.\$6.0 million. In 2013, we realized income of U.S.\$0.1 million. This difference was mainly due to U.S.\$7.5 million recorded in 2014 in connection with the Bontex Settlement, as described above, partially offset by increases in management fees received from AES Changuinola in the amount of U.S.\$0.5 million and in other income in the amount of U.S.\$0.3 million.

In 2014, we recorded equity earnings in investments in our affiliate of U.S.\$5.4 million, an increase from a loss of U.S.\$3.3 million in 2013 mainly due to better results at AES Changuinola during 2014.

Income Before Income Taxes

For the reasons set forth above, our income before income tax was U.S.\$12.5 million for 2013. In 2014 we incurred a loss before income tax of U.S.\$33.3 million.

Income Taxes

Our income tax expense decreased from U.S.\$8.6 million for the year ended December 31, 2013 to a tax benefit of U.S.\$5.1 million for the year ended December 31, 2014, mainly due to increased tax loss carry forwards in 2014 and a higher effective tax rate for 2013 (68.8%).

Net Income

For the reasons set forth above, our net income was U.S.\$3.9 million for 2013. We recorded a net loss U.S.\$28.2 million in 2014.

Liquidity and Capital Resources

Our principal sources of liquidity are available cash, cash flows from operations and lines of credit with Banco de Nova Scotia (Panamá) S.A., Banco Panamá, S.A., Banistmo, S.A., and BAC International Bank, S.A. As of June 30, 2016, we had cash and cash equivalents of U.S.\$37.4 million. Our cash flow from operations for the six months ended June 30, 2016 was U.S.\$13.4 million. Historically, we have used cash primarily to fund operating cost and expenses, capital expenditures for property, plant equipment and to service our indebtedness. We believe that our sources of liquidity should be sufficient to satisfy our operating costs and expenses, capital expenditures and debt service obligations for the foreseeable future.

Cash and Cash Equivalents

As of June 30, 2016, we had cash and cash equivalents of U.S.\$37.4 million and U.S.\$2.6 million in our restricted cash account associated with the 2016 Notes. As of December 31, 2015, we had cash and cash equivalents of U.S.\$33.1 million and U.S.\$2.6 million in our restricted cash account related to the 2016 Notes. As of December 31, 2014, we had cash and cash equivalents of U.S.\$56.5 million and U.S.\$9.8 million in our restricted cash account related to the 2016 Notes. As of December 31, 2013, we had cash and cash equivalents of U.S.\$26.9 million and U.S.\$9.8 million in our restricted cash account related to the 2016 Notes.

Cash Flows from Operating Activities

Net cash provided by operating activities decreased from U.S.\$24.4 million for the six months ended June 30, 2015 to U.S.\$13.4 million for the six months ended June 30, 2016, mainly due to an increase in cash used in accounts payable of U.S.\$20.0 million due to higher payments to vendors, offset by an increase in cash provided by a U.S.\$10.8 million change in accounts receivable, as a result of greater collections from sales.

Net cash provided by operating activities increased from U.S.\$27.8 million used in operating activities in 2014 to U.S.\$83.0 million provided by operating activities in 2015, mainly due to:

- an increase in net income from a net loss of U.S.\$28.2 million for 2014 to a net income of U.S.\$42.9 million for 2015;
- U.S.\$5.1 million in dividends received from our affiliate AES Changuinola in 2015; and
- positive adjustments reconciling net income to net cash provided by operating activities, as a result of the addback of a U.S.\$14.6 million non-cash loss following a debt repayment and of a U.S.\$17.2 million income tax deferral.

Net cash provided by operating activities decreased from U.S.\$23.8 million in 2013 to cash used in operating activities of U.S.\$27.8 million in 2014, mainly due to a decrease in net income from net income of U.S.\$3.9 million for 2013 to a loss of U.S.\$28.2 million for 2014.

Cash Flows from Investing Activities

Net cash used in investing activities decreased from U.S.\$13.1 million for the six months ended June 30, 2015 to U.S.\$9.1 million for the six months ended June 30, 2016, mainly due to decreased investment in construction and in costs for the acquisition of fixed assets in connection with Estrella del Mar I.

Net cash used in investing activities decreased from U.S.\$43.3 million in 2014 to U.S.\$33.5 million in 2015, due to (i) a U.S.\$16.4 million decrease in capital expenditures in connection with Estrella del Mar I and (ii) a U.S.\$7.2 million reduction in restricted cash due to the 2016 Notes Repurchase. These decreases were offset by a cash use of U.S.\$13.5 million related to our acquisition of the three PPAs for Estrella del Mar I.

Net cash used in investing activities increased from U.S.\$0.3 million for 2013 to U.S.\$43.3 million for 2014 mainly due to capital expenditures related to Estrella del Mar I.

Cash Flows from Financing Activities

For the six months ended June 30, 2016, we had no cash flows from financing activities. For the six months ended June 30, 2015, our net cash used in financing activities was U.S.\$17.2 million, due primarily to the net effect of U.S.\$300.0 million in proceeds received from the issuance of the Outstanding Notes and U.S.\$20.0 million in drawings upon lines of credit as described below under "—Indebtedness," offset by:

- a U.S.\$217.3 million payment related to the 2016 Notes Repurchase;
- U.S.\$49.1 million in repayments for the Estrella del Mar I Loan;
- U.S.\$52.9 million in repayments of lines of credit; and

- U.S.\$17.9 million in premium and deferred financing costs associated with the Outstanding Notes.

Net cash provided by financing activities decreased U.S.\$173.7 million from U.S.\$100.7 million in cash provided in 2014 to U.S.\$72.9 million in cash used in 2015, due primarily to U.S.\$300.0 million in proceeds received from the issuance of the Outstanding Notes as described below under "—Indebtedness," offset by:

- a U.S.\$217.3 million expense related to the 2016 Note Repurchase;
- a U.S.\$204.6 million change in the balances due under the Estrella del Mar I loan and our lines of credit following drawings made in 2014 and repayments made in 2015;
- a U.S.\$16.8 million change in premium and deferred financing costs related to the Outstanding Notes;
- a U.S.\$28.5 million dividend payment made in 2015; and
- a U.S.\$6.5 million payment related to the acquisition of the three PPAs for Estrella del Mar I.

Net cash provided by financing activities increased from U.S.\$36.8 million in net cash used in 2013 to U.S.\$100.7 million in net cash provided in 2014, primarily due to a U.S.\$28.5 million dividend payment we made in 2013 and U.S.\$137.3 million in loan proceeds we received in 2014 as described below under "—Indebtedness," offset by U.S.\$35.0 million in loan repayments made in 2014.

Indebtedness

As of June 30, 2016, our total outstanding indebtedness was U.S.\$377.5 million, consisting of U.S.\$82.7 million of short-term indebtedness and U.S.\$300.0 million of long-term indebtedness, excluding U.S.\$5.1 million in associated deferred financing costs. As of June 30, 2016, we had U.S.\$0.4 million of interest payable on our total outstanding indebtedness. We have been in compliance with all of our financial covenants under our outstanding indebtedness.

Short-Term Indebtedness

As of December 31, 2015 and June 30, 2016, we had U.S.\$82.3 million and U.S.\$82.5 million, respectively, in outstanding short-term indebtedness, which consisted of the current portion of the 2016 Notes, net of debt discount and deferred financing costs.

Long-Term Indebtedness

As of June 30, 2016, the long-term indebtedness reported on our balance sheet was U.S.\$295.0 million, which consisted of the Outstanding Notes, net of debt discount and deferred financing costs. The long-term indebtedness reported on our balance sheet decreased from U.S.\$345.8 million as of December 31, 2014 to U.S.\$294.7 million as of December 31, 2015, mainly due to the repayment of principal under the Estrella del Mar I Loan.

The long-term indebtedness reported on our balance sheet decreased from U.S.\$345.8 million as of December 31, 2014 to U.S.\$294.7 million as of December 31, 2015, mainly due to the repayment of principal under the Estrella del Mar I Loan.

2016 Notes

In 2006, we issued U.S.\$300 million of our 6.35% Senior Notes due 2016. In a cash tender offer (as repayment) and related consent solicitation, we repurchased U.S.\$217.3 million aggregate principal amount of our 2016 Notes, which we settled on June 18, 2015.

Dividends and Dividend Policy

We did not make any dividend payments in the six months ended June 30, 2016. We paid U.S.\$28.5 million in 2015, we did not pay any dividends in 2014, but paid U.S.\$28.5 million in 2013. For information about dividends paid after June 30, 2016, see "Summary—Recent Developments." Dividends for each year are declared at a meeting of the equity holders in the following fiscal year. The equity holders may decide to declare a dividend based on, among other factors, current and projected operating results, debt service requirements and expected capital expenditures in compliance with covenants under our debt agreements. The Indenture governing the Notes will limit, but not prohibit, us from paying dividends on our capital stock. See "Description of the Notes—Certain Covenants—Restricted Payments."

Contractual Commitments and Capital Expenditures

Contractual Commitments

The following table summarizes our significant contractual obligations and commitments as of June 30, 2016:

	Payments Due by Period			Total
	Less than One Year	One to Five Years	More than Five Years	
(U.S.\$ thousands)				
Accounts payable	42,361	-	-	42,361
2016 Notes	82,704	-	-	82,704
Outstanding Notes	-	-	300,000	300,000
Interest payable	20,626	72,000	27,000	119,626
Accrued expenses and other liabilities.....	4,621	-	-	4,621
Operating lease.....	17,886	71,544	169,917	259,347
Operating lease contract - land.....	960	2,640	-	3,600
Fuel purchase contract.....	20,518	21,582	-	42,100
Management fee ⁽¹⁾	4,000	6,000	-	10,000
Total	193,675	173,766	496,917	864,358

(1) Reflects contractual minimum required to be paid, however in the past the management fee actually paid has exceeded such minimum. For more detail regarding the management fees we have paid, see "Related Party Transactions—Administrative Agreement and Management Fee".

Capital Expenditures

We invested U.S.\$26.9 million in 2015, U.S.\$43.3 million in 2014 and U.S.\$3.9 million in 2013 in capital projects. Our capital expenditures in 2015 and 2014 were comprised primarily of expenditures for the establishment and development of Estrella del Mar I and machinery and equipment. In 2013 and 2012, our capital expenditures were focused on major maintenance at Bayano and repairs with respect to the Estí tunnel collapse, respectively.

Our total budgeted capital expenditures are estimated to be approximately U.S.\$10.3 million for 2016, U.S.\$8.8 million of which was incurred in the six months ended June 30, 2016, and U.S.\$15.1 million for 2017. The 2016 and 2015 expenditures are directly related to the second phase of repowering of the Chiriquí facility (which consists of the Estrella, Estí and Los Valles facilities), an energy storage project and the last of the disbursements related to the installations and start of operation of Estrella del Mar I.

Off-balance Sheet Arrangements

As of June 30, 2016, we have contracted certain obligation in connection with our concession contracts and purchases of energy. We maintain contract performance guarantees for U.S.\$76.8 million to guarantee the obligations under our PPAs with the Distribution Companies. We also maintain contract performance guarantees under our concession agreements for U.S.\$28.0 million, each in favor of two regulators (*Autoridad Nacional de los Servicios Públicos* and the *Contraloría General de la República de Panamá*), which guarantee our compliance with the terms of the concession. We typically secure these obligations by using yearly renewable performance guarantees, which qualify as off-balance arrangements because they are granted by a third-party under unsecured

reimbursement obligations. The use of performance guarantees is less expensive for us than the alternative of posting an all cash guarantee.

As of June 30, 2016, we also maintain stand-by letters of credit for U.S.\$7.1 million to guarantee spot market payments and for U.S.\$0.1 million for purchases in the regional market, U.S.\$3.0 million for fuel purchases for Estrella del Mar I and U.S.\$9.0 million for interest payments under the Outstanding Notes. In addition, we maintain guarantees for transmission services payments in favor of ETESA for an aggregate U.S.\$0.8 million.

In June 2016, we granted a U.S.\$30.1 million unconditional and irrevocable guarantee in favor of Gas Natural Atlántico II, S.R.L, our affiliate, for payments of principal and interest on a U.S.\$60.0 million loan obtained by it for the construction of the transmission line required by the system to support natural gas generation growth projects in the province of Colon in return for a fee of 1.5% of the guaranteed amount (or U.S.\$0.5 million).

Quantitative and Qualitative Disclosure About Market Risk

We are exposed to specific risks in the conduct of our business and the business environment in which we operate. These risks include, or have historically included, exposure to derivative transactions, liquidity, interest rates, inflation, and customer credit risks arising in the normal course of our business. Generally, our overall objective is to ensure that we understand, measure and monitor these various risks and take appropriate actions to minimize our exposure to such risks. Our policies for managing each of these risks are described below.

Liquidity Risk

We have adopted liquidity risk management practices that are intended to maintain sufficient cash and liquid financial assets. We maintain short-term financing lines with financial institutions in Panama that provide us with the required operational flexibility to comply with our electricity purchases and other obligations. For more information see "—Liquidity and Capital Resources."

Interest Rate Risk

We have short-term and long-term debt which subjects us to the risk of higher interest rates to the extent that rates expressed in variable rates are based on LIBOR.

We do not enter into interest rate hedges or similar financial instruments for trading or speculative purposes.

Foreign Currency Risk

Our financial statements are expressed in U.S. dollars. Our revenues and borrowings and other obligations are denominated in U.S. dollars. Accordingly, we do not face any significant foreign currency risk and we do not use foreign currency swaps to hedge against foreign currency risks.

Inflation Risk

Inflation in Panama is measured by the CPI variation, which is computed by the National Bureau of Statistics and Census (*Dirección General de Estadística y Censos*) a specialized unit within the Comptroller General office, using a standard basket of goods and services. The basket uses the 2007-2008 price level as the basis for determining the CPI and is affected, primarily, by the prices of food staples (fruits and vegetables, basic grains such as corn, rice and beans, and others), which comprise 22.4% of the total weight of the basket.

The table below sets forth the rate of inflation in Panama as measured by the CPI for the periods presented.

Inflation

	Years ended December 31,				
	2015	2014	2013	2012	2011
Inflation.....	0.2%	2.6%	4.0%	5.7%	5.9%

Source: Contraloría General de la República de Panamá, Customer Prices Index for 2013-2015.

We believe that these levels of inflation do not significantly affect our results of operations or financial position.

Critical Accounting Policies

The accounting policies described below are significant to our business operations and the understanding of our results of operations, financial condition and liquidity. A critical accounting policy is one that is both important to the presentation of our financial condition and results of operations and requires management to make difficult, subjective or complex accounting estimates and assumptions. By their nature, these judgments are subject to an inherent degree of uncertainty. These judgments are based on our historical experience, our observance of trends in the industry, information with respect to our consumers, terms of existing contracts, and information available from other independent sources, as appropriate. We cannot assure you that our judgments will prove correct or that actual results reported in future periods will not differ from our expectations reflected in our accounting treatment of certain items.

We believe that the following accounting policies involve the application of critical accounting estimates. In order to provide an understanding about how we form our judgments and estimates about certain future events, including the variables and assumptions underlying the estimates of those judgments to different variables and conditions, we have included comments related to the following critical accounting policies under U.S. GAAP. For a more complete summary of our significant accounting policies, see note 3 to our audited financial statements included elsewhere in this offering memorandum.

Accounts receivable

Accounts receivable are shown at their nominal value less an allowance for uncollectible accounts. The allowance is estimated considering the customer and related parties billing records, the age of the balances due, as well as specific evaluations of individual balances. As of June 30, 2016 and December 31, 2015, there was no allowance for uncollectible accounts.

Property, Plant and Equipment

We state our property, plant and equipment at acquisition cost, less accumulated depreciation. Cost includes major expenditures for improvements and replacement, including critical replacement parts for the turbine generator units, which extend useful life or increase capacity. We charge our maintenance and repair costs to expenses as incurred. We include emergency and movable spare parts inventories in electricity generation facilities and depreciate them over the useful lives of the related components. We depreciate our assets using the straight-line method over their estimated useful life. The rates of depreciation we use are based on the following estimated useful lives:

Buildings	30 to 50 years
Generation equipment (including Estrella del Mar I)	15 to 50 years
Electrical equipment.....	5 to 50 years
Transmission equipment.....	35 years
Office furniture and equipment	3 to 20 years
Vehicles.....	3 to 8 years

Impairment of Long-lived Assets

We are required to periodically evaluate our long-lived assets, such as our generation facilities, property, plant and equipment, for impairment in accordance with the Statement of Accounting Standard Codification

No. 360, or ASC 360, "Accounting for the Impairment or Disposal of Long-Lived Assets," to determine whether any events or circumstances indicate that the carrying amount of the assets may not be recoverable. Examples of such events include a significant decrease in the market price of an asset, a significant adverse change in the manner an asset is being used or its physical condition and an accumulation of cost significantly in excess of the amount originally expected for the construction or acquisition of an asset, among others. ASC 360 provides that an impairment loss shall only be recognized if the carrying amount of an asset is not recoverable and exceeds its fair value. The carrying amount is considered not recoverable if the carrying amount exceeds the sum of the undiscounted future cash flows expected to result from the use and eventual disposition of the asset.

When a triggering event as defined in ASC 360 occurs, we are required to estimate the undiscounted future cash flows associated with any affected long-lived asset or group of long-lived assets. This necessarily involves judgment surrounding the inherent uncertainty of future cash flows. If we determine that the undiscounted cash flows from an asset to be held and used are less than the carrying amount of the asset, we must estimate the fair value to determine the amount of any impairment loss. The estimate of fair value under ASC 360 also involves management's judgment.

Revenue recognition and concentration

Revenues produced by the sale of electricity are recognized based on output delivered to clients according to the monthly liquidations prepared by the CND, considering rates and kilowatts specified under contract terms. For the years ended December 31, 2015 and December 31, 2014, 90% and 86%, respectively, of contract revenues were derived from the Distribution Companies, eleven Large Customers (Importadora Ricomar, Oficina de Electrificación Rural, Cemento Panamá, Contraloría General de la República, Caja de Seguro Social, Sunstar Hotel, Gold Mills, Avipac, Inc, Cemento Interocéánico, Varela Hermanos and United States Embassy) and reserve contracts with the generation company AES Changuinola, S.R.L.

Interest income corresponds to interest earned on time deposits calculated using the effective interest method.

Income Taxes

In Panama, annual income tax for entities whose taxable income exceeds U.S.\$1,500,000 is calculated by applying the tax rate to the greater of:

- the net taxable income calculated by the established method (traditional); and
- the net taxable income resulting from calculating 4.67% of the total taxable revenues of the company (alternate method of calculating income tax).

The income tax for the year comprises current tax and deferred tax. The income tax is recognized on the statement of comprehensive income for the current year, except for taxes relating to items directly related to equity, in which case they are recognized in stockholders' equity. The current income tax relates to the expected tax payable on taxable income, using the rate at the date of the statement of income tax and any adjustment to tax payable for previous years.

The deferred income tax is calculated based on the liability method, considering the temporary differences between the carrying amounts of assets and liabilities reported for financial purposes and the amounts used for taxation purposes. The resulting value of these differences is recognized as an asset or deferred tax liability on the balance sheets and valued at the tax rate that management considers these differences will be reversed. The amount of deferred income tax recognized on the statement of comprehensive income is based on the embodiment of timing differences in the respective fiscal year, using the rate of income tax rate at the date of the relevant tax year. The Company establishes a valuation allowance when it is more likely than not that all or a portion of a deferred tax asset will not be used.

Use of Estimates

The presentation of the financial statements in accordance with generally accepted accounting principles in the United States requires management to make estimates and assumptions affecting the reported amounts of assets, liabilities, gains and losses, as well as the disclosure of contingent assets and liabilities. Actual results might differ from these estimates. The most important estimates are the useful lives of long-lived assets, the assessments of the asset retirement obligation and obsolescence reserve for inventory.

OVERVIEW OF THE PANAMANIAN ELECTRICITY INDUSTRY

Panama has a mixed hydro-thermal electricity system with a current installed generating capacity (including auto-generators) of approximately 3,234 MW (51% hydroelectric, 40% thermal, 8% wind and 1% solar), with a peak demand of 1,618 MW, as of June 30, 2016. In 2015, the national electricity system supplied energy to 1,004,264 customers, an increase of 7.1% from December 31, 2014. In 2015, a year with below average hydrology or rainfall across the country, approximately 67% of gross generation output came from hydroelectric facilities. Over 43% of the generating capacity is located in the western region of the country, close to the Costa Rican border, where the majority of Panama's hydroelectric resources are located. A 429-kilometer transmission line links these hydroelectric facilities to the load center in the Panama City-Colon corridor. Panama's thermal generating plants currently rely on imported oil, although the possibility of using natural gas and/or coal from Colombia to supply the Panamanian electricity market is currently under evaluation.

The electricity system in Panama is interconnected with those of Costa Rica, Honduras, Nicaragua, El Salvador and Guatemala. The governments of Central America have developed a regional electricity market, including an interconnected system known as the Central American Interconnection System or SIEPAC (*Sistema de Interconexión de los Países de América Central*). The project consists of an approximately 1,800 km transmission line across the six countries of the isthmus, from Guatemala to Panama. This 230 kV single-circuit transmission line has increased the interconnection capacity between each country to 300 MW. The regional transmission line began partial operations in 2010 and became fully operational in the middle of 2014.

Since 2012, electricity sales have been growing at an average of approximately 6.3% per year and in 2015 totaled 9,337 GWh, of which 32% was residential, 44% was commercial, 6% was industrial, 14% was used by the public sector including street lighting and 4% was from unregulated customer consumption. This is equivalent to a monthly consumption rate of approximately 774 kWh per customer (283kWh for residential customers only). Over 94% of the population in 2015 was served by electricity. The rest of the population resides in remote areas not served by electricity distribution networks.

Regulatory Entities

The organizations that participate in the regulation of the electricity sector in Panama are:

The National Secretariat of Energy (*Secretaria Nacional de Energia* or SNE). The energy sector, including electricity, is under the jurisdiction of the SNE. The SNE is responsible for proposing a national energy policy that ensures rational, efficient and sustainable use of resources and energy. More specifically, the SNE has, as part of its duties, the primary responsibility of designing and proposing national electricity policy, with the collaboration of other government agencies such as ASEP and ETESA Planning Unit.

The National Authority of Public Service (*Autoridad Nacional de los Servicios Públicos* or ASEP). ASEP regulates power generation, transmission, interconnection and distribution activities in the electric power sector; approves generation and transmission programs for the National Interconnected System; and promotes competition within the different areas of the energy sector so that economically efficient and high quality energy services are provided. Its responsibilities include: (i) regulating the electricity sector, (ii) establishing the criteria, methodology and formulas to be followed to determine the tariffs applicable to certain public electricity services such as transmission and distribution, (iii) establishing the tariff structure for access to and use of the grids, (iv) classifying which consumers of electricity are subject to tariff regulation and (v) determining the rules for the planning and coordination of the National Interconnected System.

The ETESA Planning Unit (*Unidad de Planificación de ETESA*). The ETESA Planning Unit is a special administrative unit of ETESA and is responsible for the indicative generation and the transmission expansion plans for the National Interconnected System. The ETESA Planning Unit is also responsible for forecasting overall energy requirements for Panama and administering the competitive bidding process for new PPAs pursuant to the guidelines established by the Secretary of Energy for each bid. Utility companies are required to prepare and submit business plans to the ETESA Planning Unit.

The National Dispatch Center (*Centro Nacional de Despacho* or CND). The CND is operated by ETESA. The CND is responsible for planning, supervising and controlling the integrated operation of the National

Interconnected System and for ensuring its safe and reliable operation. The CND is also responsible for (i) coordinating the operation of the National Interconnected System with regional dispatch centers, (ii) compiling information and defining generation programs for each generator, (iii) receiving offers from generators that participate in the regional market, (iv) developing daily demand forecasts and managing dispatch, (v) determining the hourly energy spot prices, (vi) managing the transmission network and the auxiliary services required for the proper operation of the National Interconnected System and (vii) providing settlement values on a monthly basis with respect to the division of energy between suppliers and producers.

On March 28, 2015, pursuant to Law No. 8 of March 25, 2015, the Environment Ministry (*Ministerio de Ambiente*) was created to replace the National Environmental Authority, which had previously been responsible for implementing environmental policy, as the Panama's governing body for matters of protection, conservation, preservation and restoration of the environment and the sustainable use of natural resources. The Environment Ministry is also responsible for the design, approval and implementation of the national environmental policy and for ensuring compliance with and application of the laws and regulations that fall within its purview. The Environment Ministry is also in charge of approving the environmental impact assessments required for projects, including those related to the electricity sector.

History

Prior to the 1998 privatization of the Panamanian generation and distribution sectors, the electricity sector in Panama was under the management of the state-owned integrated electric utility, *Instituto de Recursos Hidráulicos y Electrificación*, or IRHE. IRHE was created in 1961, initially to provide service in areas not served by the existing private sector utilities and, in general, to promote the development of electricity services in Panama.

Thereafter, IRHE gradually took over the assets and operations of the existing private sector utilities. Beginning in the mid-1970s, it significantly expanded the capacity of the system through the commissioning of new hydroelectric plants, particularly in the west of Panama, and introduced a national dispatch center to optimize system operation and allow electricity interchange with the Panama Canal Commission and other Central American countries.

In 1998, as part of the privatization process, the Panamanian government divided IRHE's assets and operations into four generation companies, three distribution companies and one transmission company. Following a public auction in September 1998, fifty-one percent (51%) of shares in each distribution company were sold by the Panamanian government. This was followed in November 1998 by the sale of forty-nine percent (49%) of shares in each of the three state-owned hydroelectric generation companies and fifty-one percent (51%) of shares in the main thermoelectric generation company. These sales were completed in 1999. The Panamanian government retained control of ETESA, the state-owned transmission company, which operates and controls the Transmission System of 230Kv and certain 115Kv lines. Under the parameters established by the Panamanian government, a percentage of each bidding consortium had to be held, either directly or through an affiliate, by a company with a minimum required level of generation or distribution experience.

Private capital was reintroduced into the sector following the enactment in 1995 of legislation permitting private electricity generation. This was followed by the Regulatory Entity for Public Services Law in January 1996 and the Electricity Law No. 6 in February 1997, or the Electricity Law. Modifications to the Electricity Law were made in February 1998 under Decree Law No. 10 of February 26, 1998, and ancillary regulations were introduced by presidential decree in the form of Executive Decree No. 22 of June 19, 1998.

Under the Electricity Law, the Panamanian government can sell its remaining shares by public auction or through the stock exchange, subject in each case, to each purchaser being limited to acquiring no more than five percent (5%) of the company concerned.

The National Authority of Public Service (ASEP)

The 1996 Regulatory Entity for Public Services Law established the *Ente Regulador de los Servicios Públicos*, an autonomous government agency with responsibility for regulating water, telecommunications, electricity and natural gas. Pursuant to Decree Law No. 10 of February 22, 2006, the *Ente Regulador de los Servicios Públicos* was restructured and changed its name to *Autoridad Nacional de los Servicios Públicos* (the

National Authority of Public Services or ASEP). ASEP is headed by a general administrator, whose appointment is subject to ratification by the National Assembly.

ASEP's responsibilities include:

- ensuring compliance with sector laws and U.S. regulations and applying sanctions;
- issuing concessions and licenses;
- monitoring quality of service standards;
- verifying fulfillment of expansion and system improvement targets as required by law, regulation or under the terms of specific concessions or licenses;
- promoting competition and investigating monopolistic or anti-competitive practices;
- determining efficiency criteria for evaluating the performance of regulated companies;
- establishing the principles and methodologies for tariff regulation;
- determining information to be provided by public service providers;
- arbitrating conflicts between operators, government agencies, municipalities and consumers; and
- authorizing land expropriation and rights of way for service expansion.

ASEP is financed from various sources, including fees payable by all providers of electricity services. These fees, which are payable monthly and are not recoverable from consumers, may not exceed one percent (1%) of gross sector revenues in the preceding year on an annual basis. For each individual company, the applicable percentage is applied to revenues from regulated and non-regulated customers less amounts paid by that company to other service providers to cover energy or transmission costs. The fees for 2012, 2013, 2014 were set at 0.7268% (Resolution AN No.388-ADM December 15, 2011), 0.7899% (Resolution AN No.497-ADM of December 26, 2012) and 0.8213% (Resolution AN No.598-ADM of December 30, 2013), respectively. In 2015 and 2016, the fee was set at 0.7475% (Resolution AN No.695-ADM of December 22, 2014) and 0.7475% (Resolution AN No.784-ADM of December 22, 2015), respectively.

The Electricity Law

The Electricity Law was introduced to improve operation efficiencies, achieve reliable and good quality service, guarantee good quality of supply through the promotion of competition and private sector participation, and keep the cost of the service at reasonable prices. Key provisions include:

- defining the duties and obligations of electricity service providers including continuity of supply and provision of open access in transmission and distribution;
- dividing the generation, transmission and distribution operations of IRHE into separate companies and establishing requirements for management and accounting separation of generation, transmission and distribution activities;
- restricting participation by distribution companies in generation and in transmission and by generation companies in the control of distribution companies;
- establishing procedures for privatization of the sector other than ETESA, the company formed to hold IRHE's transmission assets, which was to remain wholly state-owned;
- establishing procedures for granting concessions and licenses subject to limitations on the market shares of individual generators and distributors;

- defining the role of ETESA and procedures for management of central dispatch;
- allowing Large Customers with maximum demand of over 500 kW to purchase directly from generators and other suppliers. For 2005, the regulating entity reduced this limit to 100 kW; and
- establishing principles of tariff-setting for price-regulated services.

The SNE has no authority to amend the Electricity Law or to adopt additional laws or regulations relating to the electricity industry. However, the SNE does have the authority to present bills to implement its policies and plans for the consideration of the Panama National Assembly, which could entail changes in existing legislation or the adoption of new legislation relating to the energy sector, including the electricity industry.

Concessions and Licenses

Under the Electricity Law, concessions are required for the construction and operation of hydroelectric or geothermal plants and for the provision of transmission or distribution services. Concessions are awarded, through contracts, by ASEP and have the following time limits:

- Hydroelectric (and any geothermal) generation: up to 50 years
- Transmission: 25 years
- Distribution: 15 years

Thermal, wind and solar power plants, as well as all other power plants, are licensed by ASEP but, unlike hydroelectric or geothermal power plants, do not require a concession. These licenses are granted by ASEP for a term of up to 40 years.

System Operation

The Electricity Law provides that the operation and administration of the wholesale electricity market be managed by the CND, a unit within ETESA with separate accounting records. The electricity wholesale market comprises all transactions among market participants (which includes generators, self-generators, co-generators, distributors and large clients) for the sale of capacity, energy and/or auxiliary services resulting from contracts with competitive prices, bid processes or spot market sales with hourly prices (*mercado ocasional*).

The regulations under the Electricity Law allow electricity generating companies to compete in sales to distribution companies, which are permitted to generate only fifteen percent (15%) of their annual electricity requirements. Distributors are required to obtain long-term contracts to cover the maximum generation demand, or DMG, capacity requirements of their regulated customer base and large clients and associated energy of their regulated customer base. The amount of contract cover required is based on a month-by-month analysis submitted to ASEP by the CND each year using forecasts supplied by the distributors (*Informe Indicativo de Demanda*). The amount of contract cover provided by an individual generator may not exceed its own firm capacity and any such capacity acquired from other generators under reserve contracts. For hydroelectric plants, the CND calculates firm capacity based on the amount of energy a generating unit can generate for eight (8) peak hours of the day, calculated on the basis of hydrological flows with a ninety-five percent (95%) probability of excess and reviewed annually based on availability statistics from the last three years. As such, firm capacity is a more conservative number than installed capacity. For thermal plants, firm capacity is established by the CND based on net capacity and historical availability.

The CND dispatches electricity from plants using a model that applies stochastic dynamic programming to incorporate the opportunity cost of water in the dispatch process. This electricity is dispatched from the plants in order of merit according to their variable costs and taking into account parameters for system security, operating constraints and the operational regulations (*Reglamento de Operación*) approved by ASEP. The hourly spot price is based on the variable cost of the marginal plant dispatched in that hour. Transmission losses are valued at the spot price and charged separately to distributors based on loss factors applicable to their connection points on the ETESA grid. See "—Dispatch" below.

Variances between a generator's actual dispatch and contracted energy volumes are settled through the spot market. Out of merit plants dispatched by the CND to maintain real time system stability (*generación obligada*) receive an additional payment to cover the difference between their variable costs and the hourly spot price. The CND is also responsible for the coordination of auxiliary services (*servicios auxiliares*) and their remuneration through additional charges to the system. Details of the average monthly spot price in the wholesale market since January 1999, excluding capacity costs, are set out below under "The Spot Market."

Dispatch

According to the Electricity Law, the order in which generators are dispatched must be based on maximizing efficient consumption of energy by minimizing the total cost of energy in the Panamanian power system. The system dispatch order is planned by the CND.

Economic Dispatch

The CND generally dispatches generating units in accordance with a merit order based on each generator's variable costs:

- In the case of thermal units, variable costs (in U.S.\$/MWh) are calculated based on incremental fuel costs and non-fuel costs, such as a thermal unit's administration, operation and maintenance costs, and its facility heat rate.
- In the case of renewable variable generation, such as wind, solar or run-of-river hydroelectric facilities (and in our case, our Chiriquí facility, which consists of the Estrella and Los Valles facilities), variable costs are considered to be zero.
- In the case of reservoir hydroelectric facilities (e.g., Bayano), variable costs correspond to the opportunity value of water, which is computed using a dispatch model incorporating stochastic dynamic programming, or the SDDP model. The CND uses the SDDP model to calculate the expected thermal generation cost saved in the future by the conservation of marginal amounts of water by a hydroelectric generator, taking into account projected operations of the national interconnected power system over the medium and long term. In determining the marginal amounts of water that must be conserved by a hydroelectric generator, the SDDP model takes into account estimated rainfall in the region and the risks of dam spillage and depletion of reserves by that hydroelectric generator. When calculating the risks of dam spillage and reserve depletion, the SDDP model also considers the size of the reservoir and efficiency of the generator's turbines. Thus, although the value of water is strongly linked to the variable costs of marginal thermal generation, other factors are taken into account when determining the marginal amounts of water required to save thermal generation costs.

The planned dispatch is revised continuously by the CND in response to any changes affecting the system (e.g., demand, actual generator availability and system restrictions) that may take place throughout the day. Additionally, each week, representatives from the CND and each Panamanian thermal, wind, solar, and hydroelectric company meet to discuss the results of the Dispatch Model and determine the following week's dispatch order. At such weekly meetings, hydroelectric projects with reservoirs are assigned a shadow price for energy to represent their value within the Panamanian electrical system and their opportunity cost of maintaining water in storage to meet future system needs. The hourly spot price is based on the variable cost of the marginal plant dispatched. Transmission losses are valued at the monthly weighted average price of energy in the PPAs with the Distribution Companies backed by hydroelectric plants and by thermal plants. The rest of the plants in the system without PPAs and wind plants are valued at their variable cost and charged separately to distributors based on loss factors applicable to their connection points on the ETESA grid.

Since the fourth quarter of 2013, we have imposed most restrictive constraints, known as a set point, on the use of reservoirs, including those at Fortuna and Bayano, through a Risk Aversion Curve, or CAR, changing the dispatch policy of hydro-generation and impacting hydroelectric businesses with high contract levels.

Non-economic Dispatch

The commercial rules governing the electricity wholesale market, or the Commercial Rules, allow the CND to dispatch energy based on guidelines other than the SDDP model's projections when following the economic dispatch order would jeopardize the technical and commercial security of the system. The resulting altered dispatch order may cause generators that would have normally been dispatched not to be dispatched, forcing them to buy energy on the spot market to satisfy their contractual commitments. The Commercial Rules provide for certain payments to those generators for the non-dispatched, or restricted energy, based on the difference between the spot price of the energy purchased by the restricted generators to satisfy their contractual commitments and the variable cost assigned to such generators by the CND for the non-economic dispatch period. Under the Commercial Rules, the party causing the condition that triggers non-economic dispatch is liable for the above payments.

The Spot Market

The Panamanian power sector is structured as a spot market with an overlay of bilateral contracts between the distribution companies and generation companies. The spot market commenced operation on July 1, 1998 under the administration of ETESA and the CND. The principal function of the spot market is to allow market forces to determine the amount, mix and cost characteristics of generating facilities, and the level and shape of demand. The spot market involves transactions of energy and capacity that are not subject to contracts, and consists of the energy spot market and the capacity spot market.

Spot Market for Energy

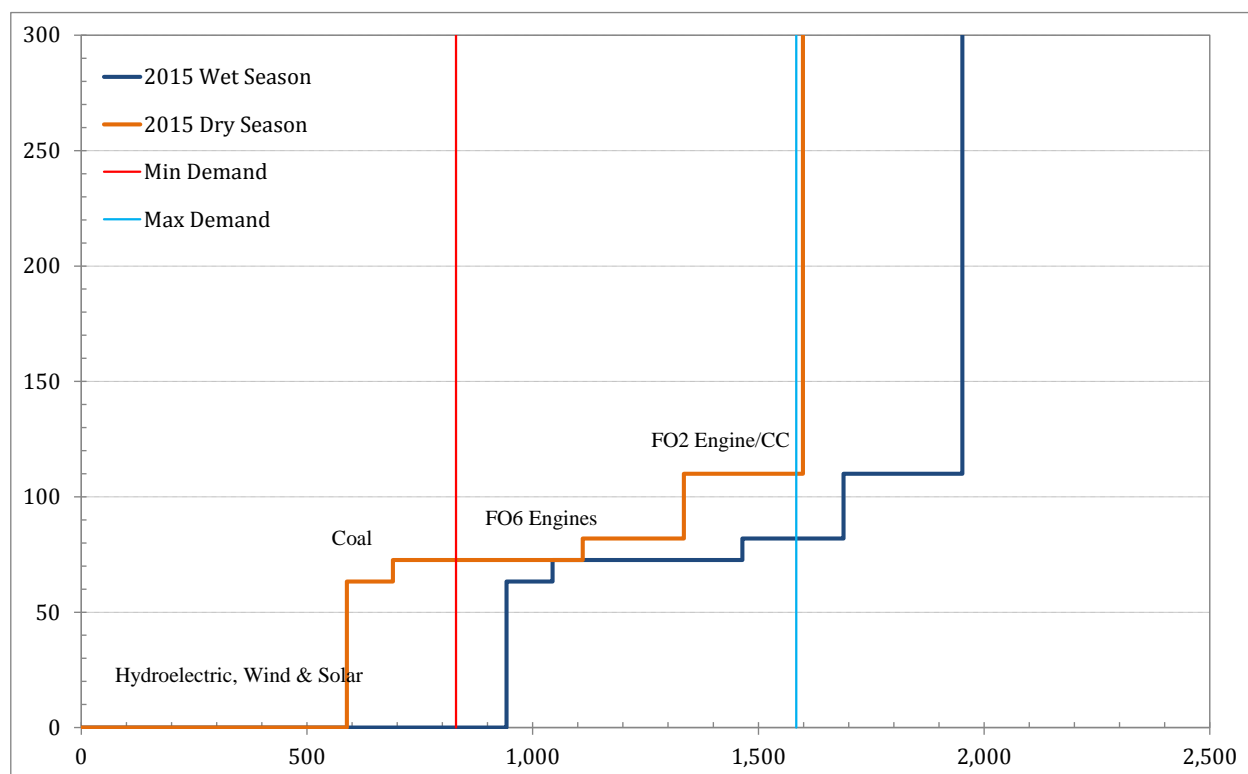
In the case of generators, energy spot transactions correspond to the hourly differences between the actual dispatch of energy by each generator and its contractual commitments to supply energy. A generator whose dispatched energy is greater than its contractual commitments to supply energy at any given time is a seller in the energy spot market; the reverse is true for a generator whose dispatched energy is less than its contractual commitments to supply energy. Generators and unregulated consumers can purchase energy in the energy spot market, while only generators can sell energy in the energy spot market.

The energy spot price is set by the order in which generators are dispatched. The CND ranks generators according to their variable cost, starting with the lowest value, and establishing on an hourly basis the merit order in which generators will be dispatched the following day to meet expected demand. See "—Dispatch—Economic Dispatch." The value of wind, solar and run-of-river facilities is set at zero because the wind, sun and water used to operate these facilities do not generate a variable cost. The value of reservoir facilities is set at the opportunity cost of the water maintained in the reservoir which is limited and is essentially lost once it is used. The value of thermal facilities is set by the variable cost of the fuel used to operate these facilities, making them the costliest. The price in the energy spot market for all generators, which becomes the clearing price for energy, is set at the variable cost of the costliest generator dispatched in each hourly period.

Below is a representation of the price ranking system that determines the spot price, referred to as the Supply Stack Curve, for 2015.

2015 Supply Stack Curve

AES Bocas del Toro Hydro, S.A.



Details of the average monthly spot price in the wholesale market since January 2010, excluding capacity costs, are set out below.

Average annual spot prices (U.S.\$/MWh)

Year	Marginal Cost U.S.\$/MWh
2011	222.21
2012	193.76
2013	211.43
2014	217.05
2015	91.13
2016 (through June 30)	66.28

Source: CND historical data market

Spot Market for Capacity

Transactions take place daily in the capacity spot market in order to match the actual available capacity of generators with the actual peak capacity requirements under their outstanding supply contracts. The price for spot capacity transactions is calculated each day on the basis of offers submitted to the CND by the generators during the prior day. Daily prices are expressed as one-thirtieth ($\frac{1}{30}$) of a monthly price (U.S.\$/kW - month). The capacity offered must meet a generator's expected supply deficit, resulting from a shortfall between its available capacity and peak demand under its supply contracts. The spot capacity price is equal to the last offer accepted. Generators that sell actual available capacity are paid at the last accepted offer. Generators with a supply deficit must pay the difference between their actual available capacity and the actual peak demand under their supply contracts. The capacity spot price is capped at a regulated price of U.S.\$8.96 per kW a month.

Power Purchase Agreements

The dominance of hydroelectric generation and the marked seasonal variations in Panama's hydrology result in a high degree of price volatility in the energy spot market. In order to mitigate this volatility, generators can enter into long-term power purchase agreements with distributors or unregulated consumers (large clients) for the sale of capacity and/or energy. In addition, generators can enter into alternative supply contracts with one another, which are called reserve contracts. The terms and contents of PPAs are determined through a competitive bidding process and are governed by the Commercial Rules. PPAs must include, among others, the following information: (i) identity of the contracting parties; (ii) clear rules or procedures to determine, on an hourly basis, the quantity of energy which may be requested; and (iii) the corresponding prices.

Capacity Charge

The capacity charge is a fee paid to thermal and hydroelectric generators intended to remunerate them for the firm capacity made available to the National Interconnected System. The capacity charge provides generators with a source of fixed revenue which depends primarily on the generator's own availability. The CND can verify a generator's declared availability and ASEP can impose sanctions if the actual availability is lower than the declared value. If a generator's availability is less than the declared availability, that generator is required to buy replacement capacity from other generators or be subject to substantial penalties under the PPAs up to seven times the price of the capacity under the contract.

Industry Segments

Generation

At the end of 2015, installed generating capacity in Panama including auto-generators was 3,234MW, of which 53.4% was attributable to hydroelectric generators, 37.2% was attributable to thermal generators and the remaining 9.5% was attributable to wind and solar generators. Initially, the system was mostly thermal but became gradually more mixed with the commissioning of the hydroelectric plants at Bayano, La Estrella, Los Valles, Estí, Changuinola and Fortuna, a reservoir-based hydroelectric facility operated by Empresa de Generation Eléctrica Fortuna, S.A. between 1976 and 1984. In 2015, hydroelectric generation accounted for 61.0% of total electricity generation compared to 34.7% generated by thermoelectric production and 4.27% attributable to wind and solar generation. The composition of its current generating capacity is set out below.

Generating Installed Capacity on the Interconnected System in Panama as of December 31, 2015

Plant	Installed Capacity (MW)	Operation Started	Owner (Principal Investors)(3)
Fortuna	300.0	1984/1993	Enel Fortuna
Bayano	260.0	1976	AES Panamá
Changuinola	222.5	2011	AES Changuinola
Estí	120.0	2003	AES Panamá
Baitun	85.9	2012	Ideal Panamá
El Alto	69.0	2014	Panama Power
PCA	60.0	1914/1935	Republic of Panama
Baio Mina	56.0	2012	Ideal Panamá
Prudencia	56.2	2012	Altenergy
Los Valles	54.8	1979	AES Panamá
Monte Lirio	51.6	2014	Electron Investment
La Estrella	47.2	1979	AES Panamá
Others(1)	342.7	2003	AES Panamá
Total Hydro	1,726.0		
PCA	172.0	1963/2014	Republic of Panama
BLM-Coal	120.0	2011	Celsia
BLM-Combined Cycle	160.0	1968/2000	Celsia
Cativa	87.0	2008	Alternergy
Pan Am	96.0	2000	Pan Am Generating
Estrella del Mar I	72.0	2015	AES Panamá
Others(2)	495.1		
Total Thermal (oil-fired)	1,202.1		
Wind	252.0	2014/2015	Union Eolica Española
Solar	54.3	2014/2015	Republic of Panama
Total Wind & Solar	306.3		
Total	3,234.9		

Source: Secretaría Nacional de Energía Report 2015.

(1) Includes Lorena, Gualaca, Pedregalito 1 & 2, Mendre 1 & 2, Cochea, Hidropiedra, Concepción, La Perlas Norte & Sur, etc.

(2) Includes Aggreko, SoEnergy, Pedregal, El Giral, TG. Panama, Cerro Azul, Charco Azul, Capira and Chitre.

(3) Current owners (principal investors) as of December 31, 2015.

Under the Electricity Law, generation companies will not be granted new concessions if such concessions would cause them to account, directly or indirectly, for more than 25% of national electricity consumption. This percentage may be increased by the Panamanian government, where justified by competitive conditions, subject to the approval of ASEP and the Cabinet Council, and it was increased to forty percent (40%) by Cabinet Resolution No. 76 of 2005 until December 31, 2012. Because the Electricity Law sets forth this restriction regarding "concessions," which include hydroelectric and geothermoelectric generation, this restriction should not apply to generation "licenses" that refer to other generation power plants.

The following table sets out the gross and net generation in Panama by type of generation for each year from 2010 to 2014.

Generation by type (GWh)

	2015	2014	2013	2012	2011
Hydro					
Net generation.....	6,129	4,905	4,927	5,124	3,748
% of total.....	61%	54%	57%	61%	50%
Thermal					
Net generation.....	2,642	2,966	3,216	2,731	3,120
% of total.....	26%	33%	37%	33%	41%
PCA					
Net generation.....	828	1,029	551	518	666
% of total.....	8%	11%	6%	6%	9%
Wind & Solar					
Net generation.....	428	115	0	0	0
% of total.....	4%	1%	0%	0%	0%
Total Net generation.....	10,028	9,015	8,693	8,373	7,534

Source: Internal statistics from AES Panamá, S.R.L., CND Annual Report 2011, 2012, 2013 and 2014.

In order to reduce Panama's reliance on hydroelectric generation and to increase the security of supply, the Panamanian government has decided to promote alternative sources of energy, particularly thermal power. On August 2012, law No. 41-2012 was approved, introducing new incentives for natural gas power plants, including an import tax exception, a 20-year income tax holiday, accelerated depreciation and a 5% tax credit for total direct investment. Similarly, law No. 43-2012 amended the Electricity Law to permit capacity auctions based on the energy technology used (i.e. hydroelectric, wind, coal, natural gas and bunker, among others) and incorporating natural gas as a renewable energy in order to receive the benefit of a 5% preference granted in the bid price for the auction (relative to other types of generators). Currently the generation expansion plan is considering the addition of renewable variable generation and two natural gas combined cycle power plant projects for the next five years.

Transmission

As of December 31, 2015, the transmission system in Panama, owned and operated by ETESA, comprised approximately 2,103 kilometers of single and double circuit 230kV lines linking the main generation facilities to the system load center at Panama City, 307 kilometers of single and double circuit 115kV lines and a total of ten (10) substations with a total capacity of 2,020 MVA.

Pursuant to Section 9.6, Mandatory Generation (*Generación Obligada*), of the Commercial Rules for the Wholesale Electricity Market approved by ASEP, ETESA is required to pay electricity generators for associated cost overrun to the Mandatory Generation, which is caused by a bottleneck in the ETESA grid.

ETESA is responsible for expanding and upgrading the network to meet the requirements of demand growth and system stability. It is currently engaged in an investment program, the main components of which are:

- Santa Rita Line – Panama II with a total capacity of 115 KV, to be completed in December 2016.
- Veladero Third Line – Llano Sanchez - Chorrera – Panama with a total capacity of 230 KV, to be completed in three stages: (i) the Veladero-Llano Sanchez section, estimated by ETESA to be completed by September 2016, (ii) the Llano Sanchez-Chorrera section, estimated by ETESA to be completed by December 2016 and (iii) the Chorrera-Panama section, estimated by ETESA to be completed by April 2017.

Under the Electricity Law, ETESA is responsible for producing an annual expansion plan for the interconnected system in line with quality and reliability standards and development objectives set by the SNE. This plan is based on projections of expected growth in demand and energy consumption over the next fifteen (15) years which market participants are required to submit by September 30 of each year. ETESA is obliged to carry out all projects included in the Transmission Expansion Plan, as approved by ASEP, and all related construction work must

be contracted on the basis of competitive bidding. The network expansion must be financed by ETESA; however, ETESA can choose whether or not to finance the connection of generators or distributors to the transmission network in return for a reimbursable contribution. Average losses of energy in transmission over the period from 2011 to 2015 have been as follows:

	Years ended December 31,				
	2015	2014	2013	2012	2011
Annual.....	3.6%	2.9%	2.6%	2.8%	2.2%

Source: CND Historical Market Data

As of the date of this offering memorandum, all of the transmission losses are charged to the Distribution Companies and Large Customers.

The Electricity Law provides for open access to transmission subject to a regulated tariff for connection and use of system charges. The current tariff, which was approved by Resolution AN No. 7069-Elec of January 31, 2014 issued by ASEP, is due to remain in force until June 30, 2017.

The transmission tariff is designed to cover the capital, administrative, operational and maintenance costs of the system on an economically efficient basis so as to provide an expected rate of return before tax on net fixed assets that is within a 2% range above or below the average yield on the 30-year U.S. Treasury Bond in the year preceding the setting of the tariff, plus a risk premium of 7%. Every year within the tariff period, the transmission charges are inflation-adjusted and revised for compliance with authorized investment programs. Delays in such investment programs lead to a reduction in the transmission charges to ETESA. For the current tariff structure, which will remain in force until 2017 due to the recent resolutions by ASEP, the rate of return for transmission was set at 7.9% which is in the range established in the Law 6.

There are three elements of transmission charges:

- Connection Charges, which are paid by generators, distributors and large unregulated consumers individually for the use of specific local facilities directly connected to the National Interconnected System;
- Integrated Operation Service Charges, which include costs associated with the CND and hydrometeorology; and
- Use of System Charges (wheeling fees), which are calculated pursuant to a formula based, among other factors, on (i) the increment of one MW at a simulated injection node; (ii) the increment of power flow in each evaluated segment considering the long run marginal cost; (iii) the sum of the development costs in each segment; (iv) the marginal costs associated with each extra MW withdrawn at each node; (v) the hypothetical revenues from the transmission system produced by the generator's and distributor's payments; and (vi) the adjustment of marginal costs for injecting and withdrawing capacity at each node, so that generators and distributors pay seventy percent (70%) and thirty percent (30%), respectively, of the total revenues calculated.

ETESA's use of system charges is differentiated by zone and may be positive or negative for each zone depending on the extent to which the user is increasing or reducing network load. Generator charges are calculated by reference to installed capacity available for use in the system, while distributor and Large Customer charges are determined by reference to their peak demand. For example, generators located far from Panama City pay higher transmission charges, since increased generation in that area increases the stress on the system. Conversely, generators located near the load center reduce the need for more distant imports, and therefore face a lower transmission charge. In some cases, the transmission charge is negative. The opposite logic holds for the distribution companies who serve load, rather than generation, at a given node.

In addition, ETESA levies monthly charges to cover the cost of system operation, including central dispatch and hydro-meteorology. These are currently set at U.S.\$0.1191/kW for generators and U.S.\$2682/kW for distributors and Large Customer.

International Interconnections

Commercial operations of the Regional Electricity Market (MER) were formally announced in June 2013, which we expect, along with regional interconnections (SIEPAC), could have a positive impact on our results of operations in the short term if we have a short position, such as during the dry season.

Another separate bilateral effort to build an interconnection between Panama and Colombia is also being analyzed. Interconexión Eléctrica Colombia – Panamá (ICP) is a binational company created to make design, build, and operate the electrical interconnection line between Colombia and Panama. The ICP Project will have a 300 MW transmission capacity and consists of an Electric Transmission Line High Voltage Direct Current –HVDC. The cost of project is being reviewed, but as of the date of this offering memorandum it is estimated to be between U.S.\$300 and U.S.\$400M. In 2012, ICP released the first auction of rights of way, but due to various operational, environmental, financial and regulatory risks, ICP canceled the auction. As of the date of this offering memorandum, technical, environmental, economic, financing and regulatory studies are still being conducted. The development and construction of the project are expected to be delayed such that the project is not expected to be in operation before 2021.

Tariff Structure

Under the Electricity Law, ASEP is required to establish tariff methodologies to regulate connection, use of system charges for distribution services and to approve tariff structures for the sale of energy to regulated customers. In general, the Electricity Law provides that tariffs should be set sufficiently high to cover the costs of providing the required level of service on the assumption that anticipated productivity gains are shared between distributors and their customers.

Grid access charges are designed to be set at a level that allows distributors to achieve sufficient revenues to cover the costs of their efficient investments, operating, maintenance (including metering, billing and customer service), administrative and commercial expenses, standard level of losses and a reasonable return on investment. Each of these costs and return on capital is determined by ASEP based on the expenses and returns of comparable companies. Under the current tariff structure, all distribution system users and all regulated customers pay a separate consumption-based charge within the tariff to cover the capital, energy and operational costs of public lighting. Panamanians or foreigners residing in the territory of the Republic of Panama that are aged, in the case of women, fifty-five years and older or, in the case of men, sixty years and older, and all retirees (men aged sixty-two years and older and women aged fifty-seven years and older) and pensioners (*pensionados*) receive a 25% discount on charges applied for the first 600KWh of consumption. For any consumption above the 600KWh threshold, retirees pay full charges.

The permitted pre-tax rate of return, as determined by ASEP, must be within a two percent (2%) range above or below the average yield on the 30-year U.S. Treasury Bond in the year preceding the setting of the tariff plus an eight percent (8%) risk premium. For the current tariff structure, which will remain in force until June 30, 2018 due to the recent resolutions by ASEP, the pre-tax rate of return was set at 9.66%. This rate is applied to the distributor's net fixed assets in operation during the tariff period based on historic accounting values at the start of the tariff period plus the distributor's efficient investment requirements during the tariff period. Once this rate is applied to the assets and efficient investments, the distributor determines its maximum allowable rate to charge customers.

Tariff options for customers include: (i) a simple kilowatt hour based tariff, restricted to residential and other customers with an electricity demand of 15 kW or less, which demand level was previously set at 12 kW or less; (ii) a demand-based tariff; and (iii) a time-of-day based tariff. This last type is supplied to customers at any consumption-supplied tension. Customers are allowed to change their tariff option twice in a twelve month period without incurring a penalty. After the second change, the customer will pay a penalty in the amount of fifty percent (50%) of the connection fee.

The VAD tariff structure remains in full force and effect for a four year period. Historically, every six months during the tariff period, the capacity and energy cost-components of the tariff are adjusted to account for variances in actual and expected energy costs, and only forty-five percent (45%) of the distribution and commercial charges are adjusted for inflation based on the Panamanian CPI for the prior two six-month periods. These energy-

related component adjustments are applied starting the following six-month period. Since July 1, 2006, adjustments for variances in actual fuel prices occur on a monthly basis, rather than a semi-annual basis and are applied to the next month's bill. The generation and transmission components of the tariff are adjusted based on the actual energy purchased and the actual cost of transmission.

Distribution

Following the privatization of the distribution operations of IRHE and subsequent corporate modifications, the Panamanian distribution network was split between Elektra and two other companies under Gas Natural Fenosa management, Metro Oeste and Empresa de Distribución Chiriquí S.A., or EDE Chiriquí. Metro Oeste serves the western side of Panama City and the central region of the country and EDE Chiriquí serves the area close to the Costa Rican border. Further details of their number of customers and business mix are contained in the following table.

Distribution companies — 2015 summary information

Distributor	Market Share (%)	Unit Sales (GWh)
Metro Oeste.....	48.7	4,567
EDE Chiriquí.....	8.7	820
Elektra.....	38.4	3,599
Large consumers	4.2	351
Total	100.0	9,337

Source: CND.

Demand

Maximum peak demand in the Panamanian system as of December 31, 2015 was 1,612 MW, which represents 7.2% of growth with respect to 2014. In 2015, the average load factor for the system, inclusive of transmission losses, is estimated to have been approximately 71.0%. Set forth below is a table showing the development of annual maximum demand in the system from 2011 to 2015.

Demand

	Year ended December 31,				
	2015	2014	2013	2012	2011
Maximum Demand (MW).....	1,612	1,503	1,444	1,386	1,286
Annual Growth.....	7.2%	4.1%	4.2%	7.8%	5.2%

Source: CND Panama Power Demand Table.

The table below shows electricity demand growth compared to GDP growth during 2013, 2014 and 2015.

Electricity demand growth vs. GDP growth

	2015	2014	2013	Average Annual Growth (2013-2015)
Consumption Growth	8.4%	4.8%	4.6%	5.9%
GDP Growth	5.8%	6.1%	6.6%	6.2%

Source: Contraloría General de la República de Panamá and CND Historical Market Data.

We expect demand for energy in Panama to grow as it consistently has in the past. According to data issued by ASEP and the ETESA, the demand for energy in Panama increased by an average of 3.1% per year from 1980 to 1990, by an average of 6.1% per year from 1990 to 2000 and by an average of 4.9% per year from 2000 to 2014. According to ETESA, maximum capacity demand in 2014 was 1,503.5 MW. According to the "Plan de Expansión de Transmisión 2014-2018" issued by ETESA on November 2014, ETESA projected that Panamanian

maximum demand would be 1,645.9 MW in 2015, 1,759.5 MW in 2016, 1,883.3 MW in 2017, 1,991.8 MW in 2018, and 2,100.8 MW in 2019. In the same report, ETESA predicted that domestic annual energy consumption would grow approximately 7.2% in 2015, 7.0% in 2016 and 7.1% in 2017. Adding a 7% reserve margin to the CND's demand growth figures, we estimate that Panama's supply should increase by 350 MW through December 2017 in order to keep pace with demand.

To our knowledge, the government is expected to add to the system a total of 1,596 MW (278 MW of hydroelectric, 436 MW of wind and solar and 882MW of thermal) within the next five years through public tenders from Distribution Companies and RFPs or direct negotiations for emergency supply of power.

Contracts for Sales to Unregulated Consumers

Pursuant to the Electricity Law, generators may sell capacity and energy to unregulated consumers under power purchase agreements at freely agreed prices. The term "unregulated consumer" is defined to mean any individual or legal entity with a minimum demand equal to or above a regulated threshold that opts to be unregulated. Unregulated consumers are free to purchase energy from any generator, and are not required to comply with any specific procedure when entering into power purchase agreements or to enter into such agreements at all.

Regulated Consumer Retail Market

While the wholesale electricity spot prices are based upon market forces, transmission and distribution tariffs in the regulated market are set by ASEP. Rates to regulated end-users were initially set by ASEP. These rates are adjusted every six months based on a formula which combines the Panamanian producer price index and applicable fuel prices. Regulated end-users may be charged rates according to a tariff formula established by ASEP. This formula allows the distributor to pass through generation and certain other costs not within its control, and has the effect of rewarding distribution companies for achieving improvements in operating efficiencies greater than those assumed as part of the tariff formula.

Consumption

Electricity sales to end consumers in Panama were 9,337 GWh for 2015 and 8,651 GWh for 2014, an increase of 7.9% over 2014. The most recent demand report issued by the CND contains a forecast of 6.0% average annual sales growth for the period 2016.

The table below summarizes the energy balance for the Panamanian electricity industry for the period from 2013 to 2015.

Year	Net Generation ⁽¹⁾	Net International Exchange ⁽²⁾	Other Generation	Energy Supplied To Grid	Sales to End Consumers
2013	8,693	4	551	8,512	8,281
2014	9,015	91	1,029	8,923	8,651
2015	10,028	(122)	828	9,711	9,337

Source: CND Annual Reports for 2013, 2014 and 2015 and ASEP statistics for the Electricity Industry (Demand 2013 and 2015).

(1) Net generation includes Other Generation.

(2) Net International Exchange = Import – Export.

Electricity exchanges with Central American countries (GWh)

	Year ended December 31,				
	2015	2014	2013	2012	2011
Imports	17	189	75	17	72
% net generation.....	0.2%	2.1%	0.9%	0.2%	1.0%
Exports	139	99	71	59	8
% net generation.....	1.3%	1.1%	0.8%	0.7%	0.1%

Source: CND Annual Reports for 2012, 2013, 2014 and 2015.

Generators may enter into import and export contracts with counterparts in other countries subject to appropriate disclosure of contract information to the CND and its equivalent in the country concerned.

Electric Energy Rationing

The Commercial Rules provide that energy rationing should be simulated on a daily basis during the planning sessions with the SDDP and the resources scheduling models. Programmed rationing is simulated as a demand of five percent (5%) of the total national demand with a price one point fifteen (1.15) times the highest thermal plant; the second step of energy rationing is simulated as a demand of ten percent (10%) of the total national demand with a price one point forty-five (1.45) times the highest thermal plant; and the third step of energy rationing is simulated as a demand of thirty percent (30%) of the total national demand with a price two point thirty-five (2.35) times the highest thermal plant and a maximum of U.S.\$600 per MWh for the balance.

If emergency rationing occurs, the CND will determine the amount of energy to be rationed according to the characteristics and implications of the emergency. The Commercial Rules provide the methodology for calculating the amount of energy to be withheld in the case of programmed and emergency rationing, and set forth the parameters for the distribution of the rationed energy to consumers. While energy rationing is in effect, the spot market ceases to function and generators are only required to satisfy their contractual obligations, unless the Commercial Rules then in effect provide otherwise. Once emergency rationing ends, the spot market is reactivated and to the extent that certain contract provisions were temporarily suspended pursuant to the Commercial Rules they will be reinstated.

Environmental Regulation

In July 1998, the Panamanian government enacted Law 41, which created the ANAM, which through Law No. 8 of March 25, 2015 was replaced by the Environment Ministry. Law No. 8 together with Law 41 and other supplemental rules also sets out the legal framework for the protection of the environment through the sustainable use of natural resources. The Environment Ministry is responsible for implementing Panama's environmental policy with the collaboration of other government entities it creates and supervises, such as the Environmental National Council (*Consejo Nacional del Ambiente*) and the Environmental Consultative National Commission (*Comisión Consultiva Nacional del Ambiente*). The Environment Ministry has the ability to impose all applicable environmental sanctions and fines. Under Law 41, as amended by Law No. 8, the Environment Ministry may impose fines for any violation of Law 41, including the improper use of water concessions or water resources without having the applicable concession.

In addition to administrative liability, Law 41, as amended by Law No. 8 also establishes civil and criminal liability for violations thereof, and Law 5 of 2005 has introduced environmental crimes into the Penal Code, including crimes against wildlife, natural resources and crimes related to approval of and compliance with environmental documentation.

On March 3, 2006, the ANAM (now the Environment Ministry) issued Resolution AG No. 0127-2006, which established a ten percent ecological flow requirement for all existing and future water concessions. Subsequently, however, the ANAM specified that existing concessionaires, such as us, are not subject to these restrictions.

Investments Stability Act

The Panamanian government enacted Law No. 54 of July 22, 1998, which is further regulated by Executive Decree No. 9 of February 22, 1999, or the Investments Stability Act. The Investments Stability Act provides for certain stability measures in favor of companies engaged in electricity generation, distribution and transmission activities, among others, that meet certain qualifications and register with the Ministry of Commerce and Industry. The Issuer is duly registered with the Ministry of Commerce and Industry pursuant to the Investments Stability Act until 2009.

BUSINESS

General

We believe we are the largest electricity generation company in Panama in terms of installed capacity based on information provided by the CND and believe we are the largest privately controlled hydroelectric generation company in Central America. Our total assets as of June 30, 2016 were U.S.\$618.3 million. Our electricity sales for the year ended December 31, 2015 were U.S.\$299.1 million, which consisted of U.S.\$269.9 million from sales under PPAs and U.S.\$29.2 million from spot market sales and regional exports and, for the six months ended June 30, 2016, were U.S.\$154.0 million, which consisted of U.S.\$144.2 million from sales under PPAs and U.S.\$9.8 million from spot market sales.

We derive substantially all of our revenues from the sale of electricity through firm capacity and energy supply agreements, spot market sales and regional market sales. Our principal customers are Panama's three energy distribution companies, Elektra Noreste, S.A., Empresa de Distribución Eléctrica Metro-Oeste, S.A. and Empresa de Distribución Eléctrica Chiriquí, S.A., or collectively, the Distribution Companies. We also have capacity and energy supply agreements with nine Large Customers. Together, the revenues derived from capacity and energy supply agreements with the Distribution Companies and Large Customers and from our reserve contracts with AES Changuinola, S.R.L represented approximately 90% of our total electricity sales in 2015. The remaining 10% of our remaining electricity sales revenues derives from spot market sales and regional exports. As of June 30, 2016, our installed capacity was 554 MW, which represented 17.1% of the total installed capacity in Panama, according to information provided by the CND, and our firm capacity was 373.6 MW. In the six months ended June 30, 2016, we supplied 1,105 GWh of energy to the market, including the energy supplied by the Changuinola plant pursuant to our physical contract with AES Changuinola.

Our electricity generation facilities are composed of five geographically diverse facilities (four hydroelectric plants and one thermal plant) that contain 16 generation units located in eastern and western Panama. The majority of Panama's hydroelectric resources are located in the western region of Panama, where rainfall tends to be highest, although the main demand for energy is in the eastern region of the country at the main population center of Panama City. We believe that the location of our hydroelectric plants in different hydrology regions, together with the recent addition of our thermal plant, Estrella del Mar I, increase the diversity of our generation portfolio and help mitigate the impact on our business of weather-related volatility as well as of potential transmission constraints. Our main generation assets include:

- Bayano, a reservoir-based hydroelectric facility in the eastern region with three operating units totaling 260 MW of installed capacity;
- Estí, a run-of-the-river hydroelectric facility in the western region with a regulation reservoir, composed of two operating units totaling 120 MW of installed capacity;
- La Estrella, a run-of-the-river hydroelectric facility in the western region with two operating units totaling 47 MW of installed capacity;
- Los Valles, a run-of-the-river hydroelectric facility in the western region with two operating units totaling 55 MW of installed capacity; and
- Estrella del Mar I, a thermal power generation facility in the eastern region with seven operating units housed on a barge totaling 72 MW of installed capacity, and that uses Fuel Oil No. 6 and Fuel Oil No. 2 as its base fuels.

We operate and maintain our hydroelectric plants under four renewable 50-year concessions, which terminate in 2048 (Bayano, La Estrella, Los Valles) and 2052 (Estí). Our Estrella del Mar I plant operates under a 40-year renewable license, terminating in 2054, that was initially granted in favor of EGESA but transferred to us in December 2015. Our plants have different dispatch priorities and include run-of-the-river facilities, which are typically the first hydroelectric plants to be dispatched, as well as reservoir-based power plants. La Estrella and Los Valles, both run-of-the-river facilities, are the first units in our portfolio to be dispatched in the system. Estí is normally dispatched similar to run-of-the-river facilities given the limited size of its reservoir. Bayano is generally

dispatched by the CND during the peak load hours, ahead of thermal units. Due to its high efficiency, Estrella del Mar I enjoys a highly competitive position and is usually among the first five thermal generation facilities dispatched. In addition, through a physical contract with AES Changuinola, we purchase all of the generated electricity and firm capacity of the Changuinola I plant, a run-of-the-river hydroelectric facility comprised of three operating units totaling 222 MW of installed capacity.

As described above, we sell most of the electricity we generate to the Distribution Companies and to our Large Customers through firm capacity and energy supply agreements, with the remaining electricity generation sold in the spot market and in the SIEPAC regional market. Currently, our firm capacity is largely under contract pursuant to PPAs with the Distribution Companies and Large Customers at a level in excess of 90% through 2018, and 70% through 2030. Depending on conditions in the electricity market and our operating circumstances, high or low spot market prices for electricity can affect our results of operations negatively or positively, as the case may be. When our actual generation is lower than our contracted capacity, as was often the case during 2013, 2014 and 2015, due to poor hydrology conditions, we must purchase the amount of the shortage in the spot market to fulfill our contractual obligations. When we have to make these purchases, high spot prices increase our operating costs and adversely affect our operating results. Conversely, during periods when our actual generation is higher than our contracted capacity, we are able to sell our excess capacity on the spot market at the then-current spot market price and under these circumstances higher spot market prices generate more revenues and improve our operating results.

The Current Panamanian Electricity Market

As of December 31, 2015, Panama had a mixed hydro-thermal electricity system with a current installed generating capacity (including auto-generators) of approximately 3,235MW. Over 43% of the generating capacity is located in western Panama, close to the Costa Rican border, where the majority of Panama's hydroelectric resources are located. The demand for hydroelectric energy in Panama, however, comes mostly from the eastern region and in particular, Panama City. Panama used hydroelectric power to generate 61% of its electricity in 2015. The Panamanian hydrology conditions for 2011 and 2012 allowed us to generate sufficient power to meet our contracted PPA obligations and sell additional power on the spot market, which reflected positively in our results of operations for those years. See "Selected Financial Information" for more information regarding our results of operations for the years ended 2011 and 2012. However, during 2013 and 2014, Panama experienced one of its worst droughts in over 40 years which in turn negatively impacted the ability of hydroelectric plants such as ours to generate electricity. This situation led to rationing alerts in both years, the implementation of energy-saving measures and some regulatory changes and efforts by the Panamanian government to reduce Panama's dependence on hydroelectric generation by promoting other sources of energy, such as thermal generation. Although hydrology conditions in Panama improved during the first half of 2015 and are expected to improve during the second half of 2016, El Niño, which we experienced in Panama in the second half of 2015 and first half of 2016, negatively impacted hydrology conditions. As a result, hydrology conditions remain below the historical average but have nevertheless improved as compared to 2013 and 2014.

In addition, delays in construction and improvements to electricity transmission lines have resulted in bottlenecks in the transmission system that have limited the amount of energy that can flow from the western region of Panama to the main population center in Panama City. Although these bottlenecks can place and have in the past placed upward pressure on spot prices, their impact was offset in the six months ended June 30, 2016 by other factors such as lower commodity prices. As a result of the bottlenecks leading up to 2015, regulators in Panama changed certain aspects of the way the market operates to mitigate the impact on operating cost for the overall system, including temporarily removing the value of water from spot price calculations (but retaining it for purposes of determining the merit order) and doubling the requirement for minimum reservoir water reserves (including at our Bayano reservoir). As a result of these actions by regulators, as well as poor hydrological conditions, our hydroelectric plants (particularly our reservoir-base facilities) were dispatched less frequently, and we were forced to purchase electricity in the spot market during a period of significantly higher spot prices in order to meet our contractual obligations under our PPAs, which negatively impacted our results of operations in 2013 and 2014. However, improved hydrology, especially in the first half of 2015, and decreasing commodities prices caused the spot price to decrease in 2015, mitigating the financial impact of our purchases in the spot market.

To reduce the impact of high spot market prices on hydroelectric companies due in part to the transmission bottleneck that resulted from inefficient management of the dispatch system and delays in new projects and in transmission line improvements, in 2013, among other measures, the Panamanian government began to negotiate

compensation arrangements with the two hydroelectric companies that were affected, including us. Under our agreement with the Ministry of Finance of Panama, the government agreed to reimburse us for the difference between the cost at which we purchase energy in the spot market and certain prices at which we sell that energy under our PPAs. For further discussion of the reimbursement arrangement, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Principal Factors Affecting Results of Operations—Reimbursement Agreement with the Panamanian government."

Business Strategy

In consideration of the developing dynamics of the Panamanian electricity sector, we believe we have successfully implemented key strategies to reduce the pressures on our business, particularly during the dry season. Current and expected market conditions, including commodity prices, new project additions and changes in hydrology, have reduced our economic incentives to negotiate the early termination of our PPAs in order to free up our contracted capacity, in accordance with our strategy from 2013 to early 2015. Our business focus going forward will be to rebalance our asset and contract portfolio while increasing our flexibility to react to changes in market conditions.

Rebalancing and Diversification of Our Generation Assets – Purchase of Estrella del Mar I

We intend to preserve our leading position in the generation market and reduce our dependency on hydrology by diversifying our existing portfolio of hydroelectric plants through the acquisition of other types of facilities that will complement our existing generation assets. For example, we acquired the Estrella del Mar I thermal generation barge in the fourth quarter of 2014 in the Dominican Republic and moved it to the Colon Province in Panama. The purchase and use of Estrella del Mar I has allowed us to both diversify our generation assets away from solely hydroelectric power, and hedge against the seasonality of hydrology because Estrella del Mar I's dispatch increases in the dry season when our hydroelectric plants are dispatched less frequently and decreases in the wet season when our hydroelectric plants are dispatched more frequently. Estrella del Mar I began operating on March 25, 2015 and has positively impacted our results by contributing additional revenues and stabilizing our variable operating margin.

The total cost of Estrella del Mar I, including purchase price, upgrades, transportation and connection to the grid, was U.S.\$55.8 million. Estrella del Mar I was initially contracted through a five-year physical contract with EGESA. That contract was terminated on July 1, 2015 and replaced with three five-year financial PPAs with the three Distribution Companies. Although these three financial PPAs have the same term as our original physical contract with EGESA, they went into effect five months later, in effect extending our contracted capacity and energy by five months. Under the new financial PPAs, we expect to receive more than U.S.\$40 million per year for our capacity in addition to a variable energy margin based on the dispatch of the plant and the difference between the cost of diesel, which is used as a reference point for setting the price at which the energy is sold, and the actual cost of the bunker fuel purchased to run the barge. Because the new PPAs are financial contracts, when Estrella del Mar I is not dispatched, we will realize an energy margin determined by the difference between the price at which the energy is sold under the PPA and the spot price associated with the replacement energy we purchase in the market. For further discussion on the purchase of Estrella del Mar I and its new PPAs, see "Business—Power Purchase Agreements—Power Purchase agreements with Distribution Companies."

Developing the Large Customer Market

We expect to replace our PPAs that will expire in the short-term with new and renewal contracts with Large Customers whose peak demand is at least 100 kW. Although we believe there is a large number of regulated clients connected to the Distribution Companies' medium voltage grid that meet this 100 kW minimum demand, only 11 of them are under contract with us or with Enel Fortuna, S.A., one of our principal competitors. We believe we will be able to engage these new customers on an incremental basis, and that we will be able to obtain more attractive pricing and greater flexibility from these target customers than under our expiring PPAs. PPAs with Large Customers are negotiated on a bilateral basis and prices are set based on each Large Customer's opportunity cost, which depends on the fees that the Distribution Companies charge based on energy sourced from different production methods, the most competitive of which are the hydroelectric plants. Under PPAs with Large Customers, suppliers are not usually required to post guarantees or face high penalties as is the case with PPAs with the Distribution Companies.

Competitive Strengths

We believe our competitive strengths include the following:

Leading Company Scale and Agility

We are the largest electricity generation company in Panama in terms of installed capacity based on information provided by the CND and we believe we are the largest privately controlled hydroelectric generation company in Central America. Our total assets as of June 30, 2016 were U.S.\$618.3 million. As of June 30, 2016, our installed capacity was 554 MW, which represented 17% of the total installed capacity in Panama, according to information provided by the CND. Due to our scale and position in the market, we believe we are able to identify and react to market conditions with flexibility and from a strong negotiating position. For example, in response to the adverse market environment we experienced in 2013, 2014 and 2015 resulting from low hydrology, delays in upgrades to the transmission system and high spot market prices, we:

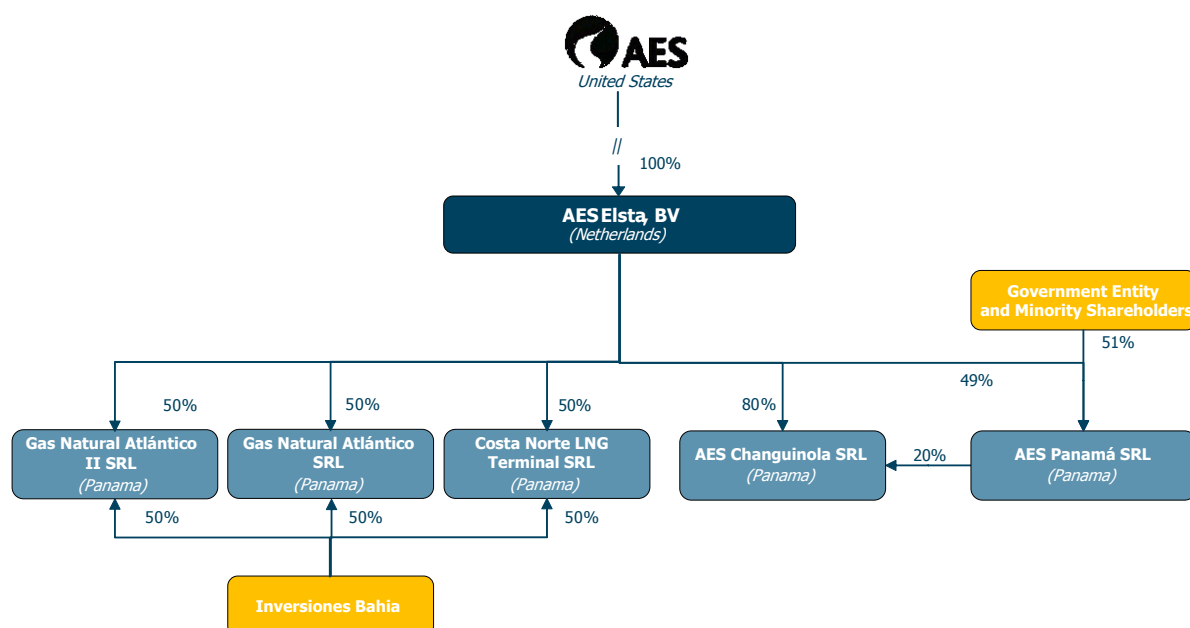
- negotiated an agreement with the Panamanian government to offset the high cost of energy in the spot market during 2014, 2015 and 2016;
- purchased the Estrella del Mar I thermal generation barge to diversify our generation assets and to avoid relying solely on hydroelectric power, thus providing a hedge against the seasonality of hydrology; and
- replaced the initial physical contract with EGESA for Estrella del Mar I with three five-year financial PPAs with each of the three Distribution Companies, effectively extending our contracted capacity and energy by five months, and earning us an additional variable margin on sales of energy produced by Estrella del Mar I.

We believe our results of operations have benefited from these actions. For the years ended December 31, 2014 and 2013, when market conditions were highly unfavorable, our Adjusted EBITDA was U.S.\$12.0 million and U.S.\$56.7 million, respectively. For the year ended December 31, 2015 our Adjusted EBITDA was U.S.\$99.7 million. While we do not believe these adverse conditions have entirely abated, our results of operations for the six months ended June 30, 2016 have improved as compared to the six months ended June 30, 2015, with our Adjusted EBITDA reaching U.S.\$50.4 million.

Principal Equity Holders

We benefit from our relationships with the direct and indirect holders of our equity, The AES Corporation (which owns our direct managing equity holder, AES Elsta) and the Panamanian government. The AES Corporation, or AES, is a Fortune 200 global power company that provides affordable, sustainable energy to 17 countries on three continents (America, Asia and Europe) through a diverse portfolio of distribution businesses as well as thermal and renewable generation facilities. AES manages U.S.\$37.0 billion in total assets. AES currently distributes electricity through its various electric utility subsidiaries to approximately 10.5 million customers worldwide. AES also has 35,687 MW in gross capacity in operation globally. AES and its affiliates provide us with technical expertise and financial and operational management, support and training to help grow our business. Our majority equity holder is the Panamanian government. We benefit from our strong relationship with the government as a result of our shared interest and commitment to the growth of energy generation in Panama. As Panama's GDP has grown and the need for power generation has increased, we believe our interests and those of our majority equity holder are aligned.

Our organizational chart is set forth below.



Low-Cost Provider

Our hydroelectric plants, which comprise the majority of our assets, use freely-available water to generate electricity in a market where high-cost thermal facilities effectively set the price. We believe our low generation costs compared to the higher generation cost for thermal power is a key contributing factor to our maintaining a leading market share and to maximizing our gross profit margin from the sale of electricity in the spot market in an environment of escalating prices, as was the case in 2014 and 2013. In addition, according to the CND, we are the largest electricity generation company in Panama, which provides us with certain economies of scale.

Unique and Diversified Geography and Generation Portfolio

We are the only hydroelectric generation company in Panama with multiple plants in both the western and eastern regions of Panama. With the purchase of Estrella del Mar I, we have a total of 16 individual electricity generation units in five separate locations, resulting in more flexible operations and a more reliable electricity output. Our geographical diversity in the western and eastern regions of Panama mitigates the impact of weather-related volatility as well as existing transmission constraints on our business. We also benefit from diverse hydro-generation designs, including dam-based (reservoirs with small and large regulation), run-of-river and bunker fueled engines, which enable us to be dispatched at several points along the dispatch curve. As run-of-river facilities, the La Estrella and Los Valles hydroelectric plants are typically among the first to be dispatched in the system. Given the different sizes of their reservoirs, the Estí plant is dispatched at similar points in the dispatch order as a run-of-river facility while the Bayano hydroelectric plant is usually dispatched just before the thermal power plants. Due to its high efficiency, Estrella del Mar I has achieved a highly competitive position and priority and is usually dispatched among the top five thermal generation plants dispatched in the system. Also, Estrella del Mar I is located in the eastern region at Colón Province, close to a Chevron fuel supply facility, which decreases our transportation and fuel costs and helps us avoid the transmission bottleneck that affects other generation facilities located in western Panama. In addition, through a physical contract with AES Changuinola, we buy all of the electricity generated by and firm capacity of Changuinola I.

Experienced management and strong operational systems

Our management team is composed of individuals with extensive knowledge of and vast experience with

the Panamanian energy sector. We believe our management team's capabilities and core understanding of both our own business and the related regulatory environment, enable us to operate efficiently and manage risk effectively.

We are certified under the OHSAS 18001 and ISO 14001 standards for integrated safety and environmental management systems in our hydroelectric facilities. We continue to develop our strategic and operational management, which allows us to efficiently plan, prioritize and achieve our objectives. We operate under strict internal financial controls and have historically managed our working capital with a view towards financing growth while limiting excess liquidity. We continuously review and improve our internal procedures and training methods in order to strengthen our relationship with, and improve the safety of, our employees.

History

In November 1998, the Panamanian government sold managing interests in the four generation companies through a competitive international auction. AES Elsta, a wholly owned, indirect subsidiary of AES, submitted a winning bid of U.S.\$91.7 million for 49% interests in each of two generation companies (Bayano and Chiriquí). In acquiring Chiriquí (which at the time consisted of the La Estrella and Los Valles facilities), AES Elsta also received a concession to build, own, and operate the 120 MW Estí facility. The newly-privatized hydropower companies received 50-year concessions granting the use of water.

In connection with this sale, each generation company entered into a separate Administration and Management Fees Agreements with AES Energy. In October 1999, AES Energy caused Bayano to be merged with and into Chiriquí, which changed its name to AES Panamá, S.A. as a result of the merger and created our Company. In 2015, AES Corp simplified its corporate structure and caused AES Energy to transfer ownership of AES Panamá to AES Elsta, along with all the responsibilities that accompanied the investment, such as the Administration and Management Fees Agreements. AES Elsta has managerial and operational control of us through a single Administration and Management Fees Agreements. Under the Administration and Management Fees Agreements, AES Elsta is granted the right to manage and operate our business. The term of the Administration and Management Fees Agreements is 20 years unless terminated earlier as a result of the termination of the concessions.

We are owned jointly by: (i) AES Elsta, which holds 49.1% of our outstanding equity, (ii) the Panamanian government, which holds 50.5% of our outstanding equity and (iii) our employees, who collectively hold the remaining 0.5%. Under the terms of the privatization and applicable law, the Panamanian government retained the right to sell up to 2.0% of our outstanding equity to the employees of AES Panamá. As of June 30, 2016, the Panamanian government had sold only the 0.5% currently held by our employees.

Generation Highlights

Through a sustained investment policy, we have increased the gross capacity of our hydroelectric plants by 96% since 1999 and enhanced AES Panamá's hydraulic potential with the construction of the Estí plant and enhancements made to our other plants. As of June 30, 2016, AES Panamá owns U.S.\$776.5 million in gross Property, Plant and Equipment in the country.

According to information provided by the CND, as of June 30, 2016, we had an estimated installed capacity of 554 MW, which represented 17.1% of the total installed electricity generating capacity in Panama, and estimated firm capacity of 373.6 MW. For the six months ended June 30, 2016, our electricity supplied to the market, including electricity purchased from third parties under contracts, was 1,105 GWh.

Our PPAs represented approximately 93.0% of our firm capacity for 2015, 91.0% for 2014 and 93.0% for 2013. The slight increase in our firm capacity between 2014 and 2015 was related to the acquisition in 2015 of a new PPA for Estrella del Mar I that commits an additional 13 MW from our hydroelectric asset portfolio and to the renewal of certain PPAs with existing Large Customers. During 2015, our short-term excess capacity sale to other generators represented a total contribution of U.S.\$1.4 million as compared to U.S.\$2.7 million in 2014. These additional 13 MW of contracted capacity exceed the generation capacity of Estrella del Mar I. Even though our hydroelectric plants generate sufficient energy to cover the additional 13 MW, market regulations require that we maintain backup reserve contracts as evidence that we can cover that deficit. In June 2015, we entered into two 5-year reserve contracts with AES Changuinola, pursuant to which we sell 13 MW to AES Changuinola and AES

Changuinola sells back those 13 MW to us at the same price and conditions. These contracts have no net effect on our or AES Changuinola's results.

Our affiliate, AES Changuinola, is the owner of the Changuinola plant. On March 9, 2007, we entered into a financial PPA with AES Changuinola for the purchase and sale of firm capacity and energy for a period of ten years. On June 25, 2012, we extended the term of the PPA until December 31, 2030. As a result of extreme hydrological conditions in Panama, and in accordance with the terms of the PPA, on May 30, 2013 AES Changuinola requested a reduction in its supply commitments. As a result, and following negotiations with AES Changuinola, in August 2013 we amended the PPA, changing it from a financial contract to a physical contract. For a description of the effects of this change, see "Risk Factors—AES, our managing equity holder, may exercise management control in a manner that differs from our interests or your interests as a Noteholder." On November 25, 2013 we capitalized an account receivable from AES Changuinola in the amount of U.S.\$63.2 million into a 20% equity interest in the corporate capital of AES Changuinola. In December, 2015, we entered into a fourth amendment through which we set a fixed price for all of the energy we purchase from the Changuinola plant from 2023 until the contract expires in 2030.

As an additional hedge against our current spot market exposure and depending on prevailing market conditions, we are considering other opportunities, such as developing our trade relationships within the SIEPAC regional market in order to import and export more electricity from and to the MER based on short-term transactions when opportunities arise. In recent years, we have imported energy from MER, in particular from our affiliates in El Salvador, AES CLESA, SCCV and from Empresa Eléctrica de Oriente, S.A. de C.V., reducing our purchases from the local spot market and generating U.S.\$1.6 million in savings in 2014 and U.S.\$0.2 million in savings in for 2015.

Power-Generating Facilities

Based on information provided by the CND, our power generating facilities are among those achieving best performance in the Panamanian electricity sector, with low rates of forced unavailability (period of time a power plant is taken out of service for maintenance). We believe that this performance is the result of our investment in planned preventive maintenance and reactivation of power plants.

We believe that our generation portfolio has considerable geographic diversity and is very competitive. The hydroelectric portfolio is made up of run-of-river facilities, which are typically the first plants to be dispatched, and reservoir-based plants. We also own and operate a thermal plant. Additionally, we purchase through a PPA all the energy and firm capacity of AES Changuinola's hydroelectric run-of-river plant, with a small reservoir located in the Caribbean basin of Panama. The geographical diversity of our plants mitigates the impact of weather-related volatility in hydrology as well as potential transmission constraints. The table below sets forth our installed capacity (in MWs) (unless stated otherwise, the source for all the information shown in the tables and graphs in this "Business" section is AES Panamá, S.R.L.)

Facility and Unit	Six Months ended June 30	Years ended December 31,		
	2016	2015	2014	2013
		MW		
Bayano				
Unit 1	87.0	87.0	87.0	87.0
Unit 2	87.0	87.0	87.0	87.0
Unit 3	86.0	86.0	86.0	86.0
Total	260.0	260.0	260.0	260.0
Estí				
Unit 1	60.0	60.0	60.0	60.0
Unit 2	60.0	60.0	60.0	60.0
Total	120.0	120.0	120.0	120.0

Los Valles				
Unit 1	27.4	27.4	27.4	27.4
Unit 2	27.4	27.4	27.4	27.4
Total	54.8	54.8	54.8	54.8
La Estrella				
Unit 1	23.6	23.6	23.6	23.6
Unit 2	23.6	23.6	23.6	23.6
Total	47.2	47.2	47.2	47.2
Estrella del Mar I				
Total	72.0	72.0	0	0
Total AES Panamá	554.0	554.0	482.0	482.0
Changuinola				
Unit 1	106.2	106.2	106.2	106.2
Unit 2	106.2	106.2	106.2	106.2
Mini Chan	9.8	9.8	9.8	9.8
Total AES Changuinola	222.2	222.2	222.2	222.2

Source: CND Annual Reports for 2013, 2014 and 2015. AES Panamá, S.R.L. for 2016 data.

Our total installed capacity of 554 MW at June 30, 2016 represents increases of approximately 96.0% compared to our installed capacity at the time our predecessor Company was privatized in 1998 of 282.8 MW. We are responsible for the maintenance and operation of these power plants, including Changuinola.

The following table details our facilities' net generation in GWh for the period from 2011 to 2015 and for the six months ended June 30, 2016.

Facility	GWh					
	Six months ended June 30,	Years ended December 31,				
	2016	2015	2014	2013	2012	2011
Bayano	171.7	365.4	400.0	610.2	714.8	751.3
Estí	194.4	456.7	389.0	436.1	307.5	0.0
Los Valles	84.2	209.9	199.4	209.7	247.5	283.2
La Estrella	66.3	179.3	160.4	170.1	196.1	240.0
Estrella del Mar I	235.5	301.1	—	—	—	—
Total AES Panamá	752.1	1,512.3	1,148.8	1,426.1	1,465.9	1,274.5
Changuinola	352.9	1,064.0	823.4	716.0	994.9	352.5

Bayano

The Bayano hydroelectric plant, located in the province of Panama, approximately 80 kilometers east of Panama City, was constructed from 1972 to 1976 with a capacity for up to four units. Bayano 1 (75 MW) and Bayano 2 (75 MW) were commissioned in July and October of 1976, respectively. Bayano 3 (86 MW) was commissioned in November 2002 as part of the expansion and upgrade of the Bayano facility. The Bayano hydroelectric plant utilizes the flow of the Bayano River, which feeds a 350 km² reservoir. Under this same initiative, Bayano 1 and Bayano 2 each were upgraded to 87 MW in September 2003 and February 2004, respectively. The Bayano hydroelectric plant has a total installed capacity of 260 MW and an average total firm capacity of 160 MW.

The following table summarizes the historical availability factor, capacity factor and generation for the Bayano hydroelectric plant for 2011 through 2015 and for the six months ended June 30, 2016:

	Six months ended June 30	Years ended December 31,				
	2016	2015	2014 ⁽¹⁾	2013	2012	2011
Net Generation (GWh)	171.7	365.4	400.0	610.2	714.8	751.3
Equivalent Availability factor (%)	66.2	75.7	96.1 ⁽¹⁾	95.4	93.9	93.3
Net Capacity factor (%)	15.1	16.0	17.6	26.8	31.3	33.0

(1) Bayano Unit 1 (87MW) experienced a forced outage mainly due to damage to its turbine rotor of this unit on May 9, 2015. The unit is expected to resume operation by October 11, 2016, due to a failure of the rotor of Unit 1.

(2) Estrella del Mar I Unit 2 (10MW) was placed out of service on July 14, 2015 as a result of a fire in its fuel injection pump. This unit has been operational since February 29, 2016.

Chiriquí (La Estrella, Los Valles and Estí)

La Estrella hydroelectric plant is located between the towns of Boquete and Caldera, approximately 40 kilometers north of the city of David, in the western province of Chiriquí. The La Estrella plant has two units with a total installed capacity of 47.2 MW, La Estrella 1 (23.6 MW) and La Estrella 2 (23.6 MW), and an average total firm capacity of 16 MW. Commissioned in 1979, La Estrella utilizes the flows of the Caldera River, diverted approximately two kilometers south of Boquete. La Estrella has a small reservoir with storage capacity of three hours of generation at maximum load.

Los Valles hydroelectric plant is located approximately three kilometers northwest of the town of Caldera. The Los Valles plant has two units with a total installed capacity of 55 MW, Los Valles 1 (27.4 MW) and Los Valles 2 (27.4 MW), and an average total firm capacity of 17 MW. Commissioned in 1979, Los Valles utilizes the discharges from La Estrella, augmented by flows diverted from the Los Valles River. La Estrella and Los Valles are both run-of-river facilities, with the addition of small reservoirs and marginal costs of U.S.\$0. The units at La Estrella and Los Valles have a top dispatch priority in the system and are dispatched almost continuously.

The Estí hydroelectric plant, located in the province of Chiriquí, approximately 25 kilometers northeast of the city of David and 400 kilometers west of Panama City, was constructed in November 2003. The Estí plant has two units with a total installed capacity of 120 MW, Estí 1 (60 MW) and Estí 2 (60 MW), and an average total firm capacity of 111 MW. The Estí plant uses the outflow from the existing Los Valles, La Estrella and Fortuna hydroelectric power plants, intervening inflows of the Caldera and Chiriquí Rivers and the natural flows of the Barrigón River. For an overview of the hydroelectric facilities in Panama, see "Overview of the Panamanian Electricity Industry—Industry Segments—Generation." The Estí plant has a storage capacity of 11 hours of generation at maximum load.

Major maintenance was performed in the years 2000 and 2001 in La Estrella and Los Valles. This maintenance included the installation of a new transformer and new excitation systems. Excitation systems are used to start our generators. In addition, we acquired a dredging machine to maintain clean reservoirs in La Estrella and Los Valles. This maintenance, together with the installation of a state-of-the-art supervisory control and data acquisition, or SCADA, system for both La Estrella and Los Valles, allow us to maximize plant safety and reliability while maintaining the ability to optimize the operation of the hydroelectric facilities.

The following table summarizes the historical availability factor, capacity factor and generation for the Estí, La Estrella and Los Valles plants for 2011 through 2015 and for the six months ended June 30, 2016:

	Six months ended June 30	Years ended December 31,				
	2016	2015	2014	2013	2012	2011
Net Generation (GWh)	344.9	845.9	748.8	815.9	751.1	523.2
Equivalent Availability factor (%).....	94.5	95.3	97.2	94.4	73.8	43.8
Net Capacity factor (%).....	35.8	43.8	38.8	42.2	38.8	27.3

Estrella del Mar I

Estrella del Mar I is a 72 MW thermal generation plant on a barge, divided between seven groups of Wartsila engine/generators, currently located in Bahía Las Minas near a Chevron fuel supply facility, in the Colón province. The plant is able to run on both No. 6 and No. 2 fuel oil, with a thermal rate of approximately 8,350 BTU/MWh. Estrella del Mar I was purchased from Barrick Gold in the Dominican Republic, through a Purchase Agreement finalized on July 4, 2014, and began operations on March 25, 2015.

The following table summarizes the historical availability factor, capacity factor and generation for Estrella del Mar I for 2015 and for the six months ended June 30, 2016:

	Six months ended June 30	Year ended December 31,
	2016	2015
Net Generation (GWh).....	235.5	301.1
Equivalent Availability factor (%)	86.9	86.5
Net Capacity factor (%)	74.9	69.2

Power Purchase Agreements

Power Purchase Agreements with Distribution Companies

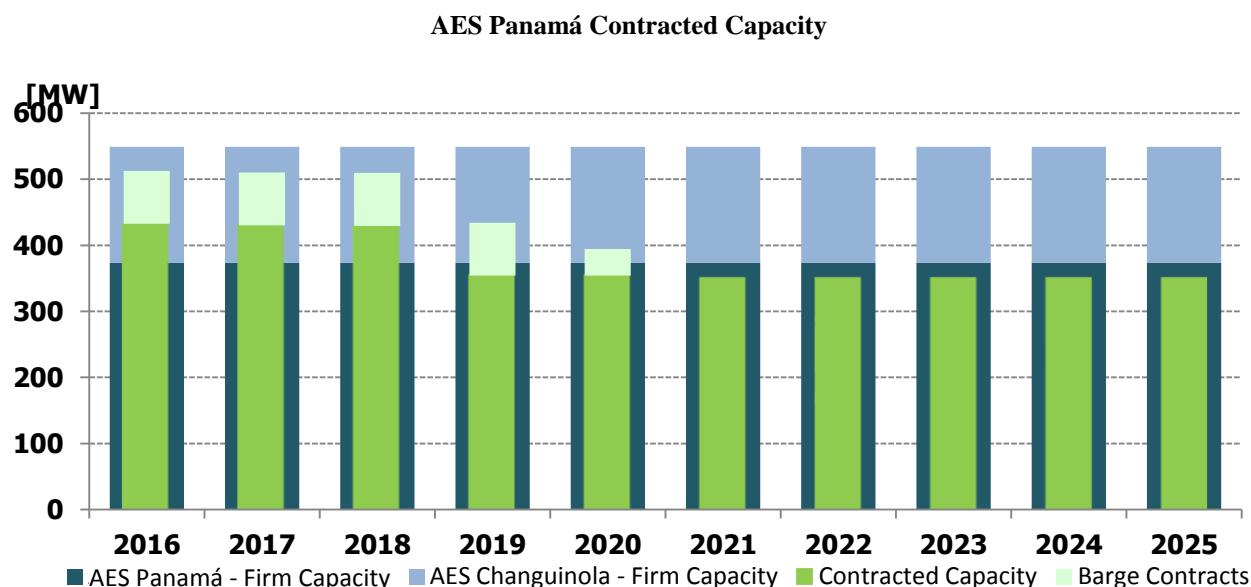
We entered into firm capacity and associated energy contracts with the Distribution Companies in 2012. Our energy supply contracts cover the period between 2015 and 2030. The average all-in price throughout the life of the contract is U.S.\$0.11 per kilowatt/hour. In December 2015, some of our PPAs with Large Customers terminated and we renewed 3.0 MW's worth of contracted capacity on more favorable terms, including longer contract terms (5 years) and a higher average electricity price of U.S.\$0.115 per kilowatt/hour. With these contracts, our hydroelectric assets portfolio is contracted at more than (90%) of its firm capacity until 2018 and approximately 73% for the years 2019 to 2030.

The price terms contained in most of our hydro-based PPAs with the Distribution Companies and many of our Large Customers are fixed, with no indexation; however, our most recently-signed PPAs with Large Customers include inflation adjustments. The average all-in price under our hydro-based PPAs during 2015 was approximately U.S.\$84 per MWh, which was lower than the average spot market price of U.S.\$92 per MWh during the same period, which adversely affected our operating margins and profitability to the extent that we were required to purchase electricity on the spot market during that period to cover our obligations under our PPAs.

Our thermal-based PPAs, all of which are entered into with the Distribution Companies, incorporate fuel indexations in their contracted energy price calculation. Under these PPAs, operating margins result primarily from capacity payments, and we earn an additional, smaller margin from our contracted energy, which consists of (i) the difference between the energy price used to calculate energy costs under the PPAs and the actual cost of fuel used to run Estrella del Mar I when the plant is dispatched or (ii) the cost of spot market purchases for replacement energy when the plant is not dispatched. Estrella del Mar I was initially contracted through a five-year physical contract with EGESA. That contract with EGESA was terminated by mutual agreement on July 1, 2015 and replaced with three five-year financial PPAs with the three Distribution Companies. Although these three financial PPAs have the same term as our original physical contract with EGESA, they went into effect five months later, in effect extending our contracted capacity and energy by five months. Under the new financial PPAs, we expect to receive more than U.S.\$40 million per year for our capacity in addition to a variable energy margin based on the dispatch of the plant

and the difference between the cost of diesel, which is used as the reference point for setting the price at which the energy is sold, and the actual cost of the bunker fuel purchased to run Estrella del Mar I.

The following chart shows our contracted capacity through 2022:



	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
AES Panamá – Firm Capacity	374	374	374	374	374	374	374	374	374	374
AES Changuinola – Firm Capacity	175	175	175	175	175	175	175	175	175	175
Total Firm Capacity	549	549	549	549	549	549	549	549	549	549
Contracted Capacity	433	430	429	354	350	350	350	350	350	350
Estrella del Mar I Contracts	80	80	80	80	40	0	0	0	0	0
MW Available ⁽¹⁾	36	39	39	115	155	199	199	199	199	199
Contract Level (%)	93%	93%	93%	79%	72%	64%	64%	64%	64%	64%

(1) Does not reflect reserve agreement we entered into with Gas Natural Atlántico S.R.L in March 2016, pursuant to which Gas Natural Atlántico S.R.L has the option to buy as backup capacity 35 MW of our firm capacity between May 1, 2018 and December 31st 2018 (required to be exercised before January 2018) and 100 MW between January 1, 2019 and December 31, 2019 (required to be exercised before January 2018). The agreement renews automatically and thereafter annually unless otherwise agreed to by the parties.

Under each of the power purchase agreements:

- With the exception of some of our recently-negotiated contracts with Large Customers and the three Estrella del Mar I PPAs, pricing terms under our PPAs for both capacity and energy are fixed, with no indexation.
- Distributors are required to pay for contracted energy on a monthly basis upon receipt of our invoices. The payments to be made by distributors under the PPAs are calculated by multiplying the price contemplated in the relevant PPA by the applicable consumption indicator determined by the CND.
- Distributors are generally required to pay for contracted firm capacity without regard to the CND's dispatch decisions.

- We have issued an aggregate of U.S.\$28 million in performance bonds in order to secure our commitments to supply our contracted energy under those agreements. We have a 30-day cure period to remedy any defaults.
- In the event that we materially breach our obligations under a PPA and do not remedy the breach within the cure periods provided therein (ranging from 24 hours to 30 days), the purchaser has the right to terminate its contract, in which case we may forfeit the performance bond to the purchaser.
- Distributors are required to provide a security deposit guaranteeing one month's payment.
- Any conflict or disagreement which arises among the parties and is not resolved by direct negotiation among the parties must be resolved through arbitration by ASEP.
- If we fail to deliver promised capacity and the failure is not caused by a force majeure event, we may be liable for penalties up to seven times the price of the contracted capacity. In the case of energy, a penalty will be applied only for failures occurring during energy rationing and could total up to seven times the price of the contracted energy that we fail to deliver. In any case, we can buy replacement energy through bilateral contracts with other generating companies and on the spot market.

Changuinola Power Purchase Agreement

On March 9, 2007, we signed a ten year PPA with our affiliate AES Changuinola, beginning in 2011 and expiring in 2020, under which we, as sole offtaker, purchase all of the generated electricity and firm capacity of the Changuinola plant. On June 25, 2012, we executed an amendment agreement to extend the term of the PPA until December 31, 2030. As a result of extreme hydrological conditions, on May 30, 2013, AES Changuinola exercised its rights under the PPA and requested to be relieved of its electricity supply commitments under the PPA. Following extended negotiations, on August 29, 2013 we executed an amendment agreement, to transform our PPA with AES Changuinola from a financial contract to a physical contract, pursuant to which we are required to purchase the energy generated by AES Changuinola. On December, 2015, we entered into a fourth amendment through which we set a fixed price for all of the energy we purchase from the Changuinola plant until the contract expires in 2030.

The following table summarizes the historical availability, capacity and generation for Changuinola for 2011 through 2015 and for the six months ended June 30, 2016:

	Six months ended June 30	Years ended December 31,				
	2016	2015	2014	2013	2012	2011
Net Generation (GWh).....	352.9	1,064.0	823.4	716.0	994.9	352.5
Equivalent Availability factor (%).....	98.0	96.5	97.2	97.6	88.1	N/A
Net Capacity factor (%).....	36.7	55.2	42.8	37.2	51.5	N/A

Concession Agreements

The Panamanian government has granted us 50-year concessions for the continued operation of our electricity generation plants at Bayano, La Estrella, Los Valles and Estí. At the end of the initial 50-year term, each concession may be renewed for a term of up to 50 additional years subject to the approval of ASEP. Pursuant to the concessions, we are authorized to provide public electricity generation services, including the operation and maintenance of electricity generation plants interconnected with the transmission networks, for the purpose of producing and selling electrical energy nationally and internationally. See "Related Party Transactions—Concession Agreements."

Each concession requires us to post a performance bond in Balboas, equivalent to U.S.\$10 million for each of the Bayano and Estí facilities and U.S.\$4 million for each of the La Estrella and Los Valles facilities, which must be renewed yearly for the duration of the concession.

The concessions for the continued operation of our Bayano, La Estrella, Los Valles and Estí facilities include the following terms:

- we may not acquire direct or indirect control of existing hydroelectric facilities if the acquisition would cause our generation capacity to exceed 25% of the electricity demand in the Panamanian market;
- we are required to maintain mandated safety standards;
- we are required to preserve the nature, purpose and use of the hydroelectric facilities;
- we are responsible for the maintenance, repair and security of the hydroelectric complex, including the dam;
- we are required to take necessary measures to prevent damage to persons or entities and personal and real property related to our hydroelectric facilities;
- we are required to act diligently in conserving the physical integrity, utility and safety of our hydroelectric facilities and to provide ASEP with all requested documentation with respect to the safety of such facilities;
- we are required to carry out any necessary emergency repairs to our hydroelectric facilities to comply with safety guidelines;
- we are required to comply with all relevant environmental and health and safety laws;
- we are required to obtain and maintain insurance in accordance with prudent industry practices;
- we are required to maintain our corporate purpose;
- we are required to collaborate with ASEP with respect to inspections of our hydroelectric facilities and to comply with any laws and regulations issued by ASEP, including labor and social security laws and regulations; and
- we are required to obtain the prior approval of ASEP to increase the capacity of our facilities by 15% or more (or, in the case of the Bayano concession, by 100% or more).

We are subject to administrative rules and regulations and certain fines and sanctions if we violate those rules and regulations, including (i) continuous breaches of the rules and regulations governing public service providers; and (ii) any material breach of the concession agreements.

In the event of an administrative proceeding with respect to any of the concession agreements, we would be notified in writing of such breach and given 150 to 210 days to cure the breach. If the breach is not cured during this period, we could be subject to arbitration. During the administrative and arbitration proceedings, the Panamanian government could (i) take possession of the hydroelectric facility in question and control all the assets, networks and equipment, but would not have title to those assets, networks and equipment; (ii) pay the fair market value of the assets of the complex that are subject to the concession, less 10%; and (iii) enforce the related performance bond. The fair market value of the assets is equal to the fair market value of the equity plus all indebtedness of the Company, less (i) all indebtedness assumed by the prospective buyer and (ii) the fair market value of all assets that are not necessary to render electricity services. The fair market value will be determined under the assumption that the concession is in effect and the hydroelectric facility is in full operation.

The concession agreements may be terminated upon (i) our continuous noncompliance with the rules and regulations governing public service providers; (ii) a material breach by us of the concession agreements; (iii) the mutual agreement of the parties; (iv) bankruptcy or dissolution of, or suspension of payments by, us, if such circumstances prevent us from complying with our obligations under the concession agreements; or (v) the unilateral decision by the Panamanian government in case of war, serious disturbance of the public order or urgent social

interest. In the event that the Panamanian government seeks to terminate any concession pursuant to (i) or (ii) above, the related claim or controversy will result in an administrative proceeding whereby we would be notified in writing of our breach and given 150 to 210 days to cure the breach. If the breach is not cured during this time frame, the related claim or controversy is required to be settled exclusively by binding arbitration conducted in accordance with the arbitration rules of the United Nations Commission on International Law and be governed by Panamanian law. Any decision or award of the arbitrator will be final and binding upon the parties.

In connection with the granting of the electricity generation concessions, the Panamanian government, through the *Instituto Nacional de Recursos Naturales Renovables* (the National Natural Resources Institute), which was replaced by the Environment Ministry (formerly the ANAM) in 1998, granted us four water concessions to use the water resources of (i) for Bayano, the Bayano river; (ii) for La Estrella, the Los Valles river; (iii) for Los Valles, the Caldera river; and (iv) for Estí, the Chiriquí and Estí rivers and the Barrigón ravine, in order to generate electricity through our hydroelectric plants, until the termination of our concession agreements with ASEP.

The concessions for use of water resources entered into with the National Natural Resources Entity (now the Environment Ministry) allow us to use limited volumes of water in terms of millions of cubic meters for each of our plants.

In addition, under the terms of the water concessions, we must:

- use the relevant water resources exclusively for the purposes authorized in the concession agreement;
- comply with existing environmental regulations, and particularly with Decree Law 35 of September 22, 1966 (water use), Executive Decree No. 70 of July 27, 1973 (water use permits) and Law 1 of February 3, 1994 (use of forest). These regulations require us to (i) have in place an effective and rational water system that does not affect the use of water for other purposes (Art. 20, Decree Law 35 of September 22, 1966); (ii) not dispose of any type of industrial waste or substance that may pollute or cause a health hazard in the relevant rivers and ravines (Art. 39, Decree Law 35 of September 22, 1966); (iii) not cut down trees within a prescribed radius from the river's source or from the area surrounding the river (Art. 23, Law 1 of February 3, 1994); (iv) not cut down any trees within the forest reserve (Art. 24, Law 1 of February 3, 1994); and (v) not construct dams or alter the riverbed without the Panamanian government's express authorization (Art 99, Law 1 of February 3, 1994);
- permit the Environment Ministry technicians access to the property and installations for verification purposes; and
- pay to the Environment Ministry, in equal monthly installments, an annual fee of:
 - U.S.\$61,237.05 for Bayano;
 - U.S.\$1,347.15 for La Estrella;
 - U.S.\$3,011.18 for Los Valles; and
 - U.S.\$30,538.60 for Estí.

Each of the water concession agreements will terminate if we (i) contaminate the water resources subject to the applicable water concession agreement, (ii) breach a related concession agreement, (iii) are declared bankrupt or insolvent or (iv) are liquidated.

We must comply with all applicable environmental regulations and with the results of all environmental audits approved by the competent Panamanian authority.

Reimbursement Agreement with the Panamanian government

As a result of the high cost of purchasing energy in the spot market, the ongoing low hydrology in Panama in 2013 and 2014, which affected the supply of water to hydroelectric plants and our ability to meet our obligations under our PPAs, the Panamanian government's responsibility for the inefficiency of the dispatch system, and the transmission bottlenecks and delays in upgrades and improvements to the transmission system, we reached an agreement whereby the government agreed to reimburse us during 2014, 2015 and 2016 for our high-cost energy purchases on the spot market. The period during which we are entitled to receive reimbursements under the agreement was intended to correspond to the date when the improvements in the transmission line are scheduled to be completed, but there is no assurance that these improvements will be completed by the end of 2016, when the term of the compensation mechanism lapses. The compensation mechanism is based on a formula which compensates the spread between the price at which we purchase energy in the spot market and the contract price under our PPAs with the Distribution Companies for an agreed quantity of 70MW, with a maximum reimbursement amount of up to U.S.\$40.0 million in 2014, U.S.\$30.0 million in 2015 and U.S.\$30.0 million in 2016. Once the annual limit is reached, we bear the full cost of purchasing (or generating) the remainder of the contracted power for the remainder of the year, even if costs continue to exceed the contracted sale prices. In 2014, we invoiced U.S.\$39.5 million and as of December 31, 2015 we have collected U.S.\$36.6 million in reimbursements, reducing the costs of our purchases of electricity. We invoiced but have not collected an additional U.S.\$5.8 million and U.S.\$0.9 million, respectively, in 2015 and in the six months ended June 30, 2016. As of the date of this offering memorandum, the total amount we have invoiced the Panamanian government but have not collected was U.S.\$9.6 million in reimbursements. Even if the compensation mechanism is held to be constitutional, given our current expectations for spot prices as affected by market factors such as low commodities prices and higher reserve margins, in 2016, we expect to invoice significantly less in reimbursements compared to previous years.

In early 2015, the Comptroller challenged the constitutionality of the resolution that approved the reimbursement agreement. For more information on this proceeding please see "—Legal Proceedings—Challenge to Reimbursement Agreement."

Water Resources

The following table shows water inflows, energy generation, and reservoir levels (Bayano and Estí) at the end of each year for the period indicated. The inflows show the variability of the region's rainfall.

	Years Ended December 31,				
	2015	2014	2013	2012	2011
Bayano					
Inflows (m ³ /s).....	107.1	148.9	183.8	220.7	212.1
Reservoir level (meters above sea level)	59.8	60.9	59.0	60.7	60.7
Energy production (GWh)	365.4	400.0	610.2	714.8	751.3
Estí*					
Inflows (m ³ /s).....	52.9	44.6	48.9	60.9	0.0
Energy production (GWh).....	456.7	389.0	436.1	307.5	0.0
La Estrella					
Inflows (m ³ /s).....	6.8	6.1	6.5	7.4	9.0
Energy production (GWh)	179.3	160.4	170.1	196.1	240.0
Los Valles					
Inflows (m ³ /s).....	10.6	9.7	10.2	12.0	14.2
Energy production (GWh).....	209.9	199.4	209.7	247.5	283.2

*Estí inflows affected by the tunnel collapse from 2010 to 2012.

Fuel Supply

The Estrella del Mar I plant is supplied fuel (No. 6 and No. 2 fuel oil) through a five-year fuel supply contract with a Brazilian subsidiary of Chevron, at Platt's Index Price plus a premium that varies depending on a prompt payment schedule. The volume under this contract is variable with no annual minimum. Fuel logistics mainly consist of transportation through a one-kilometer pipeline from the refinery facility to Estrella del Mar.

Competition

Generators in Panama compete on the basis of availability, cost and price. In the energy spot market, generators compete on the basis of availability and variable cost, and in the power purchase agreement market on the basis of bid prices for capacity and energy. These two markets currently provide most of our revenues. We believe that we have a strong position in each market.

Our principal competitors are (i) Enel Fortuna, S.A., which to our knowledge is controlled by ENEL Green Power, which has a single hydroelectric plant with an installed capacity of 300 MW, (ii) the hydroelectric plants (Lorena, Prudencia and Gualaca) with an installed capacity of 115 MW and the thermal plants (Bahia Las Minas and Cativá Plants) with an installed capacity of 367 MW, which to our knowledge is controlled by Celsia from Colombia, and (iii) the Panama Canal Authority, with five plants, including hydroelectric, thermal, vapor and internal combustion facilities, with an installed capacity of 291 MW.

Employees

Our workforce at June 30, 2016 consisted of 177 full-time employees. The following table provides a breakdown of our employees by category.

	As of June 30, 2016
Executive Officers.....	16
Supervisors.....	9
Professionals (including engineers and accountants).....	58
Technicians.....	75
Clerical and others.....	19
Total	177

We also employ independent contractors for the performance of many of our activities not related to our core business, such as maintenance of equipment, security and our internal communications network.

We do not have an external labor union. Our employees, in coordination with us, formed a labor union to prevent external labor unions from engaging our workforce to enter into collective bargaining agreement with them. Our labor relations are governed by a collective bargaining agreement that was negotiated between management and our employees and establishes the level of compensation and other benefits for each employee. Our collective bargaining agreement expires in 2019. We believe that our relations with our employees are generally good.

Panamanian labor law recognizes the right of employees to form and join unions. Workers also have the right to strike to try to improve working conditions, although we have never suffered a strike. Collective conflicts may be submitted to arbitration. Each employee has the right to an unpaid non-working day per week, and every employee who has worked for 11 months without interruption has the right to 30 days of paid vacation, at a rate of one day for every 11 days of services rendered to the employer. All employers must withhold from the salary of its employees social security contributions, educational insurance quotas and applicable income taxes.

The Panamanian Labor Code establishes the payment of a seniority premium. For this purpose a provision has been established based on a compensation of one week for each year of work, which amounts to 1.92% of the salaries paid during the year.

The Law No. 44 of August 12, 1995 establishes that, from the moment the law entered into effect, employers are compelled to establish a severance fund to pay employees the seniority bonus and severance pay for unjustified dismissal as established in the Labor Code. This fund is constituted based on the installment required for the seniority bonus and 5% of the monthly installment for severance pay.

Properties

The principal properties we operate pursuant to our concessions consist of the Bayano, Estí, La Estrella and Los Valles hydroelectric plants and Estrella del Mar I. See "—Hydroelectric Generation." Our administrative headquarters are located in Panama City.

Insurance

We maintain insurance to cover losses caused by fire, flood, earthquake, windstorm, business interruption, machinery breakdown, third party liability and transportation. We currently maintain an "all risk" real and personal property insurance policy with a reputable issuer. The maximum amount of benefits that we are entitled to receive under this "all risk" insurance policy is U.S.\$600 million per covered event. This policy expires on January 1, 2017 and we expect to renew it for a 12-month period under similar terms, as has been done in past years.

Environmental Matters

We are subject to a broad range of environmental and health and safety laws and regulations in Panama, relating to, among other things, the limits of emissions that all generators may produce, water and air quality, noise, the forest habitat, minimizing risks to the environment while maintaining the quality, safety and efficiency of the electricity sector, and the use and handling of hazardous materials and waste disposal practices. Additionally, our Estí and Chiriquí facilities (which consists of the Estrella del Mar I and Los Valles facilities) are located in an environmental preserve and are subject to strict permitting requirements. We believe that we are in compliance in all material respects with these laws and regulations. In July 1998, the Panamanian government enacted environmental legislation creating an environmental agency, the ANAM, which was replaced by the Environmental Ministry through of Law No. 8 of March 25, 2015, and imposing new environmental standards, many of which are applicable to us. We are currently not subject to the 10% ecological flow requirement for water concessions. In September 2006, the Environment Ministry's Resolution AG-0522-2006, which specifies such requirement, does not apply to existing concessionaires, such as us.

Legal Proceedings

We are involved in several legal proceedings in the ordinary course of business. Our management is required to assess the magnitude in each individual case and provide an estimate of potential damages in the cases where there is a reasonable likelihood that we will be adversely affected. Our pending legal matters are reviewed on a quarterly basis and any provision we make is adjusted, depending on specific developments in each case. Our management, in conjunction with our external legal counsel, submits a status report which serves as the basis for calculating the provision. Based on consultations with our legal counsel, we have determined that any potential adverse outcome under these proceedings would not have a material adverse effect on our overall financial condition, results of operations or cash flows; accordingly, as of June 30, 2016, we did not provide for any contingencies. Our only proceedings outside of our ordinary course of business are outlined below.

Challenge to Reimbursement Agreement

On April 20, 2015, the Comptroller General of Panama filed a motion before the Supreme Court of Panama to determine whether the resolution of the Panamanian government that authorized its reimbursement agreement with us (Cabinet Resolution No. 42 dated March 31, 2014, or the Cabinet Resolution) contravened certain articles of the Panamanian Constitution. The Supreme Court requested that the Attorney General of Panama opine on the motion. On May 7, 2015, the Attorney General opined that the Cabinet Resolution should be declared unconstitutional. The case has completed all procedural steps and is pending a ruling from the Supreme Court. The Supreme Court will issue a final and non-appealable ruling. We have also been advised by Panamanian counsel that, in the event we do not prevail, any judgment would affect pending and future payments and should not have a retroactive effect. Although, there can be no assurance that we will be successful in arguing to the Supreme Court that the Cabinet Resolution is constitutional, we believe that we will likely prevail, and we have recorded no reserves in our financial statements in connection with this matter. See "Risk Factors—Risks relating to our business—Termination of, or delays in payments we receive under, our compensation reimbursement agreement with the Panamanian government could adversely affect our results" for a discussion of the risks associated with the failure of the Panamanian government to make, or a termination of our right to receive, pending or future payments under the reimbursement agreement and "—Reimbursement Agreement with the Panamanian government" for a further discussion of the reimbursement agreement generally.

La Estrella Land Dispute

A portion of the La Estrella facility is constructed on land that is in dispute with the reputed original owners. The dispute involves approximately two hectares and 858.4 square meters of land registered to be owned by Constructora Tymisa, S.A. The disputed land had been originally used by the former Instituto de Recursos Hidraulicos y Electrificación (IRHE) and Empresa de Generación Electrica de Chiriquí, S.A., who built and had operated La Estrella since 1979. In 1998, we acquired IRHE's equity stake in Empresa de Generación Electrica de Chiriquí, S.A., which included their possession rights over the land, which at that time was not yet disputed. The required period for ownership by adverse possession without clear title in Panama is 15 years, which period has lapsed since that acquisition.

On August 8, 2002, we filed a lawsuit together with a seizure request against Ganadera Guerra, S.A., before the Seventh Circuit Civil Court (Chiriquí), seeking to prevent Ganadera Guerra, S.A. from taking actions with respect to the land that could be detrimental to our interests. The land was seized but the Seventh Circuit Civil Court (Chiriquí) and the High Court of the Third Judicial Circuit ruled in favor of Ganadera Guerra, S.A. We filed and supported an Appeal for Dismissal before the First Civil Chamber of the Supreme Court. The final written arguments were filed in November 2006. In a judgment rendered on May 28, 2010, the First Chamber of the Supreme Court decided not to annul the judgment of the Superior Court, so the ruling remained in favor of Ganadera Guerra, S.A. On June 14, 2010, we timely filed a request before the First Chamber of the Supreme Court for clarification of the judgment, with respect to which, by resolution of June 6, 2014, the First Chamber of the Supreme Court ruled on only a clarification of the area covered by the injunction and did not grant any appeal in our favor. However, we continue to analyze any legal, administrative and/or commercial options to secure ownership over the land, although there can be no assurance that we will be successful in our efforts.

Subsequently in July 2015, Ganadera Guerra, S.A. sold the totality of the land to Constructora Tymisa, S.A. for a total price of U.S.\$10,000.

In September 2015, we filed a request for AESP to grant us ownership of the area in dispute. After we filed our request, the Supreme Court declared the laws that had provided ASEP with the power to grant ownership of land in these situations unconstitutional. As a result of this development, we have amended our request and requested a right of way over the land.

In October 2015, Ganadera Guerra and Constructora Tymisa filed two lawsuits against us for a combined amount of approximately U.S.\$800 million. We have received both complaints and have filed our answer to Constructora Tymisa's complaint. We intend to file our answer to Ganadera Guerra's complaint in due course. We have been advised by external counsel that the risk of losing the disputes is remote.

Bayano Criminal Case

On December 10, 2010, a criminal lawsuit was entered before the Deputy Attorney General of Panama against some of our personnel in connection with alleged damages caused when the gates of the Bayano dam were opened following the accumulation of high water levels at the Bayano river during heavy rains and flooding at the beginning of December 2010. A formal investigation was ordered against five of our employees at that time and the case was referred by the Deputy Attorney General to the Fourteenth Prosecutor, which continued with criminal investigations against them. Since then, the plaintiffs and we have filed several briefs, requests and appeals with the relevant courts, but only with respect to procedural issues, and the case has not yet been heard on its merits. Most recently, the case was remanded back to a lower court following several procedural appeals. We have not provisioned for any risk of loss.

In September 2015, the municipal judge hearing the case held that the statute of limitations had run on the Deputy Attorney's claim against our employees for damages. This decision was appealed and, on February 2016, the appellate tribunal reversed. As a result, we filed a constitutional claim alleging a violation of the constitutional rights of the accused employees.

MANAGEMENT

Our managing body is a board of administrators that currently consists of five members: two elected by the Panamanian government and three elected by AES Elsta. There is no specific term for our administrators. If a vacancy occurs, a replacement administrator will hold office until a new administrator is elected, thereby preserving representation of each of the constituent equity holders. If the Panamanian government's equity interest in us is less than the majority of our total equity at any time, then our board of administrators will consist of five to nine (9) board members, and the majority of which will be elected by AES Elsta. As of June 30, 2016, the administrators, officers and executives listed below held the positions indicated opposite their names. The most recent election of administrators by the Panamanian government was held in August 2014. Our executive officers are appointed by the board of administrators and hold office at the discretion of the board of quota holders. The most recent election of administrators elected by AES Elsta was held in 2015.

Our board's present membership is listed below:

Name	Elected or Appointed By	Position	Member of the Board Since
Manuel Perez Dubuc	AES Elsta	Administrator	January 18, 2013
Arminio Borjas.....	AES Elsta	Administrator	January 23, 2010
Jean Pierre Leignadier.....	Panamanian government	Administrator	August 29, 2014
Pedro Altamiranda.....	Panamanian government	Administrator	January 23, 2010
Daniel Staldelmann	AES Elsta	Administrator	August 3, 2015
Adviel Centeno Mayta.....	AES Elsta	Secretary of the Board	Not a Member

Our executive management team members are listed below:

Miguel Eduardo Bolinaga	Panama General Manager
Julio Díaz Cohen.....	Panama Commercial Manager & Commercial Planning MCA&C
Gustavo Duarte Pimenta	Chief Finance Officer MCA&C
Nicolas van Tienhoven.....	Treasurer
Arturo Gris	Operations VP MCA&C
Leopoldo Luis Pérez.	Corporate Matters Director
Mayka McCalla	Human Resources VP MCA&C
Khadine Sanhueza	Panama Communications and Sustainability Manager
Adviel Centeno	Panama Legal Counsel

The following are summarized biographies of our administrators, managers and secretary:

Manuel Perez Dubuc (Chairman and Administrator). Mr. Perez is the Chairman of our Board and the Chairman of AES MCA&C. Mr. Perez has been with AES for over 15 years and has been involved in projects in China, Chile and the Dominican Republic. Some of his early experience prior to joining AES included being an advisor to the General Director of Public Finance at the Venezuelan Ministry of Finance, collaborating in a social security system reform as a special consultant at the Inter-American Development Bank – (IDB), as well as Financial Executive Vice-President at CANTV (VERIZON) and an advisor, broker and portfolio manager at CITIBANK, N.A., Capital Markets. Manuel Pérez Dubuc joined the financing division of La Electricidad de Caracas (EDC) in 1998 and was appointed treasurer at EDC in July 2000 when it was acquired by AES. In 2005, Pérez Dubuc was appointed President and CEO of AES Dominicana, in the Dominican Republic. In 2007, Manuel became Vice-President and General Manager of AES Asia, Energy and Infrastructure in Beijing, China. In 2009, Mr. Perez was appointed Vice-President and Director of AES North Asia where he led the entry of the first American electricity company into China. Mr. Perez was later appointed CEO and Group Manager of the Latin American businesses of AES where he oversaw the operations of AES Chile, AES Argentina and AES Chivor (Colombia). Mr. Perez joined AES Panamá in 2013 after a three-year assignment as Chairman and CEO for Meiya Power Company (MPC) in Hong Kong, SAR, People's Republic of China to lead the company, boost growth, improve operations, and create shareholder's value for the largest independent power producer in China and South

Korea. Mr. Perez is currently the President of the MCA&C Strategic Business Unit, where AES has presence in México, El Salvador, Panama, Puerto Rico and the Dominican Republic with a diverse portfolio of 13 electricity generating plants including hydroelectric, coal, pet coke, natural gas and methane gas with a installed capacity of 3,070 MW and four distribution companies with more than one million end consumers. Mr. Perez obtained a Bachelor's of Science Degree in Electrical Engineering from *Universidad Simon Bolivar* and a Masters Degree in Business Administration from IESA (*Instituto de Estudios Superiores de Administración*).

Arminio Borjas (Administrator). Mr. Borjas joined our board in 2010. Mr. Borjas works as Regional Legal Counsel for AES. Mr. Borjas specializes in Telecommunications, Mergers & Acquisitions, Project Finance, Capital Markets and Arbitration. Mr. Borjas obtained his legal degree from the *Universidad Catolica Andres Bello* in Caracas, Venezuela. Mr. Borjas also obtained a postgraduate degree in Latin-American Politics and International Economic Development from the School of International Studies of the American University in Washington DC. Mr. Borjas has taught law for many years in prestigious universities in Venezuela, has acted as arbitrator and was the Venezuelan representative to the International Bar Association. Mr. Borjas is also a board member of AES EIPA and AES Tiete in Brazil and AES Gener in Chile.

Daniel Stadelmann (Administrator). Mr. Stadelmann joined our board in 2015 and has acted as AES Corp's Corporate Treasurer since January 2015. Mr. Stadelmann has held different positions in AES, specifically in the Andes Strategic Business Unit, where he served as Finance VP for AES Gener from 2009 to 2012 and as Financial VP for the Andes Strategic Business Unit, responsible for AES's businesses in Argentina, Chile and Colombia from 2012 to 2014. Prior to joining AES, Mr. Stadelmann had more than 10 years of experience in the European and Latinamerican banking industry. From 1995 to 2003, he held positions in the corporate and investment banking departments of Citibank in Switzerland and Argentina. Mr. Stadelmann has a Master's degree and a Bachelor's degree in Accounting and Finance from the St. Gallen University in St. Gallen Switzerland and a MBA from the International Institute for Management Development (IMD) in Lausanne, Switzerland.

Jean Pierre Leignadier (Administrator). Mr. Leignadier is one of the two board members elected by and representing the Panamanian Government. Mr. Leignadier is a vice-president at Productos de Prestigio, S.A., a logistics operator and sales distributor for food products, household products, personal care products and cosmetics, exclusively representing more than 75 brands, including Lysol and Nivea. Previously, Mr. Leignadier worked as vice-president of investment at Banco General, personal and mortgage loan manager at Citibank and credit banking officer at Lloyds Bank. Mr. Leignadier serves in several Boards including Fondo de Ahorro de Panama, Camara de Comercio, Industrias & Agricultura, Profuturo Administradora de Fondos de Pensiones y Cesantía and Fondo general de Inversiones. Mr. Leignadier has a Bachelor's Degree in Business Administration from Villanova University in Pennsylvania and a Masters Degree in Business Administration from Notre Dame University.

Pedro Altamiranda (Administrator). Mr. Altamiranda is one of the two board members elected by and representing the Panamanian Government. Mr. Altamiranda specializes in advertising and marketing. He has held several managerial positions in Panama for numerous companies, including *McCann Ericsson Publicitaria*, *Calderon y Asociados Publicidad* and *Boyd, Bárcenas Publicidad*. Mr. Altamiranda has a Bachelor's Degree in Spanish studies from the *Universidad de Panamá* and a PHD Degree in Philology from the Sorbonne University in Paris.

Adriel Centeno (Secretary Non Member of the Board and Legal Counsel). Mr. Centeno has worked for AES Panamá since 2010 as General Counsel and Secretary Non Member of the Board of Administrators. Before joining AES Panamá, Mr. Centeno worked as Senior Associate at the Panamanian law firm of Mossack Fonseca and as legal manager of *Cerveceria Nacional, S.A.* He obtained a Bachelor's Degree in Law and Political Science from the *Universidad de Panamá* and a specialization in Procedural Law from the *Universidad Externado* in Colombia and a Masters Degree in Corporate Law from the *Universidad Católica Santa Maria La Antigua*.

Miguel Eduardo Bolinaga (General Manager) Mr. Bolinaga was appointed General Manager of AES Panamá in July 8, 2013. Prior to joining AES Panamá Mr. Bolinaga worked as External Relations and Electronic Market vice-president of AES El Salvador and as Marketing and Distribution Manager of EDC. Mr. Bolinaga obtained his Bachelor's Degree from la *Universidad Nacional Experimental de las Fuerzas Armadas de la Escuela Naval de Venezuela*.

Julio Díaz Cohen (Panama Commercial & Commercial Planning Manager AES MCA&C) Mr. Díaz is the Commercial and Commercial Planning Manager for AES MCA&C. In this role he oversees planning and risk management functions for the companies in the region. Mr. Díaz obtained a Bachelor's Degree in Mechanical Engineering from the *Instituto Tecnológico de Santo Domingo*, a Masters Degree in Technical Science Accounting from the *Instituto Politécnico Cardenal Sancha* in Santo Domingo and a Master Degree in Technical Management and Economy from the *Universidad Pontificia Comillas* in Madrid. Mr. Díaz holds diplomas on Project Valuation from the *Instituto Tecnológico de Santo Domingo* and Risk Management from the Fundación para el Avance de las Matemáticas. Also, he has postgraduate study degrees on Management Skills from Crestcom International, Management from Barna Business School and AES Emerging Leader from INCA Business School and the National University of Singapore.

Gustavo Duarte Pimenta (Chief Finance Officer AES MCA&C). Mr. Duarte is the Chief Finance Officer of MCA&C. Mr. Duarte has been with AES for over six years and has worked in financial planning, corporate finance and project management. Mr. Duarte has a Bachelor's Degree in Economy from the *Universidade Federal de Minas Gerais* in Brazil, a Masters Degree in Economy and Finance and a Management certification specializing in Finance, Strategic Research and Leadership.

Nicolas van Tienhoven as Treasurer (Treasurer). Mr. van Tienhoven is our Treasurer. Mr. van Tienhoven joined AES in 2013 and currently serves as Regional Director of Finance and Treasury. In his role, Mr. van Tienhoven is responsible for corporate and project financing, cash management and investor relations for AES MCA&C. Mr. van Tienhoven is responsible for defining and maintaining an adequate capital structure for each of the AES businesses in the region as well ensuring each plant has adequate financial resources. Prior to joining AES, from 2011 to 2013, Mr. van Tienhoven was Senior Vice President at Banco Santander where he oversaw private banking activities for Central America. From 2003-2011 Mr. van Tienhoven was Managing Director at Diligo Advisory and Broadspan Capital, where he led debt restructuring and M&A transactions for Latin America. Prior to that, from 1990-2003 Mr. van Tienhoven held several positions at ABN AMRO Bank, ultimately Head of Latin America Loan Syndications based in New York. Mr van Tienhoven holds a BS in Economics from the Wharton School of the University of Pennsylvania, PA (1990).

Arturo Gris (Operations VP AES MCA&C). Mr. Gris joined AES Panamá on July 15, 2000. Mr. Gris later served as the Operations Manager responsible for managing AES Panamá's hydroelectric plants and as Generation vice-president of AES Brazil, where he managed the generation assets of AES Tiete and AES Uruguaiana. Mr. Gris currently holds the position of Operations vice-president for the Strategic Unit of AES MCA&C, where he oversees the operation and management of our plants in the region. Mr. Gris obtained a Masters Degree in Business Administration specializing in Finance and International Business from the University of Chicago and a Masters Degree in Engineering specializing in Controls from the University of California at Berkeley. Mr. Gris also obtained a Bachelor's Degree in Mechanical Engineering from Texas A&M University.

Luis Antonio Galán (Operations Director for the Central America Complex) Mr. Galán is currently responsible for the operation, environmental and social management of five hydroelectric plants and two thermo-electrical plants owned by AES in Panama and El Salvador, which account for an aggregate installed capacity of 783 MW. Since joining AES Panamá in 2012, Galán has spearheaded the process of implementing an occupational health, safety and environment standards Integrated Management System for the Changuinola I hydroelectric plant, as well as the integration of AES Changuinola into the AES Panamá organizational, operational and maintenance structure. He has also led our efforts to strengthen relations with local communities in Gualaca, Boquete and Changuinola. Prior to AES Panamá, Galán served at Mexican cement giant Cemex, gaining valuable experience in process engineering, operations, plant management and in ISO 9000 (quality control), ISO 14001 (environment), ISO 17025 (laboratory) and Highly Protected Risks certifications for the company's operations in Panama, Spain, United States and the United Kingdom, where he last served as plant director of their cement plant in Rugby, England. Galán holds a bachelor's degree in chemical engineering from the Metropolitan Autonomous University, in Mexico and graduate degrees in management and human resources from the Technological University of Panama and the Latin American University of Science and Technology, respectively.

Leopoldo Luis Pérez (Corporate Matters Director AES Panamá) Mr. Pérez is currently the Corporate Matters Director at AES Panamá and also the Special Project Director for AES MCA&C. Mr. Pérez joined AES Panamá as Treasurer in 2011 and was appointed Stakeholder Manager in 2013. Before working in AES Panamá, Mr.

Pérez acted as Treasury Operations Director at AES and prior to that he held Treasury, Corporate Finance and Capital Market positions in several companies in Venezuela such as *C.A. Electricidad de Caracas*, *Xerox de Venezuela*, *C.A. Nacional de Teléfonos de Venezuela*, *Financorp* and *Nestle Venezuela*. Mr. Pérez has a Bachelor's Degree in Commercial Management from the *Universidad Católica Andres Bello* and a Masters Degree in Finance from the *Universidad Metropolitana*, both in Venezuela.

Khadine Sanhueza (Panama Communications and Sustainability Manager) Mrs. Sanhueza is currently the Communications and Sustainability Manager for the AES Panamá. Mrs. Sanhueza joined AES Panamá in her current role in June 2015. Before working in AES Panamá, Mrs. Sanhueza held Public Relations, Corporate Communications and Social Responsibility positions in Adidas, Copa Airlines and other prestigious Panamanian companies. Mrs. Sanhueza has a Bachelor's Degree in Business Management from the *Universidad Latinoamericana de Ciencia y Tecnología* in Panama, a Degree in Public Relations and Marketing Communication Services from *Universidad Latina* and *Universidad Autonoma del Occidente*, in Cali and a Degree in Management of Sustainability from the INCAE Business School, in San Jose.

Mayka McCalla (Human Resources VP MCA&C) Mrs. McCalla is the Human Resources vice-president of the strategic unit of AES MCA&C, where she is in charge of the talent management strategies for the region. Mrs. McCalla has a vast experience in strategic planning and human resources management procedures, in preparing organization development proposals and in managing company relations with unions. On her prior position, Mrs. McCalla was a Regional Manager for training and development at AES Latin America, S.R.L. Mr. McCalla obtained a Bachelor's Degree in Psychology from the *Universidad de Panamá* and a Masters Degree in Business Administration from *Universidad Latina de Ciencias y Tecnología*.

Each of our administrators, officers and executives can be reached through AES Panamá, S.R.L., at Ave. La Rotonda, Business Park II, Torre V, Piso 11, Panama City, Panama. Our telephone number is (507) 204-7600.

Compensation

Administrators' Compensation

During 2015, administrators each received a fixed fee of U.S.\$2,500 for each board meeting attended..

Executive Officers' Compensation

The aggregate compensation earned by four (4) executive officers listed above for 2015 was U.S.\$1.1 million, including both base salaries and bonuses. The executive officers are Miguel Bolinaga, Adviel Centeno, Leopoldo Perez, and Khadine Sanhueza. Our annual bonus plan considers both company performance, through comparison to established targets and financial performance of our peers, and individual performance. The salaries of the rest of the executive officers are included in the management fee paid to our holding company pursuant to the management Agreement.

Certain Provisions of Our Articles of Association Relating to Managerial Control of AES Panamá

Under Panamanian law, the holders of the equity of a limited liability company (*sociedad de responsabilidad limitada*) are the highest governing body of that corporation unless the articles of association provide otherwise. Typically, rights of equity holders are delineated in a limited liability company's articles of association. Panamanian corporate law allows certain issues to be governed by the articles of association and, in the event that the articles of association are silent on such issues, provides generally applicable rules.

Our articles of association provide that as long as the Panamanian government owns at least a majority of our equity, the Company's board of administrators will consist of five members: two elected by the Panamanian government and three elected by AES Elsta, as owner of 49.1% of our outstanding equity. Our articles of association require that at least 51% of the voting equity be present to have a quorum necessary for a valid meeting of the equity holders. Pursuant to our articles of association and the Administration and Management Fees Agreements, AES Elsta has complete managerial and operational control of AES Panamá. However, the following resolutions require the favorable vote of the Panamanian government at a meeting of the holders of our equity: (i) the amendment of our articles of association, except in certain limited circumstances; (ii) the approval or

amendment of our by-laws; (iii) the approval of mergers (except for mergers with wholly owned subsidiaries) or spin-offs; (iv) the dissolution of the company; (v) encumbering the concession agreements; (vi) authorizing the company to engage in new lines of business; and (vii) transferring the corporate domicile of the company to another country. Additionally, the affirmative vote of both administrators elected by the Panamanian government is required in order to issue new equity interests of AES Panamá, except in the case where the funds obtained from such issuance of equity interests are used to expand or improve our generation capacity in Panama.

In the event that the Panamanian government no longer owns at least a majority of our equity, our articles of association provide that our board of administrators must consist of at least five and up to nine members, and AES Elsta, as owner of 49.1% of our equity, will have the right to elect the majority of the administrators on the board. Additionally, the favorable vote of AES Elsta would be required to (i) amend our articles of association; (ii) approve or amend our by-laws; and (iii) sell, lease or transfer all or part of the assets of AES Panamá.

PRINCIPAL EQUITY HOLDERS

We are a limited liability company (*sociedad de responsabilidad limitada*) organized under the laws of the Republic of Panama for an indefinite term. Applicable Panamanian laws provide that equity holders of a limited liability company are partners (*socios*) and that their equity contributions to the entity are represented by participation quotas (*cuotas de participacion*). For purposes of this offering memorandum however, we also refer to our participation quotas as equity interests and our equity partners as equity holders.

At June 30, 2016, we had 214,717,428 authorized, issued, fully paid and outstanding quotas, with a par value of U.S.\$0.607747 per quota, having one vote per quota.

The following table sets forth the holders of our equity, the respective number of our quotas they own and their percentage holdings as of June 30, 2016.

Title of Class	Name of beneficial owner	Amount and nature of beneficial ownership	Percent of class
Common Stock.....	AES Elsta B.V.	105,353,687	49.1%
Common Stock.....	Panamanian government ⁽¹⁾	108,347,536	50.4%
Common Stock.....	Minority equity holders	1,016,205	0.5% ⁽¹⁾

- (1) Panamanian limited liability companies law provides that the articles of association of a company govern the rights of the holders of its equity. Our articles of association contain certain provisions with respect to the rights of the holders of our equity, including the right of AES Elsta to appoint three of the five members of our board of administrators until the Panamanian government's holding in us is less than the majority of our equity at any time. If the Panamanian government's holding in us is less than such majority, AES Elsta, as owner of 49.1% of our equity, will have the right to appoint a majority of the members of the Board of Administrators, as long as it holds 49.1% of our equity.

Managing Equity Holder

AES Elsta, our managing equity holder, is owned by The AES Corporation, or AES. AES is a global power company with operations in 17 countries on three continents operating in two principal businesses, electric utilities and electricity generation. AES currently distributes electricity through its various electric utility subsidiaries to approximately 10.5 million customers worldwide, specifically in Brazil, El Salvador and the United States. AES also has interests in 72 electricity generation facilities globally, including in Latin America in Argentina, Brazil, Chile, Colombia, the Dominican Republic, Mexico, Puerto Rico and El Salvador. AES manages U.S.\$37.0 billion in total assets globally and distributes electricity through its various electric utility subsidiaries to approximately 10.5 million customers worldwide. AES also has 35,687 MW in gross capacity in operation globally. AES is organized into six market oriented Strategic Business Units, or SBUs: U.S. (United States), Andes (Chile, Argentina and Colombia), Brazil, MCAC (Mexico, Central America and Caribbean), Europe and Asia. The MCAC SBU, of which AES Panamá is a part, contributed 19% of AES's operating margin for 2015.

RELATED PARTY TRANSACTIONS

Concession Agreements

In connection with our privatization, we entered into four concession agreements with ASEP pursuant to which we were granted concessions to operate the Bayano, La Estrella, Los Valles and Estí hydroelectric facilities for the generation and sale of electricity. The term of the concession agreements ends in December 2048 (Bayano, La Estrella and Los Valles) and February 2052 (Estí), and may be renewed for an additional fifty (50) years subject to the prior approval of ASEP. For a description of these concession agreements, see "Business—Concession Agreements."

We also entered into four water concession agreements, each dated June 30, 1998, with the Natural Resources Entity, which was replaced by the Environment Ministry in July 1998, pursuant to which we were granted four concessions to use the water resources of (i) for Bayano, the Bayano river, (ii) for La Estrella, the Los Valles river, (iii) for Los Valles, the Caldera river and (iv) for Estí, the Chiriquí and Estí rivers and the Barrigón ravine, in order to generate electricity through our hydroelectric plants, until the termination of our concession agreements with ASEP. For a description of these concession agreements, see "Business—Concession Agreements."

Administration and Management Fees Agreements

We and AES Energy entered into the Administration Agreement and Management Fees Agreement, dated January 14, 1999, (the "Administration and Management Fees Agreements") by which AES Energy assumed the managerial, administrative and operational control of the businesses and affairs of the Company until January 14, 2019, unless the concession agreements are terminated prior to such date. The contract was transferred from AES Energy to AES Elsta in 2014 along with the participation in AES Panamá. Under the Administration and Management Fees Agreements, AES Elsta has, among other things, the authority to appoint the general manager and other officers of the Company. AES Elsta must seek the prior approval of our Board of Administrators to undertake the following actions: (i) to sell or in any way encumber the Management Agreement or the concession agreements; (ii) to sell any assets affecting our power generation capacity that individually or in the aggregate exceed U.S.\$5.0 million; (iii) to sell, lease or in any way dispose of our assets, except in the ordinary course of business; (iv) to provide, directly or indirectly through an affiliate, administrative services to other electricity generating companies in Panama; (v) to incur indebtedness in an amount greater than U.S.\$5.0 million; or (vi) to agree with any person to carry out any of the acts set forth in (i) through (v).

On November 22, 2010, AES Panamá and AES Solutions signed a Service Agreement with an annual minimum fee of U.S.\$4.0 million in exchange for the services rendered under the Administration and Management Fees Agreements. This service fee is net of taxes and is paid two times a year. The service fee is adjusted annually to reflect inflation and is reviewed by the Board of Administrators of AES Panamá every 6 months. Pursuant to the Services Agreement, we paid AES Solutions an annual fee of U.S.\$5.6 million, U.S.\$5.8 million and U.S.\$6.0 million for the years 2013 also, 2014 and 2015, respectively.

Any controversy or claim arising out of the Administration and Management Fees Agreements that is not resolved directly between the parties is required to be settled exclusively by binding arbitration conducted in accordance with the arbitration rules of the United Nations Commission on International Law (UNCITRAL) and be governed by Panamanian law. Any tribunal would be made up of three arbitrators. AES Elsta and we would each elect one arbitrator, and the third would be mutually selected by the other two arbitrators, or, if unable to do so, according to the arbitration rules of UNCITRAL. Any decision or award of the arbitrators will be final and binding upon the parties.

The Company also has a management contract with Changuinola which establishes a fee equivalent to 1% of the Company's income before depreciation, interest and income tax. The expenses related to this management fee are recorded in other (expenses) income, net in the amounts of U.S.\$0.7 million and U.S.\$0.6 million for the year ended December 31, 2015 and 2014, respectively.

Changuinola PPA

We entered into a power purchase agreement with AES Changuinola for a term of twenty years under which we are supplied with firm capacity and energy. In August 2013, following a request by AES Changuinola to be relieved of its electricity supply commitment due to the extremely poor hydrological conditions, we amended our PPA with AES Changuinola from a financial contract (whereby AES Changuinola was obligated to supply us with a specified amount of energy at fixed prices by either generating the energy itself or purchasing it in the spot market) to a physical contract whereby we are now obligated to purchase only the energy that AES Changuinola generates. For more information regarding this transaction, see "Risk Factors—AES, our managing equity holder, may exercise management control in a manner that differs from our interests or your interests as a Noteholder." On November 25, 2013, we acquired a 20% equity interest in the equity of AES Changuinola through the capitalization of a U.S.\$63.2 million account receivable that AES Changuinola owed to us under the PPA. On December 7, 2015, amendment No.4 was signed. This amendment sets the power and energy prices contracted from 2023 until 2030, resulting from the act of tender ETESA 01-12. For more information regarding this transaction, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Generation by Changuinola."

In June 2015, we entered into two 5-year reserve contracts with AES Changuinola, pursuant to which we sell 13 MW to AES Changuinola and AES Changuinola sells back those 13 MW to us at the same price and conditions. These contracts have no net effect on our and AES Changuinola's results.

Any controversy or claim arising out of the Power Purchase Agreement is required to be settled exclusively by binding arbitration. The parties are required to submit the dispute to a single arbitrator mutually selected by the parties, and the parties are required to proceed diligently in order for the arbitrator to render a decision within ninety days from the filing of a demand for arbitration. The arbitration will be conducted in accordance with the Commercial Arbitration Rules of the American Arbitration Association and will be governed by Panamanian law. The arbitrator does not have any powers to award punitive damages. Any decision or award of the arbitrator will be final and binding upon the parties.

PPAs with the Distribution Companies

We have entered in to several PPAs with the Distribution Companies, in which the Panamanian government holds a minority participation, and which are our largest customers. We derive a large part of all of our revenues from sales of energy and capacity to the Distribution Companies under these PPAs. See " Management's Discussion and Analysis of Financial Condition and Results of Operations—Overview" for more information regarding these agreements.

Reimbursement Agreement with the Panamanian Government

As a result of the high cost of purchasing energy in the spot market, the ongoing low levels of hydrology in Panama in 2013 and 2014, which affected the supply of water to hydroelectric plants and our ability to meet our obligations under our PPAs, the Panamanian government's responsibility for the inefficiency of the dispatch system, and the transmission bottlenecks and delays in upgrades and improvements to the transmission system, we reached an agreement with the Ministry of Finance of Panama whereby the government agreed to reimburse us for the difference between the cost at which we purchase energy in the spot market. Although, there can be no assurance that we will be successful in arguing to the Supreme Court that the Cabinet Resolution is constitutional, we believe that we will likely prevail, and we have recorded no reserves in our financial statements in connection with this matter. See "Business—Reimbursement Agreement with the Panamanian government" for more information regarding this agreement.

Insurance

We maintain an all risk insurance policy with ASSA Compañía de Seguros, S.A., which in turn diversifies risk by entering into reinsurance transactions with our affiliate AES Global Insurance Corporation.

Sale of Account Receivable

On December 19, 2014, we executed a credit and rights assignment agreement with the Banco Panamá, S.A. and Oficina de Electrificación Rural, a Panamanian government entity, pursuant to which Banco Panamá, S.A. acquired and paid approximately U.S.\$14.6 million for the accounts receivable held by us from Oficina de Electrificación Rural.

Gas Natural Atlántico Entities

In March 2016, we entered into a master reserve agreement and a representation agreement with Gas Natural Atlántico, S.R.L. Pursuant to these agreements, we will sell to and purchase from Gas Natural Atlántico, S.R.L. up to 35 MW of firm capacity on the general terms set out in those agreements. Specific terms, including volume, price and duration will be agreed upon and set out in a term sheet for each future sale.

In June 2016, we granted a U.S.\$30.1 million unconditional and irrevocable guarantee in favor of Gas Natural Atlántico II, S.R.L, our affiliate, for payments of principal and interest on a U.S.\$60.0 million loan obtained by it for the construction of the transmission line required by the system to support natural gas generation growth projects in the province of Colon in return for a fee of 1.5% of the guaranteed amount (or U.S.\$0.5 million).

DESCRIPTION OF NOTES

The Notes offered hereby are to be issued under that certain indenture, dated as of June 18, 2015, among the Issuer, the Trustee, which is also acting as registrar, principal paying agent and transfer agent, and the Collateral Agent, as amended by that supplemental indenture, dated as of September 26, 2016 between the Issuer and the Trustee (as amended, the "Indenture"). The following summary of certain provisions of the Indenture, the Notes and the Pledge and Security Agreement does not purport to be complete and is subject to, and qualified in its entirety by, reference to the provisions of such documents, including the definitions of certain terms contained therein.

In this "Description of the Notes," the word "Issuer" refers only to AES Panamá, S.R.L. and not to any of its Subsidiaries, as defined herein. The definitions of certain other terms used in this description are set forth throughout the text or under "—Certain Definitions." For a description of restrictions on the transfer of the Notes, see "Notice to Investors."

Principal, Maturity and Interest

The U.S.\$75,000,000 aggregate principal amount of Notes being offered hereby are an additional issuance of our 6.000% Senior Notes due 2022 initially issued on June 25, 2015 in the aggregate principal amount of \$300,000,000, or the Outstanding Notes. Other than the issue date and issue price, the Notes offered hereby will have identical terms as, and will form a single series and be fungible with, the Outstanding Notes, except that until the expiration of the 40-day distribution compliance period commencing on the date of issuance, the Notes offered hereby and sold in compliance with Regulation S will be issued and maintained under temporary ISIN and CUSIP numbers. The Notes will be payable in full at par in a single payment at their stated maturity, which will occur on June 25, 2022. Subject to the covenant described under "—Certain Covenants—Limitation on Indebtedness," the Issuer is permitted to issue additional Notes under the Indenture ("Additional Notes"). The Notes and any Additional Notes that are issued will be treated as a single class for all purposes under the Indenture, including with respect to waivers, amendments, redemptions and Offers to Purchase. Unless the context otherwise requires, references to the "Notes" for all purposes under the Indenture and in this "Description of the Notes" include the U.S.\$ aggregate principal amount of Notes being offered hereby, the U.S.\$300,000,000 aggregate principal amount of Outstanding Notes and any Additional Notes that are issued.

Interest on the Notes will accrue from the most recent date on which interest has been paid, at a rate per annum of 6.000%, and will be payable semi-annually in arrears on June 25 and December 25 of each year (each, an "Interest Payment Date"). Interest will be payable to Holders of record on each Note in respect of the principal amount thereof outstanding as of the immediately preceding June 10 or December 10, as the case may be. Like the Outstanding Notes, the Notes offered hereby will accrue interest from June 25, 2016, which is the most recent date that interest was paid on the Outstanding Notes.

Interest will be computed on the basis of a 360-day year comprising twelve 30-day months. Interest on overdue principal and interest will accrue at a rate that is 2.0% higher than the then applicable interest rate on the Notes. In no event will the rate of interest on the Notes be higher than the maximum rate permitted by applicable law.

Ranking

The Notes will be general unsubordinated obligations of the Issuer and will be secured by the Collateral in the Debt Service Reserve Account (as described below under "—Debt Service Reserve Account"). Other than to the extent of the Collateral in the Debt Service Reserve Account, to which the Notes will effectively rank senior to any of the Issuer's other indebtedness, and except for obligations of the Issuer that are or may be afforded preference under mandatory provisions of Panamanian Law, the Notes will rank:

- *pari passu* in right of payment to all of the Issuer's existing and future senior unsecured indebtedness;
- senior in right of payment to any future subordinated indebtedness of the Issuer;
- effectively subordinated to any of the Issuer's existing and future secured indebtedness to the extent of the value of the collateral securing such indebtedness; and

- structurally subordinated to all indebtedness and other liabilities of any subsidiary that the Issuer may have in the future that is designated as an Unrestricted Subsidiary in accordance with the provisions of the Indenture and does not guarantee the Notes.

However, under the Panamanian civil code, previously issued senior unsecured indebtedness could be treated as senior to any subsequently issued senior unsecured indebtedness. Accordingly, under the Panamanian civil code the Notes may be subordinated to any of our senior unsecured indebtedness that is outstanding on the date the Notes are issued. See "Risk Factors -- Our obligations under the Notes are subordinated to our payment of certain statutory liabilities and could be subordinated to any of our senior unsecured indebtedness that is outstanding on the date the Notes are issued" and "Risk Factors -- The Notes will be effectively subordinated to all of our secured debt and if a default occurs, we may not have sufficient funds to fulfill our obligations under the Notes."

As of June 30, 2016, the Issuer had a total of U.S.\$382.7 million aggregate principal amount of indebtedness outstanding that was comprised of:

- U.S.\$300 million aggregate principal amount of the Outstanding Notes; and
- U.S.\$82.7 million aggregate principal amount of 6.35% Senior Notes due 2016, which constituted senior unsecured indebtedness (except for a debt service reserve account which is pledged for their benefit) and mature on December 21, 2016.

The Issuer intends to use the net proceeds of the Notes offered hereby for general corporate purposes, in particular to repay an equivalent portion of the 2016 Notes at maturity, as more fully described in "Use of Proceeds."

The Issuer conducts all of its operations itself and currently has no subsidiaries, although it may establish subsidiaries in the future and engage in additional operations through those new subsidiaries. As described under the caption "—Future Subsidiary Guarantors," the Issuer will be required to cause any future subsidiaries to guarantee the Notes by executing and delivering a Subsidiary Guarantee, unless any such subsidiary is designated by the Issuer as an Unrestricted Subsidiary in accordance with the terms of the Indenture.

Listing

The Notes will be listed on the Bolsa de Valores de Panamá, S.A. We have also applied to have the Notes offered hereby admitted to trading on the Euro MTF market of the Luxembourg Stock Exchange. The Notes shall not be listed on any other exchange outside of Panama and Luxembourg. Beneficial interests in the Regulation S Global Note may be held in Panama through Latinclear, a participant in Clearstream.

Form of Notes

The Notes will be issued only in fully registered form without coupons and only in minimum denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof.

The Notes will be initially in the form of one or more global notes (the "Global Notes"). The Global Notes will be deposited with the Trustee as custodian for DTC. Ownership of interests in the Global Notes, referred to in this description as "book-entry interests," will be limited to persons that have accounts with DTC, including Euroclear and Clearstream, or their respective participants. The terms of the Indenture will provide for the issuance of definitive registered Notes in certain circumstances. Please see the section entitled "—Book-Entry; Delivery and Form."

The registered Holder of a Note will be treated as the owner of such Note for all purposes.

Transfer and Exchange

A Holder may transfer or exchange Notes in accordance with the Indenture and the procedures described in "Transfer Restrictions." The registrar and the Trustee may require a Holder to, among others, furnish appropriate endorsements and transfer documents. No service charge will be made for any registration of transfer, exchange or

redemption of the Notes, but the Issuer may require payment of a sum sufficient to cover any transfer tax or similar governmental charge payable in connection with any such registration of transfer or exchange.

The Issuer is not required to transfer or exchange any Note selected for redemption. Also, the Issuer is not required to transfer or exchange any Note for a period of 15 days before the mailing of a notice of redemption.

Payments on the Notes; Paying Agent and Registrar

The Issuer will make payments of principal, and premium, if any, interest and Additional Amounts, if any, on book-entry interests through the Trustee, as the principal paying agent, to the depository. In the case of certificated notes, if any, the Issuer will pay the principal and premium, if any, due on the maturity date in immediately available funds upon presentation and surrender by the Holder of the Notes at the office or agency maintained by the Issuer for this purpose in The City of New York, currently the office of the Trustee at 60 Wall Street, 16th Floor, New York, New York 10005. The Issuer will pay interest and Additional Amounts, if any, due on the maturity date of a certificated note, if any, through the principal paying agent to the person to whom payment of the principal and premium, if any, will be made. The Issuer will pay interest and Additional Amounts, if any, due on a certificated note on any Interest Payment Date other than the maturity date through the principal paying agent by check mailed to the address of the Holder entitled to the payment as the address shall appear in the note register of the Issuer. Notwithstanding the foregoing, a Holder of US\$5.0 million or more in aggregate principal amount of certificated notes will be entitled to receive interest payments, if any, and Additional Amounts, if any, on any Interest Payment Date other than the maturity date by wire transfer of immediately available funds if appropriate wire transfer instructions have been received in writing by the Trustee, as the principal paying agent, not less than 15 calendar days prior to the Interest Payment Date. Any wire transfer instructions received by the Trustee will remain in effect until revoked by the Holder. Any interest or Additional Amounts, if any, not punctually paid or duly provided for on a certificated note on any Interest Payment Date other than the maturity date will cease to be payable to the Holder of the Note as of the close of business on the related record date and may either be paid (1) to the person in whose name the certificated note is registered at the close of business on a special record date for the payment of the defaulted interest that is fixed by the Issuer, written notice of which will be given to the Holders of the Notes not less than thirty (30) calendar days prior to the special record date, or (2) at any time in any other lawful manner.

All monies paid by the Issuer to the Trustee or any paying agent for the payment of principal of, and premium, if any, interest and Additional Amounts, if any, on any Note which remains unclaimed for two years after the principal, premium, if any, or interest and Additional Amounts, if any, is due and payable may be repaid to the Issuer and, after that payment, the Holder of the Note will look only to the Issuer for payment.

The Trustee will initially act as the principal paying agent and registrar. The Issuer may change the paying agent or registrar without prior notice to the Holders, and the Issuer or any of its Subsidiaries may act as paying agent or registrar.

Debt Service Reserve Account

Simultaneously with the issuance of the Outstanding Notes, the Issuer established the Debt Service Reserve account at the offices of Deutsche Bank Trust Company Americas, as Collateral Agent, located at 60 Wall Street, 16th Floor, New York, New York 10005, which will be maintained at all times until the termination of the Indenture. All amounts from time to time held in the Debt Service Reserve Account will be held (i) in the name of the Collateral Agent for the benefit of the Trustee and the Holders of the Notes and (ii) under the exclusive dominion and control of the Collateral Agent. Except as expressly provided in the Indenture, no Person will have any right to withdraw funds from this account. All amounts on deposit in the Debt Service Reserve Account and all investments held therein will constitute Collateral for the Notes and shall not constitute payment of any Note until applied as provided in the Indenture. Each of the Issuer and the Collateral Agent will irrevocably authorize the Trustee to withdraw funds from the Debt Service Reserve Account in order to pay the interest due on the Notes on the next Interest Payment Date.

The Debt Service Account shall be Fully Funded at all times. The Debt Service Reserve Account shall be deemed to be "Fully Funded" so long as, at any time, the cash contained therein is in an amount sufficient to pay the interest, including Additional Amounts, if any, payable to the Holders of the Notes on the next succeeding scheduled

Interest Payment Date of the Notes from time to time. The term "Fully Fund" when used as a verb has a correlative meaning. The Issuer does not have to fund this account with cash if and to the extent that one or more Letters of Credit are provided in an amount sufficient, when combined with any amounts credited to or deposits made into the Debt Service Reserve Account to Fully Fund the Debt Service Reserve Account. As a result of the issuance of the Notes offered hereby, and in the event that the Issuer elects to issue any Additional Notes under the Indenture, the Issuer will, on or before the issue date thereof, either obtain a new Letter of Credit and/or deposit into the Debt Service Reserve Account cash, in each case, in an amount sufficient to ensure the Debt Service Reserve Account will be Fully Funded with respect to all of the Notes, including the Outstanding Notes, the Notes offered hereby and any Additional Notes.

The Trustee may direct withdrawal from the Debt Service Reserve Account (i) to the extent that no other funds are available to pay principal of or premium, if any, interest or Additional Amounts, if any, on the Notes due on the date of such withdrawal and (ii) if on any scheduled payment date the Trustee shall have received from the Issuer funds that are insufficient to pay the aggregate amount of the principal, premium, if any, interest and Additional Amounts, if any, then due.

If on any scheduled payment date the Trustee shall have received funds that are insufficient to pay the aggregate amount of such principal, premium, if any, interest and Additional Amounts, if any, in full, then the Trustee shall transfer from the Debt Service Reserve Account, to the extent funds are available therein, to the accounts of the Holders of the Notes an amount equal to such insufficiency.

If on any date on which the Trustee is required to make withdrawals from the Debt Service Reserve Account, the funds on deposit are insufficient to make any scheduled payment of principal, premium, if any, interest and Additional Amounts, if any, the Trustee shall draw on any Letters of Credit then in its possession in an amount equal to such insufficiency.

Optional Redemption

Prior to June 25, 2019, the Issuer may redeem all of the Notes at any time or a portion of the Notes from time to time at a redemption price equal to the sum of (i) 100% of the principal amount thereof, *plus* (ii) the Applicable Premium as of the date of redemption, *plus* (iii) accrued and unpaid interest and Additional Amounts, if any, to but excluding the date of redemption, subject to the rights of Holders of Notes on the relevant record date to receive interest due on the relevant Interest Payment Date.

On or after June 25, 2019, the Issuer may redeem all of the Notes at any time or a portion of the Notes, at the redemption prices (expressed as percentages of principal amount) set forth below plus accrued and unpaid interest and Additional Amounts, if any, thereon, to but excluding the applicable redemption date, subject to the rights of Holders of Notes on the relevant record date to receive interest due on the relevant Interest Payment Date, if redeemed during the twelve-month period beginning on June 25 of the years indicated below:

<u>Year</u>	<u>Percentage</u>
2019	103.00%
2020	101.50%
2021 and thereafter	100.00%

If less than all of the Notes are to be redeemed at any time, the Trustee will select Notes for redemption as follows:

- (1) in compliance with the requirements of the principal securities exchange, if any, on which the Notes are listed; or
- (2) if the Notes are not so listed or the applicable exchange does not require a specified method, on a pro rata basis, by lot or by such other method as the Trustee deems fair and appropriate;

provided that if the Notes are in global form, interest in such global notes will be selected for redemption by DTC in accordance with its applicable procedures. No Notes of US\$200,000 or less will be redeemed in part. Notices of redemption will be mailed by first class mail, at least 30 but not more than 60 days before the redemption date, to each Holder of Notes to be redeemed at its registered address. Any redemption notice may, at the Issuer's discretion, be subject to one or more conditions precedent described in the notice of redemption.

If any Note is to be redeemed in part only, the notice of redemption that relates to that Note will state the portion of the principal amount thereof to be redeemed. A new Note in principal amount equal to the unredeemed portion of the original Note will be issued in the name of the Holder thereof upon cancellation of the original Note. Notes called for redemption become due on the date fixed for redemption, subject to the satisfaction of any conditions precedent. Subject to the satisfaction of any conditions precedent, interest will cease to accrue on Notes or portions thereof called for redemption on and after the redemption date (unless the Issuer defaults in the payment of the redemption price and accrued interest and Additional Amounts, if any).

Withholding Tax Redemption

In the event that as a result of certain changes in circumstances as described below, the Issuer becomes required to pay any Additional Amounts, the Notes will be redeemable, as a whole but not in part, at the Issuer's option at any time at 100% of their principal amount plus accrued and unpaid interest, if any, and Additional Amounts, if any.

The Notes are subject to redemption (a "Withholding Tax Redemption") at any time (the "Withholding Tax Redemption Date"), as a whole but not in part, at the election of the Issuer, at a redemption price equal to 100% of the unpaid principal amount thereof plus accrued and unpaid interest, if any, and Additional Amounts, if any, to and including the Withholding Tax Redemption Date (the "Withholding Tax Redemption Price"), if the Issuer becomes required on the next Interest Payment Date to pay any Additional Amounts on the Notes, as a result of: (i) any change in or amendment to the laws, rules or regulations of Panama, as applicable, or any political subdivision or taxing authority or other instrumentality thereof or therein, which change or amendment is enacted, promulgated, issued or announced, after the Issue Date or (ii) any amendment to or change in the generally applicable rulings or official interpretations relating to such laws, rules or regulations made by any legislative body, court or governmental or regulatory agency or authority (including the enactment of any legislation and the publication of any judicial decision or regulatory determination) of Panama, as applicable, or any political subdivision or taxing authority or other instrumentality thereof or therein, which amendment or change is enacted, promulgated, issued or announced or which publication is issued or announced, in each case, after the Issue Date, (iii) any official interpretation, application or pronouncement by any legislative body, court or governmental or regulatory agency or authority that provides for a position with respect to such laws, rules or regulations that differs from the theretofore generally accepted position, which amendment or change is enacted, promulgated, issued or announced or which interpretation, application or pronouncement is issued or announced, in each case, after the Issue Date or (iv) the Notes not being exempt from Panamanian income or withholding tax as a result of the Notes ceasing to be listed on the Panama Stock Exchange except to the extent that the Notes ceasing to be listed on the Panama Stock Exchange arises from the Issuer's failure to take (or refrain from taking, as the case may be) any reasonable action that would forestall or prevent the Notes from ceasing to be listed on the Panama Stock Exchange.

The election of the Issuer to redeem the Notes shall be evidenced by a certificate (a "Withholding Tax Redemption Certificate") of an Officer of the Issuer, which certificate shall be delivered to the Trustee. The Issuer shall, not less than 30 days nor more than 45 days prior to the Withholding Tax Redemption Date, notify the Trustee in writing of such Withholding Tax Redemption Date and of all other information necessary to the giving by the Trustee of notices of such Withholding Tax Redemption. The Trustee shall be entitled to rely conclusively upon the information so furnished by the Issuer in the Withholding Tax Redemption Certificate and shall be under no duty to check the accuracy or completeness thereof. Such notice shall be irrevocable and upon its delivery the Issuer shall be obligated to make the payment or payments to the Trustee referred to therein at least two Business Days prior to such Withholding Tax Redemption Date.

Notice of Withholding Tax Redemption shall be given by the Trustee to the Holders of the Notes, in accordance with the Indenture upon the mailing by first-class postage prepaid to each such Holder at the address of such Holder as it appears in the Register not less than 15 days nor more than 30 days prior to the Withholding Tax Redemption Date (so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and

admitted for trading on the Euro MTF and the rules of that exchange so require, either on the website of the Luxembourg Stock Exchange (www.bourse.lu) or published in English in a leading newspaper with general circulation in Luxembourg (which is expected to be the Luxemburger Wort) or, if such publication is not practicable, in another leading English language daily newspaper with general circulation in Europe).

The notice of Withholding Tax Redemption shall state:

- (1) the Withholding Tax Redemption Date;
- (2) the Withholding Tax Redemption Price;
- (3) the sum of all other amounts due to the Holders of the Notes under the Notes and the Indenture;
- (4) that on the Withholding Tax Redemption Date the Withholding Tax Redemption Price will become due and payable upon each such Note so to be redeemed; and
- (5) the place or places where such Notes so to be redeemed are to be surrendered for payment of the Withholding Tax Redemption Price.

Notice of Withholding Tax Redemption having been given as aforesaid, the Notes so to be redeemed shall, on the Withholding Tax Redemption Date, become due and payable at the Withholding Tax Redemption Price therein specified. Upon surrender of any such Notes for redemption in accordance with such notice, such Notes shall be paid by the paying agent on behalf of the Issuer on the Withholding Tax Redemption Date; provided that moneys sufficient therefor have been deposited with the Trustee for the Holders.

Notwithstanding anything to the contrary herein or in the Indenture or in the Notes, if a Withholding Tax Redemption Certificate has been delivered to the Trustee and the Issuer shall have paid to the Trustee for the benefit of the Holders of the Notes (i) the Withholding Tax Redemption Price and (ii) all other amounts due to the Holders of the Notes and the Trustee under the Notes and the Indenture, then neither the Holders of the Notes nor the Trustee on their behalf shall any longer be entitled to exercise any of the rights of the Holders of the Notes under the Notes other than the rights of such Holders to receive payment of such amounts from the paying agent. The funds paid to the Trustee shall be used to redeem the Notes on the Withholding Tax Redemption Date.

Mandatory Redemption; Offers to Purchase; Open Market Purchases

The Issuer is not required to make any mandatory redemption or sinking fund payments with respect to the Notes. However, under certain circumstances, the Issuer may be required to offer to purchase the Notes as described under the captions "—Repurchase at the Option of Holders—Change of Control" and "—Repurchase at the Option of Holders—Asset Sales." The Issuer and its Restricted Subsidiaries may at any time and from time to time purchase Notes in the open market or otherwise.

Repurchase at the Option of Holders

Change of Control

Unless the Issuer has previously or concurrently mailed a redemption notice with respect to all the outstanding Notes as described under "—Optional Redemption," the Issuer must commence, within 30 days of the occurrence of a Change of Control, and consummate an Offer to Purchase for all Notes then outstanding, at a purchase price in cash equal to 101% of the aggregate principal amount of the Notes repurchased plus accrued and unpaid interest and Additional Amounts, if any, thereon, to the date of repurchase, subject to the rights of Holders of Notes on the relevant record date to receive interest due on the relevant Interest Payment Date. Prior to commencing such Offer to Purchase, but in any event within 30 days following any Change of Control, the Issuer covenants to (i) repay in full all indebtedness of the Issuer that would prohibit the repurchase of the Notes pursuant to such Offer to Purchase or (ii) obtain any requisite consents under instruments governing any such indebtedness of the Issuer to permit the repurchase of the Notes pursuant to this covenant.

The Issuer cannot assure you that it will have sufficient funds available to it at the time of any Change of Control to repurchase the Notes required by the foregoing covenant (as well as by any covenant contained in other agreement governing indebtedness of the Issuer which might be outstanding at the time).

Subject to the limitations discussed below, the Issuer could, in the future, enter into certain transactions, including acquisitions, refinancings or other recapitalizations, that would not constitute a Change of Control under the Indenture, but that could increase the amount of Indebtedness outstanding at such time or otherwise affect the Issuer's capital structure or credit ratings. Restrictions on the Issuer's ability to Incur additional Indebtedness are contained in the covenants described under "Certain Covenants—Limitation on Indebtedness" and "Certain Covenants—Limitation on Liens." Except for the limitations contained in such covenants, however, the Indenture will not contain any covenants or provisions that may afford Holders of the Notes protection in the event of a highly leveraged transaction.

The Issuer will not be required to make an Offer to Purchase upon a Change of Control if a third party makes the Offer to Purchase in the manner, at the times and otherwise in compliance with the requirements set forth in the Indenture applicable to an Offer to Purchase made by the Issuer and purchases all Notes validly tendered and not withdrawn under such Offer to Purchase.

The definition of Change of Control includes a phrase relating to the direct or indirect sale, transfer, conveyance or other disposition of "all or substantially all" of the properties or assets of the Issuer and the Restricted Subsidiaries taken as a whole. Although there is a limited body of case law interpreting the phrase "substantially all," there is no precise established definition of the phrase under applicable law. Accordingly, the ability of a Holder of Notes to require the Issuer to repurchase such Notes as a result of a sale, transfer, conveyance or other disposition of less than all of the assets of the Issuer and the Restricted Subsidiaries taken as a whole to another Person or group may be uncertain. In addition, Holders of Notes may not be entitled to require the Issuer to repurchase their Notes in certain circumstances involving a significant change in the composition of the Board of Administrators of the Issuer, including in connection with a proxy contest, where the Issuer's Board of Administrators does not endorse a dissident slate of administrators but approves them as administrators for purposes of the Indenture.

Asset Sales

The Issuer will not, and will not permit any Restricted Subsidiary to, consummate an Asset Sale unless:

- (1) the Issuer (or the Restricted Subsidiary, as the case may be) receives consideration (including by way of relief from, or by any other Person assuming sole responsibility for, any liability) at the time of such Asset Sale at least equal to the Fair Market Value of the assets or Equity Interests issued or sold or otherwise disposed of; provided, however, that this clause (1) shall not apply to the Estrella del Mar I PPA Sale; and
- (2) at least 75% of the consideration therefor received by the Issuer or such Restricted Subsidiary is in the form of:
 - (a) Cash Equivalents (including any Cash Equivalents received from the conversion within 90 days of such Asset Sale of any securities, notes or other obligations received in consideration of such Asset Sale);
 - (b) Replacement Assets;
 - (c) any liabilities of the Issuer or any Restricted Subsidiary as shown on the Issuer's or such Restricted Subsidiary's most recent balance sheet (other than contingent liabilities, Subordinated Indebtedness and liabilities to the extent owed to the Issuer, any Restricted Subsidiary or any Affiliate of the Issuer) that are assumed by the transferee of any such assets or Equity Interests and for which the Issuer and all of the Restricted Subsidiaries have been validly released by all creditors in writing; or
 - (d) any combination of the consideration specified in clauses (a) to (c).

Within 365 days after the receipt of any Net Available Cash from an Asset Sale, the Issuer or a Restricted Subsidiary, as the case may be, may apply an amount equal to such Net Available Cash at its option:

- (1) to repay Indebtedness secured by such assets and, if the Indebtedness repaid is revolving credit Indebtedness, to correspondingly reduce commitments with respect thereto; or
- (2) to purchase Replacement Assets (or enter into a binding agreement to purchase such Replacement Assets, *provided* that (x) such purchase is consummated no later than the later of (i) the 360th day after such Asset Sale or (ii) 180 days after the date of such binding agreement and (y) if such purchase is not consummated within the period set forth in subclause (x), the Net Available Cash not so applied will be deemed to be Excess Proceeds (as defined below)); or
- (3) make an Offer to Purchase as described below.

The amount of such Net Available Cash required to be applied (or to be committed to be applied) during such 365 day period as set forth in the preceding paragraph and not applied (or committed to be applied) as so required by the end of such period shall constitute "Excess Proceeds." If, as of the first day of any calendar month, the aggregate amount of Excess Proceeds totals at least US\$20.0 million, the Issuer must commence, not later than the fifteenth business day of such month, and consummate an Offer to Purchase, from the Holders and all holders of other Pari Passu Debt containing provisions similar to those set forth in the Indenture with respect to offers to purchase with the proceeds of sales of assets, the maximum principal amount of Notes and such other Pari Passu Debt that may be purchased out of the Excess Proceeds. The offer price in any such Offer to Purchase will be equal to 100% of the principal amount (or accredited value, if applicable) of the Notes and such other Pari Passu Debt plus accrued and unpaid interest and Additional Amounts, if any, to the date of purchase, subject to the rights of Holders of Notes on the relevant record date to receive interest on the relevant Interest Payment Date, and will be payable in cash. To the extent that any Excess Proceeds remain after consummation of an Offer to Purchase pursuant to this "Asset Sales" covenant, the Issuer may use those Excess Proceeds for any purpose not otherwise prohibited by the Indenture, and those Excess Proceeds shall no longer constitute "Excess Proceeds."

Certain Covenants

The Indenture contains, among others, the following covenants.

Limitation on Restricted Payments

- (1) The Issuer will not, and will not permit any Restricted Subsidiary to, directly or indirectly, take any of the following actions (each, a "Restricted Payment"):
 - (a) declare or pay any dividend or make any other payment or distribution with respect to any of the Issuer's or any Restricted Subsidiary's Equity Interests (including, without limitation, any payment in connection with any merger or consolidation involving the Issuer or any Restricted Subsidiary) or to the direct or indirect holders of the Issuer's or any Restricted Subsidiary's Equity Interests in their capacity as such (other than dividends, payments or distributions (x) payable in Equity Interests (other than Disqualified Stock) of the Issuer or (y) to the Issuer or a Restricted Subsidiary);
 - (b) purchase, redeem or otherwise acquire or retire for value (including, without limitation, in connection with any merger or consolidation involving the Issuer or any Restricted Subsidiary) any Equity Interests of the Issuer or any Restricted Subsidiary or any Affiliate of the Issuer held by any Person (other than by the Issuer or any Restricted Subsidiary of the Issuer or as would constitute a Permitted Investment);
 - (c) call for redemption or make any payment on or with respect to, or purchase, repurchase, redeem, defease or otherwise acquire or retire for value, prior to the Stated Maturity thereof, any Subordinated Indebtedness except (x) in anticipation of satisfying a sinking fund obligation, principal installment or final maturity, in each case due within one year of the date of such payment, purchase, repurchase or other acquisition or (y)

intercompany Indebtedness permitted to be incurred pursuant to clause (6) of the second paragraph of the covenant described below under the caption "—Limitation on Indebtedness;" or

- (d) make any Investment (other than a Permitted Investment) in any Person,

unless, at the time of and after giving *pro forma* effect to such Restricted Payment:

- (i) no Default or Event of Default will have occurred and be continuing or would occur as a consequence thereof;
- (ii) the Debt Service Reserve Account shall be Fully Funded;
- (iii) the Issuer could Incur at least US\$1.00 of additional Indebtedness pursuant to the first paragraph of the covenant described below under the caption "—Limitation on Indebtedness;" and
- (iv) such Restricted Payment, together with the aggregate amount of all other Restricted Payments made by the Issuer and the Restricted Subsidiaries after January 1, 2015 (excluding Restricted Payments permitted by clauses (b), (c), (d)(i), (e), (f) and (h) of the next succeeding paragraph (2)), is less than the sum, without duplication, of:
 - (A) 100% of the Consolidated Net Income on a cumulative basis during the period (taken as one accounting period) beginning on January 1, 2015 and ending on the last day of the Issuer's last fiscal quarter ending prior to the date of such proposed Restricted Payment for which internal financial statements are available (or, if such Consolidated Net Income for such period is a deficit, less 100% of such deficit), *plus*
 - (B) the aggregate Net Cash Proceeds received by the Issuer since the Issue Date as a contribution to its common equity capital or from the issue or sale of Equity Interests (other than Disqualified Stock) of the Issuer and the amount of reduction of Indebtedness of the Issuer or its Restricted Subsidiaries that has been converted into or exchanged for such Equity Interests (other than Equity Interests sold to, or Indebtedness held by, a Subsidiary of the Issuer or an employee stock ownership plan or similar trust financed by loans from or Guaranteed by the Issuer or any Restricted Subsidiary unless such loans have been repaid with cash on or prior to the date of determination) (less the amount of any cash or the Fair Market Value of other assets distributed by the Issuer or any Restricted Subsidiary upon such conversion or exchange), *plus*
 - (C) with respect to Investments (other than Permitted Investments) made by the Issuer and any Restricted Subsidiary after the Issue Date, an amount equal to the net reduction in such Investments in any Person (except, in each case, to the extent any such amount is included in the calculation of Consolidated Net Income), resulting from (w) the repayment to the Issuer or any Restricted Subsidiary of loans or advances or from the receipt of Net Cash Proceeds from the sale of any such Investment, (x) from the release of any Guarantee (except to the extent any amounts are paid under such Guarantee), (y) from redesignations of Unrestricted Subsidiaries as Restricted Subsidiaries, or (z) any Person in which the Issuer or any Restricted Subsidiary had previously made an Investment becomes a Restricted Subsidiary; not to exceed, in each case, the amount of such Investments previously made by the Issuer or any Restricted Subsidiary in such Person.

- (2) So long as the Debt Service Reserve Fund is Fully Funded, the provisions of paragraph (1) of this covenant will not prohibit:

- (a) the payment of any dividend within 60 days after the date of declaration thereof, if at said date of declaration such payment would have complied with the provisions of the Indenture, and the redemption of any Subordinated Indebtedness within 60 days after the date on which notice of such redemption was given, if at said date of the giving of such notice, such redemption would have complied with the provisions of the Indenture;
- (b) the payment of any dividend by a Restricted Subsidiary to all the holders of its Common Stock on a pro rata basis;
- (c) any Restricted Payment in exchange for, or out of the Net Cash Proceeds of a contribution to the common equity of the Issuer or a substantially concurrent sale (other than to a Subsidiary of the Issuer or an employee stock ownership plan or similar trust financed by loans from or Guaranteed by the Issuer or any Restricted Subsidiary unless such loans have been repaid with cash on or prior to the date of determination) of, Equity Interests (other than Disqualified Stock) of the Issuer; *provided* that the amount of any such Net Cash Proceeds that are utilized for such Restricted Payment will be excluded from clause (iv)(B) of the preceding paragraph (1);
- (d) the redemption, repurchase, defeasance or other acquisition or retirement for value of Subordinated Indebtedness (i) in exchange for or with the net cash proceeds from a substantially concurrent Incurrence (other than to a Subsidiary of the Issuer) of, Permitted Refinancing Indebtedness or (ii) with any remaining Excess Proceeds following the consummation of an Offer to Purchase in accordance with the covenant described under "Repurchase at the Option of the Holders – Asset Sales";
- (e) the repurchase of Capital Stock deemed to occur upon the exercise of options or warrants to the extent that such Capital Stock represents all or a portion of the exercise price thereof and applicable withholding taxes, if any;
- (f) the payment of cash in lieu of fractional Equity Interests pursuant to the exchange or conversion of any exchangeable or convertible securities; *provided*, that such payment shall not be for the purpose of evading the limitations of this covenant (as determined by the Board of Administrators of the Issuer in good faith);
- (g) so long as no Default has occurred and is continuing or would be caused thereby, the declaration and payment of dividends to holders of any class or series of Disqualified Stock of the Issuer, or Preferred Stock of a Restricted Subsidiary, in each case issued in accordance with the covenant described under "Limitation on Indebtedness", and *provided* that such dividends constitute "Fixed Charges";
- (h) dividends, payments and other distributions pursuant to a tax sharing agreement or other similar arrangement to any equity owner of the Issuer or to any Person with whom the Issuer and its Restricted Subsidiaries, if any, file a consolidated, combined or similar tax return or with which the Issuer and its Restricted Subsidiaries, if any, are part of a consolidated, combined or similar group for tax purposes, provided that such dividends, payments and distributions do not exceed the amount of taxes the Issuer and its Restricted Subsidiaries collectively would have to pay on a stand-alone basis as a separate corporate taxable entity;
- (i) so long as no Default has occurred and is continuing or would be caused thereby, other Restricted Payments in an aggregate amount not to exceed US\$60.0 million.

The amount of all Restricted Payments (other than cash) will be the Fair Market Value on the date of the Restricted Payment of the asset(s) or securities proposed to be transferred or issued to or by the Issuer or such Subsidiary, as the case may be, pursuant to the Restricted Payment.

Limitation on Indebtedness

The Issuer will not, and will not permit any Restricted Subsidiary to, Incur any Indebtedness; *provided, however*, that the Issuer or any Restricted Subsidiary may Incur Indebtedness if on the date such Indebtedness is Incurred the Debt Service Reserve Account is Fully Funded and, after giving effect to the Incurrence of such Indebtedness and the receipt and application of the proceeds therefrom:

- (1) the Fixed Charge Coverage Ratio would be at least 2.5 : 1; and
- (2) the Leverage Ratio would be greater than zero and less than (i) 4.25 : 1 if such Indebtedness is Incurred on any date from the Issue Date through and including June 30, 2016, (ii) 3.75 : 1 if such Indebtedness is Incurred on any date after June 30, 2016 through and including June 30, 2017, and (iii) 3.50 : 1 if such Indebtedness is Incurred on any date thereafter.

The first paragraph of this covenant will not prohibit the Incurrence of any of the following items of Indebtedness (collectively, "Permitted Debt"):

- (1) the Incurrence by the Issuer or any Restricted Subsidiary of Indebtedness under Credit Facilities (including, but not limited to, the Credit Agreements) in an aggregate amount at any one time outstanding pursuant to this clause (1) not to exceed US\$50.0 million;
- (2) the Incurrence of Existing Indebtedness;
- (3) the Incurrence by the Issuer of Indebtedness represented by the Notes (other than Additional Notes) and any Subsidiary Guarantees;
- (4) the Incurrence by the Issuer or any Restricted Subsidiary of Indebtedness represented by Capital Lease Obligations, mortgage financings or purchase money obligations, in each case, Incurred for the purpose of financing all or any part of the purchase price or cost of acquisition, construction or improvement of property, plant or equipment used in the business of the Issuer or such Restricted Subsidiary (including any reasonably related fees or expenses Incurred in connection with such acquisition, construction or improvement) or the purchase price or cost (including integration and start-up costs) of any Person, business or project, in an aggregate amount, including all Permitted Refinancing Indebtedness Incurred to refund, refinance or replace any Indebtedness Incurred pursuant to this clause (4), not to exceed the greater of (a) US\$75.0 million and (b) 15% of Consolidated Net Tangible Assets at the time of such Incurrence, *provided that* immediately after giving effect to the Incurrence of Indebtedness under this clause (4) and the acquisition, construction or improvement of any property, plant or equipment or any Person, business or project on a pro forma basis,
 - (i) either (A) the Fixed Charge Coverage Ratio is equal to or greater than the Fixed Charge Coverage Ratio set forth in clause (a) of the first paragraph of this covenant or (B) the Fixed Charge Coverage Ratio of the Issuer is equal to or greater than such ratio immediately prior to such transaction on a non-pro forma basis, and
 - (ii) either (A) the Leverage Ratio is equal to or less than the applicable Leverage Ratio set forth in clause (b) of the first paragraph of this covenant or (B) the Leverage Ratio of the Issuer is equal to or less than such ratio immediately prior to such transaction on a non-pro forma basis;

provided further that, in the case of the acquisition, construction or improvement of any property, plant, equipment, project, Person or business that has not commenced full operations or has not been fully operational for a full twelve month period prior to its acquisition, then the Issuer, when calculating the Fixed Charge Coverage Ratio and the Leverage Ratio on a pro forma basis, may use the projected results or impact of such acquisition, construction or improvement after the property, plant, equipment, project, Person or business becomes fully operational (but factoring in any historical results for any period during which it was fully operational), as determined in good faith by a responsible financial or accounting officer of the Issuer;

- (5) the Incurrence by the Issuer or any Restricted Subsidiary of Permitted Refinancing Indebtedness in exchange for, or the Net Cash Proceeds of which are used to refund, refinance or replace Indebtedness that was permitted by the Indenture to be Incurred under the first paragraph of this covenant or clauses (2), (3), (4), (5), (13) or (15) of this paragraph;
- (6) the Incurrence by the Issuer or any Restricted Subsidiary of Indebtedness owing to and held by the Issuer or any Restricted Subsidiary; *provided, however*, that:
 - (a) such Indebtedness must be unsecured and expressly subordinated in right of payment to the prior payment in full in cash of all Obligations with respect to the Notes, in the case of the Issuer, or the Subsidiary Guarantee, in the case of a Subsidiary Guarantor; and
 - (b) (i) any event that results in any such Indebtedness being held by a Person other than the Issuer or a Restricted Subsidiary (except for any pledge of such Indebtedness constituting a Permitted Lien until the pledgee commences actions to foreclose on such Indebtedness) will be deemed, in each case, to constitute an Incurrence of such Indebtedness by the Issuer or such Restricted Subsidiary, as the case may be, that was not permitted by this clause (6);
- (7) the Guarantee by the Issuer or any Restricted Subsidiary of Indebtedness of the Issuer or a Restricted Subsidiary that was permitted to be Incurred by another provision of this covenant;
- (8) the Incurrence by the Issuer or any Restricted Subsidiary of Hedging Obligations that are Incurred for the purpose of fixing, hedging or swapping interest rate, commodity price or foreign currency exchange rate risk (or to reverse or amend any such agreements previously made for such purposes), and not for speculative purposes;
- (9) the Incurrence by the Issuer or any Restricted Subsidiary of Indebtedness arising from agreements providing for indemnification, adjustment of purchase price or similar obligations, or Guarantees or letters of credit, surety bonds or performance bonds securing any obligations of the Issuer or any Restricted Subsidiary pursuant to such agreements, in any case Incurred in connection with the disposition of any business, assets or Capital Stock of a Restricted Subsidiary (other than Guarantees of Indebtedness Incurred by any Person acquiring all or any portion of such business, assets or Capital Stock of a Restricted Subsidiary for the purpose of financing such acquisition), so long as the amount does not exceed the gross proceeds actually received by the Issuer or any Restricted Subsidiary in connection with such disposition;
- (10) the Incurrence by the Issuer or any Restricted Subsidiary of Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument drawn against insufficient funds in the ordinary course of business, *provided, however*, that such Indebtedness is extinguished within ten Business Days of its Incurrence;
- (11) the Incurrence by the Issuer or any Restricted Subsidiary of Indebtedness constituting reimbursement obligations with respect to letters of credit issued in the ordinary course of business, including letters of credit in respect of workers' compensation claims, or other Indebtedness with respect to reimbursement obligations regarding workers' compensation claims; *provided* that, upon the drawing of such letters of credit or the Incurrence of such Indebtedness, such obligations are reimbursed within 30 days following such drawing or Incurrence;
- (12) Indebtedness in respect of banker's acceptances, deposits, promissory notes, self-insurance obligations and performance, surety, appeal or similar bonds provided by the Issuer or any Restricted Subsidiary in the ordinary course of business;
- (13) the Incurrence by the Issuer or any Restricted Subsidiary of Indebtedness to the extent the Net Cash Proceeds thereof are promptly deposited to defease or to satisfy and discharge the Notes as described under "Defeasance" or "—Satisfaction and Discharge";

- (14) Indebtedness, Disqualified Stock or Preferred Stock of (a) the Issuer or any of its Restricted Subsidiaries incurred to finance an acquisition or (b) Persons that are acquired by, or merged with or into, the Issuer or any of its Restricted Subsidiaries in accordance with the terms of the Indenture; provided, however, that after giving effect to such acquisition or merger and the incurrence of Indebtedness pursuant to this clause (14), either (i) the Issuer would have been permitted to incur at least US\$1.00 of additional Indebtedness pursuant to the first paragraph of this covenant after giving pro forma effect to such acquisition or merger and the Incurrence of such Indebtedness or (ii) the Fixed Charge Coverage Ratio test set forth in clause (a) of the first paragraph of this covenant after giving pro forma effect to such acquisition or merger and the Incurrence of such Indebtedness would be higher than such ratio immediately prior to such acquisition or merger (on a non-pro forma basis) and the Leverage Ratio test set forth in clause (b) of the first paragraph of this covenant after giving pro forma effect to such acquisition or merger and the Incurrence of such Indebtedness would be lower than such ratio immediately prior to such acquisition or merger (on a non-pro forma basis);
- (15) the Incurrence of Indebtedness in a Qualified Receivables Transaction that is without recourse to the Issuer or to any other Subsidiary of the Issuer or their assets (other than a Receivables Entity and its assets and, as to the Issuer or any Subsidiary of the Issuer, other than pursuant to Standard Receivables Undertakings) and is not Guaranteed by any such Person;
- (16) the Incurrence by the Issuer or any Restricted Subsidiary of additional Indebtedness in an aggregate amount at any one time outstanding, including all Permitted Refinancing Indebtedness Incurred to refund, refinance or replace any Indebtedness Incurred pursuant to this clause (16), not to exceed US\$25.0 million.

For purposes of determining compliance with this covenant, in the event that any proposed Indebtedness meets the criteria of more than one of the categories described in clauses (1) through (16) above, or is entitled to be Incurred pursuant to the first paragraph of this covenant, the Issuer will be permitted to classify such item of Indebtedness or a part thereof in any manner that complies with this covenant.

For purposes of determining compliance with any U.S. dollar-denominated restriction on the incurrence of Indebtedness, the U.S. Dollar Equivalent principal amount of Indebtedness denominated in a foreign currency shall be calculated based on the relevant currency exchange rate in effect on the date such Indebtedness was incurred (or first committed, in the case of revolving credit debt); *provided* that if such Indebtedness is incurred to refinance other Indebtedness denominated in a foreign currency, and such refinancing would cause the applicable U.S. dollar denominated restriction to be exceeded if calculated at the relevant currency exchange rate in effect on the date of such refinancing, such U.S. dollar-denominated restriction shall be deemed not to have been exceeded so long as the principal amount of such refinancing Indebtedness does not exceed the principal amount of such Indebtedness being refinanced.

The principal amount of any Indebtedness incurred to refinance other Indebtedness, if incurred in a different currency from the Indebtedness being refinanced, shall be calculated based on the currency exchange rate applicable to the currencies in which such respective Indebtedness is denominated that is in effect on the date of such refinancing.

Limitation on Layering

The Issuer will not Incur any Indebtedness that is subordinate in right of payment to any other Indebtedness of the Issuer unless it is subordinate in right of payment to the Notes at least to the same extent. The Issuer will not permit any Subsidiary Guarantor to Incur any Indebtedness that is subordinate in right of payment to any other Indebtedness of such Subsidiary Guarantor unless it is subordinate in right of payment to such Subsidiary Guarantor's Subsidiary Guarantee at least to the same extent. For purposes of the Indenture, no Indebtedness will be deemed to be subordinated in right of payment to any other Indebtedness of the Issuer or any Subsidiary Guarantor, as applicable, solely by reason of any Liens or Guarantees arising or created in respect thereof or by virtue of the fact that the holders of any secured Indebtedness have entered into intercreditor agreements giving one or more of such holders priority over the other holders in the collateral held by them.

Limitation on Liens

The Issuer will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, create, incur, assume or suffer to exist any Lien of any kind securing Indebtedness on any asset now owned or hereafter acquired, other than Permitted Liens, unless contemporaneously with the Incurrence of such Liens:

- (1) in the case of Liens securing Subordinated Indebtedness, the Notes and related Subsidiary Guarantees are secured by a Lien on such property, assets or proceeds that is senior in priority to such Liens; or
- (2) in all other cases, the Notes and related Subsidiary Guarantees are equally and ratably secured or are secured by a Lien on such property, assets or proceeds that is senior in priority to such Liens.

Any Lien created for the benefit of Holders pursuant to this covenant shall be automatically and unconditionally released and discharged upon the release and discharge of each of the related Liens described in clauses (1) and (2) above.

Limitation on Sale and Leaseback Transactions

The Issuer will not, and will not permit any Restricted Subsidiary to, enter into any Sale and Leaseback Transaction with respect to any property or assets with a Fair Market Value, individually or in the aggregate, in excess of US\$500,000 unless:

- (1) the Issuer or such Restricted Subsidiary, as applicable, could have Incurred Indebtedness in an amount equal to the Attributable Debt relating to such Sale and Leaseback Transaction pursuant to the covenant described above under the caption "—Limitation on Indebtedness;"
- (2) the gross cash proceeds of that Sale and Leaseback Transaction are at least equal to the Fair Market Value of the property that is the subject of that Sale and Leaseback Transaction;
- (3) the Issuer or such Restricted Subsidiary, as applicable, either (i) could have incurred a Lien to secure such Indebtedness pursuant to the covenant described above under the caption "—Limitation on Liens" or (ii) makes effective provision whereby the Notes or the Subsidiary Guarantee, as applicable, (together with, if the Issuer so determines, any other Indebtedness ranking equally with the Notes) are secured equally and ratably with (or prior to) the obligations of the Issuer under the lease of such property or assets; and
- (4) within 180 days, the Issuer either:
 - (i) applies an amount equal to the Attributable Debt in respect of such Sale and Leaseback Transaction to prepay Indebtedness of the Issuer ranking at least on parity with the Notes; or
 - (ii) applies an amount at least equal to the Attributable Debt in respect of such Sale and Leaseback Transaction to the acquisition, purchase, construction, development, extension or improvement of a property or asset to be used by the Issuer or the relevant Restricted Subsidiary in the ordinary course of business.

Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries

The Issuer will not, and will not permit any of Restricted Subsidiary to, directly or indirectly, create or permit to exist or become effective any consensual encumbrance or restriction on the ability of any Restricted Subsidiary to:

- (1) pay dividends or make any other distributions on its Capital Stock (or with respect to any other interest or participation in, or measured by, its profits) to the Issuer or any Restricted Subsidiary (it being understood that the priority of any Preferred Stock in receiving dividends or liquidating

distributions prior to dividends or liquidating distributions being paid on Common Stock shall not be deemed a restriction on the ability to make distributions on Capital Stock);

- (2) pay any liabilities owed to the Issuer or any of Restricted Subsidiary;
- (3) make loans or advances to the Issuer or any Restricted Subsidiary (it being understood that the subordination of loans or advances made to the Issuer or any Restricted Subsidiary to other Indebtedness Incurred by the Issuer or any Restricted Subsidiary shall not be deemed a restriction on the ability to make loans or advances); or
- (4) transfer any of its properties or assets to the Issuer or any Restricted Subsidiary.

However, the preceding restrictions will not apply to encumbrances or restrictions:

- (1) existing under, by reason of or with respect to the Credit Agreements as in effect on the Issue Date, Existing Indebtedness or any other agreements in effect on the Issue Date and any amendments, modifications, restatements, renewals, extensions, supplements, refundings, replacements or refinancings thereof, *provided* that the encumbrances and restrictions in any such amendments, modifications, restatements, renewals, extensions, supplements, refundings, replacements or refinancings, taken as a whole, are not materially more restrictive than those contained in the Credit Agreements, Existing Indebtedness or such other agreements, as the case may be, as in effect on the Issue Date;
- (2) set forth in the Indenture, the Notes and any Subsidiary Guarantee;
- (3) existing under or by reason of applicable law, rule, regulation or order;
- (4) with respect to any Person or the property or assets of a Person acquired by the Issuer or any Restricted Subsidiary existing at the time of such acquisition and not incurred in connection with or in contemplation of such acquisition, which encumbrance or restriction is not applicable to any Person, or the properties or assets of any Person, other than the Person, or the property or assets of the Person, so acquired, and any amendments, modifications, restatements, renewals, extensions, supplements, refundings, replacements or refinancings thereof, *provided* that the encumbrances and restrictions in any such amendments, modifications, restatements, renewals, extensions, supplements, refundings, replacements or refinancings, taken as a whole, are not materially more restrictive than those in effect on the date of the acquisition;
- (5) that restrict in a customary manner the subletting, assignment or transfer of any property or asset that is a lease, license, conveyance or contract or similar property or asset;
- (6) existing by virtue of any transfer of, agreement to transfer, option or right with respect to, or Lien on, any property or assets of the Issuer or any Restricted Subsidiary not otherwise prohibited by the Indenture;
- (7) arising or agreed to in the ordinary course of business, not relating to any Indebtedness, and that do not, in the good faith determination of the Board of Administrators of the Issuer, individually or in the aggregate, detract from the value of property or assets of the Issuer or any Restricted Subsidiary in any manner material to the Issuer or any Restricted Subsidiary;
- (8) existing under, by reason of or with respect to any agreement for the sale or other disposition of all or substantially all of the Capital Stock of, or property and assets of, a Restricted Subsidiary that restrict distributions or transfer by that Restricted Subsidiary pending such sale or other disposition;

- (9) under Indebtedness or other contractual requirements of a Receivables Entity in connection with a Qualified Receivables Transaction, *provided* that such restrictions apply only to such Receivables Entity or the Receivables Assets that are subject to such Qualified Receivables Transaction;
- (10) on cash or other deposits or net worth, which encumbrances or restrictions are imposed by customers or suppliers or required by insurance, surety or bonding companies, in each case, under contracts entered into in the ordinary course of business; and
- (11) arising from customary provisions in joint venture agreements and other similar agreements entered into in the ordinary course of business and which the Board of Administrators of the Issuer determines in good faith will not materially adversely affect the Issuer's ability to make payments of principal or interest on the Notes.

Merger, Consolidation or Sale of Assets

The Issuer. The Issuer will not, directly or indirectly: (1) consolidate or merge with or into another Person (whether or not the Issuer is the surviving corporation), or (2) sell, assign, transfer, convey or otherwise dispose of all or substantially all of the properties and assets of the Issuer and the Restricted Subsidiaries taken as a whole, in one or more related transactions, to another Person, unless:

- (1) immediately after giving effect to such transaction, no Default or Event of Default exists;
- (2) either:
 - (a) the Issuer is the surviving corporation; or
 - (b) the Person formed by or surviving any such consolidation or merger (if other than the Issuer) or to which such sale, assignment, transfer, conveyance or other disposition will have been made (i) is a Person organized or existing under the laws of Panama, (ii) assumes all the obligations of the Issuer under the Notes, the Indenture and the Pledge and Security pursuant to a supplemental indenture or other agreement reasonably satisfactory to the Trustee and (iii) irrevocably submits, for purposes of the Transaction Documents, to the jurisdiction of the federal and state courts in the County of New York in the State of New York;
- (3) immediately after giving effect to such transaction on a *pro forma* basis, either (i) the Issuer or the Person formed by or surviving any such consolidation or merger (if other than the Issuer), or to which such sale, assignment, transfer, conveyance or other disposition will have been made, is permitted to incur at least US\$1.00 of additional Indebtedness pursuant to the first paragraph of the covenant described above under the caption "—Limitation on Indebtedness" or (ii) the Fixed Charge Coverage Ratio test set forth in clause (a) of the first paragraph of such covenant is equal to or higher than such ratio immediately prior to such transaction on a non-*pro forma* basis and the Leverage Ratio test set forth in clause (b) of the first paragraph of such covenant is equal to or lower than such ratio immediately prior to such transaction on a non-*pro forma* basis;
- (4) each Subsidiary Guarantor, unless such Subsidiary Guarantor is the Person with which the Issuer has entered into a transaction under this covenant, will have confirmed to the Trustee in writing that its Subsidiary Guarantee will apply to the obligations of the Issuer or the surviving Person in accordance with the Notes and the Indenture; and
- (5) the Issuer delivers to the Trustee an Officers' Certificate (attaching the arithmetic computation to demonstrate compliance with clause (3) above, provided that the Trustee shall have no responsibility to investigate the accuracy of such computation) and Opinion of Counsel, in each case stating that such transaction and such agreement comply with this covenant and that all conditions precedent provided for in the Indenture relating to such transaction have been complied with;

provided, however, that clause (3) above will not apply to any consolidation, merger, sale, assignment, transfer, conveyance or other disposition of assets between or among the Issuer and any Restricted Subsidiary.

Upon any consolidation, merger, sale, assignment, transfer, conveyance or other disposition in accordance with this covenant, the successor Person formed by such consolidation or into or with which the Issuer is merged or to which such sale, assignment, transfer, conveyance or other disposition is made will succeed to, and be substituted for (so that from and after the date of such consolidation, merger, sale, assignment, conveyance or other disposition, the provisions of the Indenture referring to the "Issuer" will refer instead to the successor Person and not to the Issuer), and may exercise every right and power of, the Issuer under the Indenture with the same effect as if such successor Person had been named as the Issuer in the Indenture.

In addition, the Issuer and the Restricted Subsidiaries may not, directly or indirectly, lease all or substantially all of the properties or assets of the Issuer and the Restricted Subsidiaries considered as one enterprise, in one or more related transactions, to any other Person.

Although there is a limited body of case law interpreting the phrase "all or substantially all," there is no precise established definition of the phrase under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve "all or substantially all" of the property or assets of a Person.

Subsidiary Guarantors. A Subsidiary Guarantor will not, directly or indirectly: (1) consolidate or merge with or into another Person (whether or not such Subsidiary Guarantor is the surviving Person), or (2) sell, assign, transfer, convey or otherwise dispose of all or substantially all of the properties and assets of the Subsidiary Guarantor, in one or more related transactions, to another Person, other than the Issuer or another Subsidiary Guarantor, unless:

- (1) immediately after giving effect to that transaction, no Default or Event of Default exists; and
- (2) either:
 - (a) the Subsidiary Guarantor is the surviving corporation, or the Person formed by or surviving any such consolidation or merger (if other than the Subsidiary Guarantor) or to which such sale, assignment, transfer, conveyance or other disposition which has been made (i) is organized or existing under the laws of Panama, (ii) assumes all the obligations of that Subsidiary Guarantor under the Indenture, including its Subsidiary Guarantee pursuant to a supplemental indenture satisfactory to the Trustee and (iii) irrevocably submits, for purposes of its Subsidiary Guarantee, to the jurisdiction of the federal and state courts in the County of New York in the State of New York; or
 - (b) such sale, assignment, transfer, conveyance or other disposition or consolidation or merger complies with the covenant described above under the caption "—Repurchase at the Option of Holders—Asset Sales."

Limitation on Transactions with Affiliates

The Issuer will not, and will not permit any Restricted Subsidiary to, directly or indirectly, make any payment to, or sell, lease, transfer or otherwise dispose of any of its properties or assets to, or purchase any property or assets from, or enter into, make, amend, renew or extend any transaction, contract, agreement, understanding, loan, advance or Guarantee with, or for the benefit of, any of their Affiliates (each, an "Affiliate Transaction"), unless:

- (1) such Affiliate Transaction is on fair and reasonable terms that are no less favorable to the Issuer or the relevant Restricted Subsidiary than those that would have been obtained in a comparable arm's-length transaction by the Issuer or such Restricted Subsidiary with a Person that is not an Affiliate of the Issuer or any Restricted Subsidiary; and

- (2) the Issuer delivers to the Trustee:
 - (a) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US\$10.0 million, a Board Resolution set forth in an Officers' Certificate certifying that such Affiliate Transaction or series of related Affiliate Transactions complies with this covenant and that such Affiliate Transaction or series of related Affiliate Transactions has been approved by a majority of the Disinterested Members, if any; and
 - (b) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US\$20.0 million, an opinion issued by an independent accounting, appraisal or investment banking firm of national standing stating that such Affiliate Transaction or series of related Affiliate Transactions is fair to the Issuer or such Restricted Subsidiary from a financial point of view.

The following items will not be deemed to be Affiliate Transactions and, therefore, will not be subject to the provisions of the prior paragraph:

- (1) transactions between or among the Issuer and/or its Restricted Subsidiaries
- (2) transactions between the Issuer and/or its Restricted Subsidiaries and the Panamanian government or any agency or Affiliate of the Panamanian government;
- (2) Restricted Payments that are permitted by the provisions of the Indenture described above under the caption "—Limitation on Restricted Payments" and any Permitted Investment;
- (3) any issuance or sale of Equity Interests (other than Disqualified Stock) of the Issuer;
- (4) transactions pursuant to agreements or arrangements in effect on the Issue Date and described in this offering memorandum, or any amendment, modification, or supplement thereto or replacement thereof, as long as such agreement or arrangement, as so amended, modified, supplemented or replaced, taken as a whole, is not, in the good faith determination of the Board of Administrators of the Issuer, materially more disadvantageous to the Issuer and the Restricted Subsidiaries than the agreement or arrangement in existence on the Issue Date;
- (5) payments by the Issuer and its Restricted Subsidiaries pursuant to tax sharing agreements among the Issuer and its Subsidiaries and any direct or indirect parent company on customary terms to the extent attributable to the ownership or operation of the Issuer and its Subsidiaries; *provided* that in each case the amount of such payments in any fiscal year does not exceed the amount that the Issuer and Subsidiaries would be required to pay in respect of foreign, federal, state and local taxes for such fiscal year were the Issuer and its Subsidiaries (to the extent described above) to pay such taxes separately from any such parent entity;
- (6) payment of reasonable and customary fees to, and reasonable and customary indemnification arrangements and similar payments on behalf of, administrators of the Issuer or any Subsidiary thereof; and
- (7) any employment, consulting, service or termination agreement, or reasonable and customary indemnification arrangements, entered into by the Issuer or any Restricted Subsidiary with officers and employees of the Issuer or any Subsidiary thereof and the payment of compensation to officers and employees of the Issuer or any Subsidiary thereof (including amounts paid pursuant to employee benefit plans, employee stock option or similar plans), so long as such agreement or payment have been approved by a the Board of Administrators of the Issuer and a majority of the Disinterested Members, if any; and
- (8) any transaction with a Receivables Entity effected as part of a Qualified Receivables Transaction and otherwise in compliance with the terms of the Indenture on fair and reasonable terms that are

no less favorable to the Issuer or the relevant Restricted Subsidiaries than those that would have been obtained in a comparable arm's-length transaction by the Issuer or such Restricted Subsidiary with a Person that is not an Affiliate of the Issuer or any Restricted Subsidiary (as determined in good faith by the Issuer).

Future Subsidiary Guarantors

In the event that the Issuer in the future forms or acquires one or more Subsidiaries, the Issuer shall cause each such Subsidiary to become a Subsidiary Guarantor by executing a Subsidiary Guarantee, unless at the time of any such Subsidiary's formation such Subsidiary is designated as an Unrestricted Subsidiary in compliance with the Indenture. The Subsidiary Guarantees will be joint and several obligations of the Restricted Subsidiaries, if any. Each Subsidiary Guarantee will be unsubordinated obligations of that Restricted Subsidiary, senior in right of payment to all Subordinated Indebtedness of that Restricted Subsidiary. The obligations of each Subsidiary Guarantor under its Subsidiary Guarantee will be limited to an amount not to exceed the maximum amount that can be guaranteed by such Subsidiary Guarantor by law or without resulting in its obligations under its Subsidiary Guarantee being voidable or unenforceable under applicable laws relating to fraudulent transfer, or under similar laws affecting the rights of creditors generally.

A Subsidiary Guarantee of a Subsidiary Guarantor will be automatically and unconditionally released (and thereupon shall terminate and be discharged and be of no further force and effect):

- (1) in connection with any sale or other disposition (including by merger or otherwise) of Capital Stock of the Subsidiary Guarantor after which such Subsidiary Guarantor is no longer a Subsidiary of the Issuer, if (a) the sale of all such Capital Stock of that Subsidiary Guarantor complies with the sale or other disposition is in compliance with the Indenture, including the covenant "—Repurchase at the Option of Holders—Limitation on Sales of Assets" and (b) all the obligations of such Subsidiary Guarantor under any agreements relating to any other Indebtedness of the Issuer or any other Restricted Subsidiary terminate or are unconditionally released in full upon consummation of such sale or other disposition;
- (2) if the Issuer properly designates the Subsidiary Guarantor as an Unrestricted Subsidiary under the Indenture;
- (3) upon a Legal Defeasance or satisfaction and discharge of the Indenture that complies with the provisions under "—Defeasance" or "—Satisfaction and Discharge;" or
- (4) upon payment in full of the aggregate principal amount of all Notes then outstanding and all other obligations under the Indenture and the Notes then due and owing.

Upon any occurrence giving rise to a release of a Subsidiary Guarantee as specified above, the Trustee will, upon the written direction of the Issuer, execute any documents reasonably required in order to evidence or effect such release, discharge and termination in respect of such Subsidiary Guarantee. Neither the Issuer nor any Subsidiary Guarantor will be required to make a notation on the Notes to reflect any Subsidiary Guarantee or any such release, termination or discharge.

Designation of Restricted and Unrestricted Subsidiaries

The Board of Administrators of the Issuer may designate any Restricted Subsidiary to be an Unrestricted Subsidiary; *provided* that:

- (1) any Guarantee by the Issuer or any Restricted Subsidiary of any Indebtedness of the Subsidiary being so designated will be deemed to be an Incurrence of Indebtedness by the Issuer or such Restricted Subsidiary, as the case may be, at the time of such designation, and such Incurrence of Indebtedness would be permitted under the covenant described above under the caption "—Limitation on Indebtedness;"

- (2) the aggregate Fair Market Value of all outstanding Investments owned by the Issuer and the Restricted Subsidiaries in the Subsidiary being so designated (including any Guarantee by the Issuer or any Restricted Subsidiary of any Indebtedness of such Subsidiary) will be deemed to be an Investment made as of the time of such designation and that such Investment would be permitted under the covenant described above under the caption "—Limitation on Restricted Payments;"
- (3) such Subsidiary does not hold any Capital Stock or Indebtedness of, or own or hold any Lien on any property or assets of, or have any Investment in, the Issuer or any Restricted Subsidiary;
- (4) the Subsidiary being so designated:
 - (a) is not party to any agreement, contract, arrangement or understanding with the Issuer or any Restricted Subsidiary unless the terms of any such agreement, contract, arrangement or understanding are no less favorable to the Issuer or such Restricted Subsidiary than those that might be obtained at the time from Persons who are not Affiliates of the Issuer;
 - (b) is a Person with respect to which neither the Issuer nor any Restricted Subsidiary has any direct or indirect obligation (i) to subscribe for additional Equity Interests or (ii) to maintain or preserve such Person's financial condition or to cause such Person to achieve any specified levels of operating results; and
 - (c) has not Guaranteed or otherwise directly or indirectly provided credit support for any Indebtedness of the Issuer or any Restricted Subsidiary, except to the extent such Guarantee or credit support would be released upon such designation; and
- (5) no Default or Event of Default would be in existence following such designation.

Any designation of a Restricted Subsidiary as an Unrestricted Subsidiary will be evidenced to the Trustee by filing with the Trustee the Board Resolution giving effect to such designation and an Officers' Certificate certifying that such designation complied with the preceding conditions and was permitted by the Indenture. If, at any time, any Unrestricted Subsidiary (x) would fail to meet any of the preceding requirements described in clause (4) above, it will thereafter cease to be an Unrestricted Subsidiary for purposes of the Indenture, and any Indebtedness, Investments, or Liens on the property, of such Subsidiary will be deemed to be Incurred or made by a Restricted Subsidiary as of such date, and if such Indebtedness, Investments or Liens are not permitted to be Incurred or made as of such date under the Indenture, the Issuer will be in default under the Indenture.

The Board of Administrators of the Issuer may at any time designate any Unrestricted Subsidiary to be a Restricted Subsidiary; *provided* that:

- (1) such designation will be deemed to be an Incurrence of Indebtedness by a Restricted Subsidiary of any outstanding Indebtedness of such Unrestricted Subsidiary and such designation will only be permitted if such Indebtedness is permitted under the covenant described under the caption "—Limitation on Indebtedness;"
- (2) all outstanding Investments owned by such Unrestricted Subsidiary will be deemed to be made as of the time of such designation and such designation will only be permitted if such Investments would be permitted under the covenant described above under the caption "—Limitation on Restricted Payments;"
- (3) all Liens upon property or assets of such Unrestricted Subsidiary existing at the time of such designation would be permitted under the caption "—Limitation on Liens;" and
- (4) no Default or Event of Default would be in existence following such designation.

No Transfer of or Encumbrance on Collateral

Other than the security interest granted to the Collateral Agent pursuant to the Transaction Documents, the Issuer will not, and will not permit any Restricted Subsidiary to, pledge, assign, sell, grant a security interest in, or otherwise convey any of the Collateral.

Perfection of Security Interest

The Issuer and any Restricted Subsidiary shall take, or cause to be taken, all actions required under applicable law to be done by it, and execute or cause to be executed such documents and instruments to be executed by it, and file or cause to be filed such documents and instruments, necessary to perfect a first priority security interest in the Collateral for the security and benefit of the Collateral Agent. The Issuer and any Restricted Subsidiary shall authorize the filing of any UCC financing statements required by applicable law or deemed necessary or appropriate by the Holders of the Notes.

Neither the Trustee nor the Collateral Agent will have any obligation with respect to the priority or perfection of such security interests.

Business Activities

The Issuer will not, and will not permit any Restricted Subsidiary to, engage in any business other than Permitted Businesses, except to such extent as would not be material to the Issuer and the Restricted Subsidiaries taken as a whole.

Payments for Consent

The Issuer will not, and will not permit any Restricted Subsidiary to, directly or indirectly, pay or cause to be paid any consideration to or for the benefit of any Holder of Notes for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Indenture or the Notes unless such consideration is offered to be paid to all Holders and is paid to all Holders of the Notes that consent, waive or agree to amend in the time frame set forth in the solicitation documents relating to such consent, waiver or agreement.

Reports

So long as any of the Notes remains outstanding:

(1) The Issuer will provide the Trustee and the Holders of the Notes with annual financial statements of the Issuer audited by an internationally recognized firm of independent public accountants within 120 days after the end of the Issuer's fiscal year, and unaudited quarterly financial statements of the Issuer (including a balance sheet, statement of comprehensive income and cash flow statement for the fiscal quarter or quarters then ended and the corresponding fiscal quarter or quarters from the prior year) within 60 days of the end of the first three fiscal quarters of each fiscal year of such entity. These annual and quarterly financial statements will be prepared in accordance with U.S. GAAP and will be prepared on a consolidated basis if the Issuer has any Subsidiaries at the time. The annual financial statements shall be accompanied by a "management discussion and analysis of results of operations and financial condition" providing an overview in reasonable detail of the consolidated results of operations and financial condition of the Issuer. The quarterly financial statements shall be accompanied by a brief narrative overview of the results of operations and financial condition of the Issuer. English translations will be provided of any of the foregoing documents prepared in another language; and

(2) the Issuer will provide the Trustee and the Holders of the Notes with copies (including English translations of documents prepared in another language) of public filings made by the Issuer with any securities exchange or securities regulatory agency or authority within thirty (30) days of such filing.

In addition, within the time period prescribed above, the Issuer will make such information and such reports available by posting such information and reports on its website.

In addition, for so long as any Notes remain outstanding, the Issuer will furnish to the Holders and to prospective investors, upon their request, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

Delivery of such reports, information and documents to the Trustee is for informational purposes only and the Trustee's receipt of such shall not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Issuer's compliance with any of its covenants under the Indenture (as to which the Trustee is entitled to rely exclusively on Officers' Certificates).

Additional Amounts

All payments of amounts due in respect of the Notes by the Issuer will be made free and clear of and without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of any jurisdiction in which the Issuer is organized or does business or from which or through which payments are made by the Issuer or its agents, or any political subdivision, agency or authority thereof (a "Taxing Jurisdiction"), as the case may be on the Notes ("Taxes"), unless the withholding, deduction or levy of Taxes is required by law or by the interpretation or administration thereof. In the event that withholding or deduction of Taxes is required by law or by the interpretation or administration thereof or if an exemption from any such tax is suspended or terminated, the Issuer will pay such Taxes to the appropriate Taxing Jurisdiction and pay additional amounts ("Additional Amounts") as may be necessary in order that the net amounts paid by the Issuer (or its agents) after any withholding or deduction equals the respective amounts which would have been paid in respect of the Notes, in the absence of withholding or deduction, which Additional Amounts shall be due and payable when the amounts to which such Additional Amounts relate are due and payable; except that no such Additional Amounts shall be payable with respect to:

- (1) any Taxes which are imposed on, or deducted or withheld from, payments made to the Holder or beneficial owner of a Note by reason of the existence of any present or former connection between the Holder or beneficial owner of the Note (or between a fiduciary, settlor, beneficiary, member or equity holder of, or possessor of a power over, such Holder or beneficial owner, if such Holder or beneficial owner is an estate, trust, corporation or partnership) and the Taxing Jurisdiction (including, without limitation, such Holder or beneficial owner (or such fiduciary, settlor, beneficiary, member, equity holder or possessor) (x) being or having been a citizen or resident thereof, (y) maintaining or having maintained an office, permanent establishment, fixed base or branch therein, or (z) being or having been present or engaged in a trade or business therein) other than the mere holding or enforcement of such Note or the receipt of amounts due in respect thereof; provided that this exclusion shall not apply with respect to a Tax that would not have been imposed but for the Issuer, after the Issue Date, opening an office in, moving an office to, reincorporating in, or changing the Taxing Jurisdiction from or through which payments on account of the Indenture or the Notes are made to, the Taxing Jurisdiction imposing the relevant Tax;
- (2) any estate, inheritance, gift, sales, stamp, transfer or personal property Tax;
- (3) any Taxes that are imposed on, or withheld or deducted from, payments made to the Holder or beneficial owner of a Note to the extent such Taxes would not have been so imposed, deducted or withheld but for the failure by such Holder or beneficial owner of such Note to comply with any certification, identification, information, documentation or other reporting requirement concerning the nationality, residence, identity or connection with the Taxing Jurisdiction of the Holder or beneficial owner of such Note if (x) such compliance is required or imposed by a statute, treaty, regulation, rule, generally applicable ruling or generally accepted administrative practice in order to make any claim for exemption from, or reduction in the rate of, the imposition, withholding or deduction of any Taxes, and (y) at least 60 days prior to the first payment date with respect to which the Issuer shall apply this clause (3), the Issuer shall have notified all such Holders or beneficial owners of Notes, in writing, that such Holders or beneficial owners of the Notes will be required to provide such information or documentation;
- (4) any Taxes imposed on, or withheld or deducted from, payments made to a Holder or beneficial owner of a Note at a rate in excess of the rate uniformly applicable in respect of payments made by the Issuer to all Holders or beneficial owners eligible for the benefits of a treaty for the avoidance of double

taxation between the applicable Taxing Jurisdiction and the jurisdiction in which the Holder or beneficial owner of the Note is resident without regard to the particular circumstances of such Holders or beneficial owners (provided that, upon any subsequent increase in the rate of Tax that would be applicable to payments to all such Holders or beneficial owners without regard to their particular circumstances, such increased rate shall be substituted for the rate otherwise applicable for purposes of this clause (4)), but only to the extent that (x) such Holder or beneficial owner has failed to provide on a timely basis, at the reasonable request of the Issuer (subject to the conditions set forth below), information, documentation or other evidence concerning whether such Holder or beneficial owner is eligible for benefits under a treaty for the avoidance of double taxation to which any Taxing Jurisdiction is a party if necessary to determine the appropriate rate of deduction or withholding of Taxes under such treaty or under any statute, regulation, rule, generally applicable ruling or generally accepted administrative practice, and (y) at least 60 days prior to the first payment date with respect to which the Issuer shall make such reasonable request, the Issuer shall have notified all such Holders of the Notes, in writing, that such Holders or beneficial owners of the Notes will be required to provide such information, documentation or other evidence;

(5) to or on behalf of a Holder of a Note in respect of Taxes that would not have been imposed but for the presentation by such Holder for payment on a date more than 15 days after the date on which such payment became due and payable or the date on which payment thereof is duly provided for and notice thereof given to Holders, whichever occurs later, except to the extent that the Holder of such Note would have been entitled to Additional Amounts in respect of such Taxes on presenting such Note for payment on any date during such 15-day period; or

(6) any combination of (1), (2), (3), (4) or (5) above (the Taxes described in clauses (1) through (5), for which no Additional Amounts are payable, are hereinafter referred to as "Excluded Taxes").

Notwithstanding the foregoing, the limitations on the Issuer's obligation to pay Additional Amounts set forth in clauses (3) and (4) above shall not apply if (a) the provision of information, documentation or other evidence described in such clauses (3) and (4) would be materially more onerous, in form, in procedure or in the substance of information disclosed, to a Holder or beneficial owner of a Note (taking into account any relevant differences between U.S. and other law, rules, regulations or administrative practice) than comparable information or other reporting requirements imposed under U.S. tax law, regulations and administrative practice (such as IRS Forms W-8BEN and W-9), (b) the Holder or beneficial owner is not legally entitled to provide information, documentation or other evidence described in clauses (3) and (4) or (c) the Issuer can obtain such information, documentation or other evidence on its own through reasonable diligence. In addition, such clauses (3) and (4) shall not be construed to require that any pension or retirement fund or financial institution or any other Holder register with any governmental authority for the purpose of establishing eligibility for an exemption from or reduction of such withholding tax or to require that a Holder or beneficial owner certify or provide information concerning whether it is or is not a tax-exempt pension or retirement fund.

At least 30 days prior to each date on which any payment under or with respect to the Notes is due and payable, if the Issuer will be obligated to pay Additional Amounts with respect to such payment (other than Additional Amounts payable on the date of the Indenture), the Issuer, will deliver to the Trustee an Officers' Certificate stating the fact that such Additional Amounts will be payable and the amounts so payable, and will set forth such other information necessary to enable the Trustee to pay such Additional Amounts to holders on the payment date. Whenever either in the Indenture or in this offering memorandum there is mentioned, in any context, the payment of principal, premium, if any, redemption price, interest or any other amount payable under or with respect to any Note, such mention shall be deemed to include mention of the payment of Additional Amounts to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

The Issuer will provide the Trustee with documentation evidencing the payment of taxes in respect of which the Issuer has paid any Additional Amounts. Copies of such documentation will be made available to the Holders or the paying agent, as applicable, upon request therefor.

In addition, the Issuer will pay any stamp, issue, registration, documentary or other similar taxes and other duties (including interest and penalties) (a) payable in Panama or the United States (or any political subdivision of either jurisdiction) in respect of the creation, issue and offering of the Notes, and (b) payable in Panama (or any

political subdivision of either jurisdiction) in respect of the subsequent redemption or retirement of the Notes (other than, in the case of any subsequent redemption or retirement, Excluded Taxes; except for this purpose, the definition of Excluded Taxes will not include those defined in clause (1) thereof).

Suspension of Covenants

Following the first day (such date, a "Suspension Date") on which (i) the Notes have an Investment Grade Rating from at least one of the two the Rating Agencies and (ii) no Default has occurred and is continuing under the Indenture, the Issuer and its Restricted Subsidiaries will not be subject to the provisions of the Indenture summarized under the following headings:

- "—Repurchase at the Option of Holders—Asset Sales,"
- "—Certain Covenants—Limitation on Restricted Payments,"
- "—Certain Covenants—Limitation on Indebtedness,"
- "—Certain Covenants—Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries,"
- "—Certain Covenants—Future Subsidiary Guarantors,"
- "—Certain Covenants—Limitation on Transactions with Affiliates,"
- "—Certain Covenants—Business Activities" and
- clause (3) of the first paragraph of "—Certain Covenants—Merger, Consolidation and Sale of Assets"

(collectively, the "Suspended Covenants"). If, during any period in which the Suspended Covenants are suspended, the Notes' credit rating is downgraded such that the Notes no longer have an Investment Grade Rating from at least one of the two Rating Agencies or if a Default or Event of Default occurs and is continuing, then the Suspended Covenants will thereafter be reinstated as if such covenants had never been suspended (the "Reinstatement Date") and be applicable pursuant to the terms of the Indenture (including in connection with performing any calculation or assessment to determine compliance with the terms of the Indenture), unless and until the Notes subsequently attain an Investment Grade Rating from at least one of the two Rating Agencies and no Default or Event of Default is in existence (in which event the Suspended Covenants shall no longer be in effect for such time that the Notes maintain an Investment Grade Rating from at least one of the two Rating Agencies and no Default or Event of Default is in existence); provided, however, that no Default, Event of Default or breach of any kind shall be deemed to exist under the Indenture, the Notes or the Subsidiary Guarantees with respect to the Suspended Covenants based on, and none of the Issuer or any of its Subsidiaries shall bear any liability for, any actions taken or events occurring during the Suspension Period (as defined below) or any actions taken at any time after a Reinstatement Date pursuant to any agreement that was entered into in good faith during a Suspension Period and not in anticipation of a Reinstatement Date, regardless of whether such actions or events would have been permitted if the applicable Suspended Covenants remained in effect during such period. The period of time between the Suspension Date and the Reinstatement Date is referred to as the "Suspension Period."

On the Reinstatement Date, all Indebtedness Incurred during the Suspension Period will be classified to have been Incurred pursuant to the first paragraph of "—Certain Covenants—Limitation on Indebtedness" or one of the clauses of Permitted Debt (in each case to the extent such Indebtedness would be permitted to be Incurred thereunder as of the Reinstatement Date and after giving effect to Indebtedness Incurred prior to the Suspension Period and outstanding on the Reinstatement Date). To the extent such Indebtedness would not be so permitted to be Incurred pursuant to the first paragraph of "—Certain Covenants—Limitation on Indebtedness" or one of the clauses of Permitted Debt, such Indebtedness will be deemed to have been outstanding on the Issue Date, so that it is classified under clause (2) of Permitted Debt. Calculations made after the Reinstatement Date of the amount available to be made as Restricted Payments under the covenant described under "—Certain Covenants—Limitation

on Restricted Payments" (the "Restricted Payments covenant") will be made as though the Restricted Payments covenant had been in effect since the Issue Date and throughout the Suspension Period.

During any period when the Suspended Covenants are suspended, the Board of Administrators of the Issuer may not designate any of the Issuer's Subsidiaries as Unrestricted Subsidiaries pursuant to the Indenture.

Promptly following the occurrence of any Suspension Date or Reinstatement Date, the Issuer will provide an Officers' Certificate to the Trustee regarding such occurrence. The Trustee shall have no obligation to independently determine or verify if a Suspension Date or Reinstatement Date has occurred or notify the Holders of any Suspension Date or Reinstatement Date. The Trustee may provide a copy of such Officers' Certificate to any Holder of the Notes upon request. There can be no assurance that the Notes will ever achieve an Investment Grade Rating.

Events of Default and Remedies

Each of the following is an Event of Default:

- (1) default for 30 days in the payment when due of interest on, or Additional Amounts with respect to, the Notes;
- (2) default in payment when due (whether at maturity, upon acceleration, redemption or otherwise) of the principal of, or premium, if any, on the Notes;
- (3) failure by the Issuer to comply with the provisions described under the caption "—Certain Covenants—Merger, Consolidation or Sale of Assets;"
- (4) default in the performance, or breach, of any covenant of the Issuer or any Restricted Subsidiary in any Transaction Document (other than a covenant a default in the performance or the breach of which is elsewhere in this Indenture specifically dealt with), and continuance of the default or breach for a period of 45 days after there has been given, by registered or certified mail, to the Issuer by the Indenture Trustee or to the Issuer and the Indenture Trustee by the Holders of at least 25% in principal amount of the Outstanding Notes, a written notice specifying the default or breach and requiring it to be remedied ;
- (5) default under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness by the Issuer or any Restricted Subsidiary (or the payment of which is Guaranteed by the Issuer or any Restricted Subsidiary) whether such Indebtedness or Guarantee now exists, or is created after the Issue Date, if that default:
 - (a) is caused by a failure to make any payment when due at the final maturity of such Indebtedness (a "Payment Default"); or
 - (b) results in the acceleration of such Indebtedness prior to its express maturity,and, in each case, the amount of any such Indebtedness, together with the amount of any other such Indebtedness that is then subject to a Payment Default or the maturity of which has been so accelerated, aggregates US\$10.0 million or more;
- (6) failure by the Issuer or any Restricted Subsidiary to pay final non-appealable judgments (to the extent such judgments are not paid or covered by insurance) provided by a reputable carrier aggregating in excess of US\$10.0 million, which judgments are not paid, discharged or stayed for a period of 60 days;
- (7) any Transaction Document is held to be unenforceable or invalid in a judicial proceeding or cease, for any reason, to be in full force and effect or any party, or any Person acting on behalf of any party, denies or disaffirms such party's Obligations thereunder;

- (8) the entry by a court having competent jurisdiction of:
- (a) a decree or order for relief in respect of the Issuer or any Restricted Subsidiary that is a Significant Subsidiary (or any group of Restricted Subsidiaries that collectively would constitute a Significant Subsidiary) in an involuntary proceeding under any applicable bankruptcy, insolvency, reorganization or other similar law, which decree or order shall remain unstayed and in effect for a period of 60 consecutive days; or
 - (b) a decree or order adjudging the Issuer or any Restricted Subsidiary that is a Significant Subsidiary (or any group of Restricted Subsidiaries that collectively would constitute a Significant Subsidiary) to be insolvent, or approving a petition seeking reorganization, arrangement, adjustment or composition of the Issuer or any such Restricted Subsidiary, which decree or order shall remain unstayed and in effect for a period of 60 consecutive days; or
 - (c) a final and non-appealable order appointing a custodian, receiver, liquidator, assignee, trustee or other similar official of the Issuer or any Restricted Subsidiary that is a Significant Subsidiary (or any group of Restricted Subsidiaries that collectively would constitute a Significant Subsidiary) or of any substantial part of the property of the Issuer or any such Restricted Subsidiary or ordering the winding up or liquidation of the affairs of the Issuer or any such Restricted Subsidiary; or
- (9) the commencement by the Issuer or any Restricted Subsidiary that is a Significant Subsidiary (or any group of Restricted Subsidiaries that collectively would constitute a Significant Subsidiary) of a voluntary proceeding under any applicable bankruptcy, insolvency, reorganization or other similar law or of a voluntary proceeding seeking to be adjudicated insolvent or the consent by the Issuer or any such Restricted Subsidiary to the entry of a decree or order for relief in an involuntary proceeding under any applicable bankruptcy, insolvency, reorganization or other similar law or to the commencement of any insolvency proceedings against it, or the filing by the Issuer or any such Restricted Subsidiary of a petition or answer or consent seeking reorganization or relief under any applicable law, or the consent by the Issuer or any such Restricted Subsidiary to the filing of the petition or to the appointment of or taking possession by a custodian, receiver, liquidator, assignee, trustee or similar official of the Issuer or any such Restricted Subsidiary or any substantial part of the property of the Issuer or any such Restricted Subsidiary or the making by the Issuer or any such Restricted Subsidiary of an assignment for the benefit of creditors, or the taking of corporate action by the Issuer or any such Restricted Subsidiary in furtherance of any such action.

In the case of an Event of Default described in clause (8) or (9) above, all outstanding Notes will become due and payable immediately without further action or notice. If any other Event of Default occurs and is continuing, the Trustee or the Holders of at least 25% in principal amount of the then outstanding Notes may declare all the Notes to be due and payable immediately by notice in writing to the Issuer specifying the Event of Default.

Holders of the Notes may not enforce the Indenture or the Notes except as provided in the Indenture. Subject to certain limitations, Holders of a majority in principal amount of the then outstanding Notes may direct the Trustee in its exercise of any trust or power. The Trustee may withhold from Holders of the Notes notice of any Default or Event of Default (except a Default or Event of Default relating to the payment of principal or interest or Additional Amounts) if it determines that withholding notice is in their interest.

The Holders of a majority in aggregate principal amount of the Notes then outstanding by notice to the Trustee may on behalf of the Holders of all of the Notes waive any existing Default or Event of Default and its consequences under the Indenture except a continuing Default or Event of Default in the payment of premium, interest or Additional Amounts on, or the principal of, the Notes.

At any time after a declaration of acceleration or automatic acceleration with respect to the Notes has been made and before a judgment or decree for payment of the money due has been obtained by the Trustee, the Holders

of not less than a majority in principal amount of the outstanding Notes, by written notice to the Issuer and the Trustee, may rescind and annul the declaration and its consequences if:

- (1) the Issuer has paid or deposited with the Trustee a sum of money sufficient to pay all overdue installments of any interest on and Additional Amounts, if any, with respect to all of the Notes and the principal of and any premium on any Notes which have become due otherwise than by the declaration of acceleration and interest on the Notes and all reasonable fees and expenses of the Trustee, its agents and counsel; and
- (2) all Events of Default with respect to the Notes, other than the non-payment of the principal of, any premium and interest on, and any Additional Amounts with respect to the Notes which shall have become due solely by the acceleration, shall have been cured or waived.

No rescission shall affect any subsequent default or impair any right consequent thereon.

The Holders of a majority in principal amount of the then outstanding Notes will have the right to direct the time, method and place of conducting any proceeding for exercising any remedy available to the Trustee. However, the Trustee may refuse to follow any direction that conflicts with law or the Indenture, that may involve the Trustee in personal liability, or that the Trustee determines in good faith may be unduly prejudicial to the rights of Holders of Notes not joining in the giving of such direction and may take any other action it deems proper that is not inconsistent with any such direction received from Holders of Notes. A Holder may not pursue any remedy with respect to the Indenture or the Notes unless:

- (1) the Holder gives the Trustee written notice of a continuing Event of Default;
- (2) the Holders of at least 25% in aggregate principal amount of outstanding Notes make a written request to the Trustee to pursue the remedy;
- (3) such Holder or Holders offer the Trustee indemnity satisfactory to the Trustee against any reasonably incurred and documented costs, liability or expense;
- (4) the Trustee does not comply with the request within 60 days after receipt of the request and the offer of indemnity; and
- (5) during such 60-day period, the Holders of a majority in aggregate principal amount of the outstanding Notes do not give the Trustee a direction that is inconsistent with the request.

However, such limitations do not apply to the right of any Holder of a Note to receive payment of the principal of, premium or Additional Amounts, if any, or interest on, such Note or to bring suit for the enforcement of any such payment, on or after the due date expressed in the Notes, which right will not be impaired or affected without the consent of the Holder.

The Issuer is required to deliver to the Trustee annually within 120 days after the end of each fiscal year a statement regarding compliance with the Indenture. Within five Business Days of becoming aware of any Default or Event of Default, the Issuer is required to deliver to the Trustee a statement specifying such Default or Event of Default.

Prescription

Claims against the Issuer for payment in respect of the Notes shall be prescribed and become void unless made within the period required under applicable law from the appropriate payment date.

Meetings of Holders

A meeting of Holders of the Notes may be called by the Trustee, the Issuer or the Holders of at least 10% in aggregate principal amount of the outstanding Notes at any time and from time to time, to make, give or take any request, demand, authorization, direction, notice, consent, waiver or other actions provided by the Indenture to be made, given or taken by Holders of Notes.

The meeting shall be held at such time and at such place in The City of New York or in such other place as the Trustee shall determine. Notice of every meeting of Holders of Notes, setting forth the time and the place of such meeting and in general terms the action proposed to be taken at such meeting, shall be given not less than 21 nor more than 180 days prior to the date fixed for the meeting.

The persons entitled to vote a majority in principal amount of the outstanding Notes shall constitute a quorum for a meeting. Any resolution presented to a meeting at which a quorum is present may be adopted only by the affirmative vote of the Holders of a majority in principal amount of the outstanding Notes. Any resolution passed or decision taken at any meeting of Holders of Notes duly held in accordance with the Indenture shall be binding on all the Holders of Notes, whether or not such Holders were present or represented at the meeting.

No Personal Liability of Administrators, Officers, Employees and Stockholders

No administrator, officer, employee, incorporator, stockholder, member, manager or partner of the Issuer or any Subsidiary Guarantor, as such, will have any liability for any obligations of the Issuer or the Subsidiary Guarantors under the Notes, the Indenture, the Subsidiary Guarantees or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder of Notes by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Notes. The waiver may not be effective to waive liabilities under the federal securities laws.

Legal Defeasance and Covenant Defeasance

The Issuer may, at its option and at any time, elect to have all of its obligations discharged with respect to the outstanding Notes and all obligations of the Subsidiary Guarantors discharged with respect to their Subsidiary Guarantees ("Legal Defeasance") except for:

- (1) the rights of Holders of outstanding Notes to receive payments in respect of the principal of, or interest or premium and Additional Amounts, if any, on such Notes when such payments are due from the trust referred to below;
- (2) the Issuer's obligations with respect to the Notes concerning issuing temporary Notes, registration of Notes, mutilated, destroyed, lost or stolen Notes and the maintenance of an office or agency for payment and money for security payments held in trust;
- (3) the rights, powers, trusts, duties and immunities of the Trustee, and the Issuer's and the Subsidiary Guarantors' obligations in connection therewith; and
- (4) the Legal Defeasance provisions of the Indenture.

In addition, the Issuer may, at its option and at any time, elect to have the obligations of the Issuer and the Subsidiary Guarantors released with respect to certain covenants in the Indenture ("Covenant Defeasance") and thereafter any omission to comply with those covenants will not constitute a Default or Event of Default with respect to the Notes. In the event Covenant Defeasance occurs, certain events (not including non-payment, bankruptcy, receivership, rehabilitation and insolvency events) described under "Events of Default" will no longer constitute Events of Default with respect to the Notes.

In order to exercise either Legal Defeasance or Covenant Defeasance:

- (1) the Issuer must irrevocably deposit with the Trustee, in trust, for the benefit of the Holders of the Notes, cash in U.S. dollars, non-callable Government Obligations, or a combination thereof, in such amounts as will be sufficient, in the opinion of a nationally recognized firm of independent public accountants, to pay the principal of, or interest and premium and Additional Amounts, if any, on the outstanding Notes on the Stated Maturity or on the applicable redemption date, as the case may be, and the Issuer must specify whether the Notes are being defeased to maturity or to a particular redemption date;

- (2) in the case of Legal Defeasance, the Issuer will have delivered to the Trustee (a) an Opinion of Counsel acceptable to the Trustee confirming that (i) the Issuer has received from, or there has been published by, the Internal Revenue Service a ruling or (ii) since the Issue Date, there has been a change in the applicable federal income tax law, in either case to the effect that, and based thereon such Opinion of Counsel will confirm that, the Holders of the outstanding Notes will not recognize income, gain or loss for federal income tax purposes as a result of such Legal Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred and (b) an Opinion of Counsel acceptable to the Trustee to the effect that the Holders of the outstanding Notes will not recognize income, gain or loss for Panamanian income tax purposes as a result of such Legal Defeasance and will be subject to Panamanian income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred;
- (3) in the case of Covenant Defeasance, the Issuer will have delivered to the Trustee (a) an Opinion of Counsel reasonably acceptable to the Trustee confirming that the Holders of the outstanding Notes will not recognize income, gain or loss for federal income tax purposes as a result of such Covenant Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred and (b) an Opinion of Counsel reasonably acceptable to the Trustee confirming that the Holders of the outstanding Notes will not recognize income, gain or loss for Panamanian income tax purposes as a result of such Covenant Defeasance and will be subject to Panamanian income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred;
- (4) no Default or Event of Default will have occurred and be continuing either: (a) on the date of such deposit; or (b) insofar as Events of Default from bankruptcy or insolvency events are concerned, at any time in the period ending on the 91st day after the date of deposit;
- (5) such Legal Defeasance or Covenant Defeasance will not result in a breach or violation of, or constitute a default under, any material agreement or instrument to which the Issuer or any of its Subsidiaries is a party or by which the Issuer or any of its Subsidiaries is bound;
- (6) the Issuer must have delivered to the Trustee an Opinion of Counsel to the effect that, assuming no intervening bankruptcy of the Issuer or any Subsidiary Guarantor between the date of deposit and the 91st day following the deposit and assuming that no Holder is an "insider" of the Issuer under applicable bankruptcy law, after the 91st day following the deposit, the trust funds will not be subject to the effect of any applicable bankruptcy, insolvency, reorganization or similar laws affecting creditors' rights generally, including Section 547 of the United States Bankruptcy Code and Section 15 of the New York Debtor and Creditor Law;
- (7) the Issuer must deliver to the Trustee an Officers' Certificate stating that the deposit was not made by the Issuer with the intent of preferring the Holders over the other creditors of the Issuer with the intent of defeating, hindering, delaying or defrauding creditors of the Issuer or others;
- (8) if the Notes are to be redeemed prior to their Stated Maturity, the Issuer must deliver to the Trustee irrevocable written instructions to redeem all of the Notes on the specified redemption date under arrangement satisfactory to the Trustee for the giving of notice of such redemption by the Trustee in the Issuer's name and at the Issuer's expense; and
- (9) the Issuer must deliver to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent relating to the Legal Defeasance or the Covenant Defeasance have been complied with.

Satisfaction and Discharge

The Indenture will be discharged and will cease to be of further effect as to all Notes issued thereunder, when:

- (1) either:
 - (a) all Notes that have been authenticated (except lost, stolen or destroyed Notes that have been replaced or paid and Notes for whose payment money has theretofore been deposited in trust and thereafter repaid to the Issuer) have been delivered to the Trustee for cancellation; or
 - (b) all Notes that have not been delivered to the Trustee for cancellation (x) have become due and payable (by reason of the mailing of a notice of redemption or otherwise), (y) will become due and payable at Stated Maturity within one year, or (z) are to be called for redemption within one year under arrangements satisfactory to the Trustee for the giving of notice of redemption by the Trustee in the Issuer's name and at the Issuer's expense, and in each such case the Issuer has irrevocably deposited or caused to be deposited with the Trustee as trust funds in trust solely for the benefit of the Holders, cash in U.S. dollars, non-callable Government Obligations, or a combination thereof, in such amounts as will be sufficient, in the opinion of a nationally recognized firm of independent public accountants, without consideration of any reinvestment of interest, to pay and discharge the entire indebtedness on the Notes not delivered to the Trustee for cancellation for principal, premium and Additional Amounts, if any, and accrued interest to the Stated Maturity or redemption date, as the case may be;
- (2) no Default or Event of Default will have occurred and be continuing on the date of such deposit or will occur as a result of such deposit and such deposit will not result in a breach or violation of, or constitute a default under, any other instrument to which the Issuer or any Subsidiary Guarantor is a party or by which the Issuer or any Subsidiary Guarantor is bound;
- (3) the Issuer or any Subsidiary Guarantor has paid or caused to be paid all sums payable by it under the Indenture; and
- (4) the Issuer has delivered irrevocable written instructions to the Trustee under the Indenture to apply the deposited money toward the payment of the Notes at Stated Maturity or the redemption date, as the case may be.

In addition, the Issuer must deliver an Officers' Certificate and an Opinion of Counsel to the Trustee stating that all conditions precedent to satisfaction and discharge have been satisfied.

Amendment, Supplement and Waiver

Except as provided in the next two succeeding paragraphs, the Indenture or the Notes may be amended or supplemented with the consent of the Holders of at least a majority (or greater than 50%) in principal amount of the Notes then outstanding (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, Notes), and any existing default or compliance with any provision of the Indenture or the Notes may be waived with the consent of the Holders of a majority in principal amount of the then outstanding Notes (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, Notes).

Without the consent of each Holder affected, an amendment or waiver may not (with respect to any Notes held by a non-consenting Holder):

- (1) reduce the principal amount of Notes whose Holders must consent to an amendment, supplement or waiver;

- (2) change the Stated Maturity of the principal of, or any installment of interest on, any Note;
- (3) reduce the principal amount of, or premium, if any, or interest on, any Note;
- (4) change the redemption provisions of the Notes or this Indenture;
- (5) waive a Default or Event of Default in the payment of principal of, or interest, or premium or Additional Amounts, if any, on, the Notes (except, upon a rescission of acceleration of the Notes by the Holders of at least a majority in aggregate principal amount of the Notes, a waiver of the payment default that resulted from such acceleration) or in respect of any other covenant or provision that cannot be amended or modified without the consent of all Holders;
- (6) make any Note payable in money other than U.S. dollars;
- (7) reduce the percentage in principal amount of the outstanding Notes, the consent of whose Holders is required for any such supplemental indenture, or the consent of whose Holders is required for any waiver (of compliance with certain provisions of this Indenture or certain defaults hereunder and their consequences) provided for in this Indenture;
- (8) release any Subsidiary Guarantor from any of its obligations under its Subsidiary Guarantee or the Indenture, except in accordance with the terms of the Indenture;
- (9) impair the right to institute suit for the enforcement of any payment on or with respect to the Notes or any Subsidiary Guarantees;
- (10) amend, change or modify in any material respect the obligation of the Issuer to make and consummate an Offer to Purchase with respect to any Asset Sale in accordance with the covenant described under the caption "Repurchase at the Option of Holders—Asset Sales" after the obligation to make such Offer to Purchase has arisen, or the obligation of the Issuer to make and consummate an Offer to Purchase in the event of a Change of Control in accordance with the covenant described under the caption "Repurchase at the Option of Holders—Change of Control" after such Change of Control has occurred, including, in each case, amending, changing or modifying any definition relating thereto;
- (11) reduce the requirements for quorum or voting by Holders of the Notes as provided in the Indenture;
- (12) modify any of the provisions in the Indenture regarding the waiver of past defaults, the Debt Service Reserve Account, and the waiver of certain covenants by the Holders of the Notes except to increase any percentage vote required or to provide that certain other provisions of the Indenture cannot be modified or waived without the consent of the Holder of each Note affected thereby;
- (13) make any change in the provisions of the Indenture described under "—Additional Amounts" that adversely affects the rights of any Holder of Notes or amends the terms of the Notes in a way that would result in a loss of exemption from Taxes;
- (14) except as otherwise permitted under the covenants described under the captions "—Certain Covenants—Merger, Consolidation and Sale of Assets" and "—Certain Covenants—Future Subsidiary Guarantors," consent to the assignment or transfer by the Issuer or any Subsidiary Guarantor of any of their rights or obligations under the Indenture; or
- (15) modify any of the above provisions.

Notwithstanding the preceding, without the consent of any Holder of Notes, the Issuer, the Subsidiary Guarantors and the Trustee may amend or supplement the Indenture or the Notes:

- (1) to cure any ambiguity, defect or inconsistency;

- (2) to provide for uncertificated Notes in addition to or in place of certificated Notes;
- (3) to provide for the assumption of the Issuer's or any Subsidiary Guarantor's obligations to Holders of Notes in accordance with the Indenture in the case of a merger or consolidation or sale of all or substantially all of the Issuer's or such Subsidiary Guarantor's assets;
- (4) to make any change that would provide any additional rights or benefits to the Holders of Notes or that does not materially, in the good faith determination of the Board of Administrators of the Issuer, adversely affect the legal rights under the Indenture of any such Holder;
- (5) to confirm and evidence the release, termination or discharge of any Subsidiary Guarantee with respect to the Notes when such release, termination or discharge is permitted by the Indenture;
- (6) to comply with the provisions described under "—Certain Covenants—Future Subsidiary Guarantors;"
- (7) to evidence and provide for the acceptance of appointment by a successor Trustee;
- (8) to provide for the issuance of Additional Notes in accordance with the Indenture;
- (9) to conform the Indenture or the Notes to any provision of this "Description of the Notes" as set forth in an Officers' Certificate;
- (10) supplement any of the provisions of the Indenture to such extent as shall be necessary to permit or facilitate the defeasance and discharge of the Notes, provided that any such action shall not adversely affect the interests of any Holder in any material respect; or
- (11) to secure the Notes.

Concerning the Trustee

If the Trustee becomes a creditor of the Issuer or any Subsidiary Guarantor, the Indenture limits its right to obtain payment of claims in certain cases, or to realize on certain property received in respect of any such claim as security or otherwise. The Trustee and its affiliates will be permitted to engage in other transactions with the Issuer, its Subsidiaries and its affiliates; however, if it acquires any conflicting interest it must eliminate such conflict within 90 days of the occurrence of an Event of Default or resign.

The Indenture provides that in case an Event of Default will occur and be continuing, the Trustee will be required, in the exercise of its power, to use the degree of care of a prudent person in the conduct of his or her own affairs. Subject to such provisions, the Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request of any Holder of Notes, unless such Holder will have offered to the Trustee security and indemnity reasonably satisfactory to it against any loss, liability or expense.

Governing Law

The Transaction Documents will be governed by, and construed in accordance with, the laws of the State of New York.

Waiver of Sovereign Immunity

The Issuer (i) is subject to civil and commercial law with respect to its obligations under the Purchase Agreement, the Indenture, the Pledge and Security Agreement or the Notes to which it is a party and its execution, delivery and performance hereof and thereof and hereunder and there under constitute private commercial acts rather than public or governmental acts, (ii) is not entitled to any sovereign immunity for the jurisdiction of any courts of from any action, suit or proceeding or from set-off or service of process in connection therewith, and none of its properties is immune from attachments or execution, and (iii) has made herein and in the Purchase Agreement and the Transaction Documents to which it is a party valid waiver of any right it may have to sovereign immunity.

However, pursuant to Article 3 of Panama Law No. 26 dated January 29, 1996 and due to the Issuer's status as a concession recipient in Panama's energy sector, creditors and other plaintiffs may not have access to certain pre-judgment measures that would otherwise be available in Panamanian courts under normal circumstances, such as the right to request an attachment or embargo or other precautionary measure, in order for the court to grant such plaintiff control of the Issuer's operations for the duration of any proceeding instituted against it.

Submission to Jurisdiction; Agent for Service of Process

The Issuer will submit to the non-exclusive personal jurisdiction of any federal or state court in the County of New York, State of New York for purposes of all legal actions and proceedings instituted in connection with the Transaction Documents. The Issuer will appoint CT Corporation System, with offices currently located at 111 Eighth Avenue, 13th Floor, New York, New York 10011 as their authorized agent upon which service of process may be served in any such action.

If for the purpose of obtaining judgment in any court it is necessary to convert a sum due hereunder to the Holder of a Note from U.S. dollars into another currency, the Issuer has agreed, and each Holder by holding such Note will be deemed to have agreed, to the fullest extent that the Issuer and they may effectively do so, that the rate of exchange used shall be that at which in accordance with normal banking procedures such Holder could purchase U.S. dollars with such other currency in New York City, New York, on the day two Business Days preceding the day on which final judgment is given.

The Issuer's obligation in respect of any sum payable by it to the Holder of a Note shall, notwithstanding any judgment in a currency (the "judgment currency") other than U.S. dollars, be discharged only to the extent that on a Business Day following receipt by the Holder of such Note of any sum adjudged to be so due in the judgment currency, the Holder of such Note may, in accordance with normal banking procedures, purchase U.S. dollars with the judgment currency; if the amount of the U.S. dollars so purchased is less than the sum originally due to the Holder of such Note in the judgment currency (determined in the manner set forth in the preceding paragraph), the Issuer agrees, as a separate obligation and notwithstanding any such judgment, to indemnify the Holder of such Note against such loss, and if the amount of the U.S. dollars so purchased exceeds the sum originally due to the Holder of such Note, such Holder agrees to remit to the Issuer such excess, provided that such Holder shall have no obligation to remit any such excess as long as the Issuer shall have failed to pay such Holder any obligations due and payable under such Note, in which case such excess may be applied to the Issuer's obligations under such Note in accordance with the terms thereof.

Book-Entry, Delivery and Form

The Notes are being offered and sold to qualified institutional buyers in reliance on Rule 144A ("Rule 144A Notes"). Notes also may be offered and sold in offshore transactions in reliance on Regulation S ("Regulation S Notes"). Except as set forth below, Notes will be issued in registered, global form in minimum denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof. Notes will be issued at the closing of this offering only against payment in immediately available funds.

Rule 144A Notes initially will be represented by one or more Notes in registered, global form without interest coupons (collectively, the "Rule 144A Global Notes"). Regulation S Notes initially will be represented by one or more Notes in registered, global form without interest coupons (collectively, the "Regulation S Global Notes") and, together with the Rule 144A Global Notes, the "Global Notes"). The Global Notes will be deposited upon issuance with the Trustee as custodian for The Depository Trust Issuer ("DTC"), in New York, New York, and registered in the name of DTC or its nominee, in each case for credit to an account of a direct or indirect participant in DTC as described below. Through and including the 40th day after the later of the commencement of this offering and the closing of this offering (such period through and including such 40th day, the "Restricted Period"), beneficial interests in the Regulation S Global Notes may be held only through Euroclear Bank, S.A./N.V as operator of the Euroclear System ("Euroclear") and Clearstream Banking, S.A. ("Clearstream") (as indirect participants in DTC), unless transferred to a person that takes delivery through a Rule 144A Global Note in accordance with the certification requirements described below. Beneficial interests in the Rule 144A Global Notes may not be exchanged for beneficial interests in the Regulation S Global Notes at any time except in the limited circumstances described below. See "—Exchanges Between Regulation S Notes and Rule 144A Notes."

Except as set forth below, the Global Notes may be transferred, in whole and not in part, only to another nominee of DTC or to a successor of DTC or its nominee. Beneficial interests in the Global Notes may be exchanged for Notes in certificated form. See "—Exchange of Book-Entry Notes for Certificated Notes."

Rule 144A Notes (including beneficial interests in the Rule 144A Global Notes) will be subject to certain restrictions on transfer and will bear a restrictive legend as described under "Notice to Investors." Regulation S Notes will also bear the legend as described under "Notice to Investors." In addition, transfers of beneficial interests in the Global Notes will be subject to the applicable rules and procedures of DTC and its direct or indirect participants (including, if applicable, those of Euroclear and Clearstream), which may change from time to time.

Depository Procedures

The following description of the operations and procedures of DTC, Euroclear and Clearstream are provided solely as a matter of convenience. These operations and procedures are solely within the control of the respective settlement systems and are subject to changes by them. Neither the Issuer nor the Trustee takes any responsibility for these operations and procedures. The Issuer urges investors to contact the system or their participants directly to discuss these matters.

DTC has advised the Issuer that DTC is a limited-purpose trust Issuer created to hold securities for its participating organizations (collectively, the "Participants") and to facilitate the clearance and settlement of transactions in those securities between Participants through electronic book-entry changes in accounts of its Participants. The Participants include securities brokers and dealers (including the Initial Purchasers), banks, trust companies, clearing corporations and certain other organizations. Access to DTC's system is also available to other entities such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Participant, either directly or indirectly (collectively, the "Indirect Participants"). Persons who are not Participants may beneficially own securities held by or on behalf of DTC only through the Participants or the Indirect Participants. The ownership interests in, and transfers of ownership interests in, each security held by or on behalf of DTC are recorded on the records of the Participants and Indirect Participants.

DTC has also advised the Issuer that, pursuant to procedures established by it:

- (1) upon deposit of the Global Notes, DTC will credit the accounts of Participants designated by the Initial Purchasers with portions of the principal amount of the Global Notes; and
- (2) ownership of these interests in the Global Notes will be shown on, and the transfer of ownership thereof will be effected only through, records maintained by DTC (with respect to the Participants) or by the Participants and the Indirect Participants (with respect to other owners of beneficial interest in the Global Notes).

Investors in the Rule 144A Global Notes who are Participants in DTC's system may hold their interests therein directly through DTC. Investors in the Rule 144A Global Notes who are not Participants may hold their interests therein indirectly through organizations (including Euroclear and Clearstream) which are Participants in such system. Investors in the Regulation S Global Notes may hold their interests therein through Euroclear, Clearstream or DTC, if they are participants in such systems, or indirectly through organizations that are participants in such systems. However, upon issuance we intend to settle by delivering interests in the Regulation S Global Note solely through Euroclear or Clearstream. Euroclear and Clearstream will hold interests in the Regulation S Global Notes on behalf of their participants through customers' securities accounts in their respective names on the books of their respective depositories, which are Euroclear Bank, S.A./N.V., as operator of Euroclear, and Citibank, N.A., as operator of Clearstream. All interests in a Global Note, including those held through Euroclear or Clearstream, may be subject to the procedures and requirements of DTC. Those interests held through Euroclear or Clearstream may also be subject to the procedures and requirements of such systems.

Except as described below, owners of interests in the Global Notes will not have Notes registered in their names, will not receive physical delivery of Notes in certificated form and will not be considered the registered owners or "Holders" thereof under the Indenture for any purpose.

Payments in respect of the principal of, and interest and premium and Additional Amounts, if any, on a Global Note registered in the name of DTC or its nominee will be payable to DTC in its capacity as the registered Holder under the Indenture. Under the terms of the Indenture, the Issuer and the Trustee will treat the Persons in whose names the Notes, including the Global Notes, are registered as the owners thereof for the purpose of receiving payments and for all other purposes. Consequently, neither the Issuer, the Trustee nor any agent of the Issuer or the Trustee has or will have any responsibility or liability for:

- (1) any aspect of DTC's records or any Participant's or Indirect Participant's records relating to or payments made on account of beneficial ownership interest in the Global Notes or for maintaining, supervising or reviewing any of DTC's records or any Participant's or Indirect Participant's records relating to the beneficial ownership interests in the Global Notes; or
- (2) any other matter relating to the actions and practices of DTC or any of its Participants or Indirect Participants.

DTC has advised the Issuer that its current practice, upon receipt of any payment in respect of securities such as the Notes (including principal and interest), is to credit the accounts of the relevant Participants with the payment on the payment date unless DTC has reason to believe it will not receive payment on such payment date. Each relevant Participant is credited with an amount proportionate to its beneficial ownership of an interest in the principal amount of the relevant security as shown on the records of DTC. Payments by the Participants and the Indirect Participants to the beneficial owners of Notes will be governed by standing instructions and customary practices and will be the responsibility of the Participants or the Indirect Participants and will not be the responsibility of DTC, the Trustee or the Issuer. Neither the Issuer nor the Trustee will be liable for any delay by DTC or any of its Participants in identifying the beneficial owners of the Notes, and the Issuer and the Trustee may conclusively rely on and will be protected in relying on instructions from DTC or its nominee for all purposes.

Subject to the transfer restrictions set forth under "Notice to Investors," transfers between Participants in DTC will be effected in accordance with DTC's procedures, and will be settled in same-day funds, and transfers between participants in Euroclear and Clearstream will be effected in accordance with their respective rules and operating procedures.

Subject to compliance with the transfer restrictions applicable to the Notes described herein, cross-market transfers between the Participants in DTC, on the one hand, and Euroclear or Clearstream participants, on the other hand, will be effected through DTC in accordance with DTC's rules on behalf of Euroclear or Clearstream, as the case may be, by its respective depository; however, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream, as the case may be, by the counterparty in such system in accordance with the rules and procedures and within the established deadlines (Brussels time) of such system. Euroclear or Clearstream, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depository to take action to effect final settlement on its behalf by delivering or receiving interests in the relevant Global Note in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Euroclear participants and Clearstream participants may not deliver instructions directly to the depositories for Euroclear or Clearstream.

DTC has advised the Issuer that it will take any action permitted to be taken by a Holder of Notes only at the direction of one or more Participants to whose account DTC has credited the interests in the Global Notes and only in respect of such portion of the aggregate principal amount of the Notes as to which such Participant or Participants has or have given such direction. However, if there is an Event of Default under the Notes, DTC reserves the right to exchange the Global Notes for legended Notes in certificated form, and to distribute such Notes to its Participants.

Although DTC, Euroclear and Clearstream have agreed to the foregoing procedures to facilitate transfers of interests in the Rule 144A Global Notes and the Regulation S Global Notes among participants in DTC, Euroclear and Clearstream, they are under no obligation to perform or to continue to perform such procedures, and may discontinue such procedures at any time. Neither the Issuer nor the Trustee nor any of their respective agents will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Exchange of Global Notes for Certificated Notes

A Global Note is exchangeable for definitive Notes in registered certificated form ("Certificated Notes") if:

- (1) DTC (a) notifies the Issuer that it is unwilling or unable to continue as depositary for the Global Notes or (b) has ceased to be a clearing agency registered under the Exchange Act, and in each case the Issuer fails to appoint a successor depositary;
- (2) the Issuer, at its option, notifies the Trustee in writing that it elects to cause the issuance of Certificated Notes (DTC has advised the Issuer that, in such event, under its current practices, DTC would notify its participants of the Issuer's request, but will only withdraw beneficial interests from a Global Note at the request of each DTC participant); or
- (3) after the occurrence and continuation of an Event of Default with respect to the Notes, beneficial owners holding interest representing an aggregate principal amount of Notes of more than 50% of the Notes represented by the Global Notes advise the Indenture Trustee through DTC in writing that the continuation of a book-entry system through DTC with respect to the Notes is no longer in such owners' best interest.

In addition, beneficial interests in a Global Note may be exchanged for Certificated Notes upon prior written notice given to the Trustee by or on behalf of DTC in accordance with the Indenture. In all cases, Certificated Notes delivered in exchange for any Global Note or beneficial interests in Global Notes will be registered in the names, and issued in any approved denominations, requested by or on behalf of the depositary (in accordance with its customary procedures) and will bear the applicable restrictive legend referred to in "Notice to Investors," unless that legend is not required by applicable law.

Exchange of Certificated Notes for Global Notes

Certificated Notes may not be exchanged for beneficial interests in any Global Note unless the transferor first delivers to the Trustee a written certificate (in the form provided in the Indenture) to the effect that such transfer will comply with the appropriate transfer restrictions applicable to such Notes. See "Notice to Investors."

Exchanges Between Regulation S Notes and Rule 144A Notes

Prior to the expiration of the Restricted Period, beneficial interests in the Regulation S Global Note may be exchanged for beneficial interests in the Rule 144A Global Note only if the transferor first delivers to the Trustee a written certificate (in the form provided in the Indenture) to the effect that:

- (1) the transfer of Notes is being made in accordance with Rule 144A; and
- (2) the Notes are being transferred to a Person:
 - (a) who the transferor reasonably believes to be a qualified institutional buyer within the meaning of Rule 144A purchasing for its own account or the account of a qualified institutional buyer in a transaction meeting the requirements of Rule 144A; and
 - (b) in accordance with all applicable securities laws of the states of the United States.

Beneficial interests in a Rule 144A Global Note may be transferred to a Person who takes delivery in the form of an interest in the Regulation S Global Note, whether before or after the expiration of the Restricted Period, only if the transferor first delivers to the Trustee a written certificate (in the form provided in the Indenture) to the effect that such transfer is being made in accordance with Rule 903 or 904 of Regulation S or Rule 144 (if available). If such transfer occurs prior to the expiration of the Restricted Period, the interest transferred will be held immediately thereafter through Euroclear or Clearstream.

Transfers involving exchanges of beneficial interests between the Regulation S Global Notes and the Rule 144A Global Notes will be effected in DTC by means of an instruction originated by the Trustee through the DTC

Deposit/Withdraw at Custodian system. Accordingly, in connection with any such transfer, appropriate adjustments will be made to reflect a decrease in the principal amount of the Regulation S Global Note and a corresponding increase in the principal amount of the Rule 144A Global Note or vice versa, as applicable. Any beneficial interest in one of the Global Notes that is transferred to a Person who takes delivery in the form of an interest in the other Global Note will, upon transfer, cease to be an interest in such Global Note and will become an interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interest in such other Global Note for so long as it remains such an interest. The policies and practices of DTC may prohibit transfers of beneficial interests in the Regulation S Global Note prior to the expiration of the Restricted Period.

Same Day Settlement and Payment

The Issuer will make payments in respect of the Notes represented by the Global Notes (including principal, premium, if any, interest and Additional Amounts, if any) through the principal paying agent by wire transfer of immediately available funds to the accounts specified by the Global Note Holder. The Issuer will make all payments of principal, interest and premium and Additional Amounts, if any, with respect to Certificated Notes through the principal paying agent by wire transfer of immediately available funds to the accounts specified by the Holders of at least \$5.0 million principal amount of Notes or, if no such account is specified, by mailing a check to each such Holder's or any other Holder's registered address. The Notes represented by the Global Notes are expected to trade in DTC's Same-Day Funds Settlement System, and any permitted secondary market trading activity in such Notes will, therefore, be required by DTC to be settled in immediately available funds. The Issuer expects that secondary trading in any Certificated Notes will also be settled in immediately available funds.

Because of time zone differences, the securities account of a Euroclear or Clearstream participant purchasing an interest in a Global Note from a Participant in DTC will be credited, and any such crediting will be reported to the relevant Euroclear or Clearstream participant, during the securities settlement processing day (which must be a business day for Euroclear and Clearstream) immediately following the settlement date of DTC. DTC has advised the Issuer that cash received in Euroclear or Clearstream as a result of sales of interests in a Global Note by or through a Euroclear or Clearstream participant to a Participant in DTC will be received with value on the settlement date of DTC but will be available in the relevant Euroclear or Clearstream cash account only as of the business day for Euroclear or Clearstream following DTC's settlement date.

Certain Definitions

Set forth below are certain defined terms used in the Indenture. Reference is made to the Indenture for a full description of all such terms, as well as any other capitalized terms used herein for which no definition is provided.

"Additional Amounts" has the meaning set forth under "—Additional Amounts" above.

"Additional Notes" has the meaning set forth under "—General."

"Administration Agreement" means that certain Administration Agreement, dated as of January 14, 1999, between AES Panamá Energy, S.A. and Empresas de Generación Eléctrica Bayano, S.A. and Empresas de Generación Eléctrica Chiriquí, S.A. pursuant to which AES Panamá Energy, S.A. has managerial and operational control of the Issuer, subject to certain exceptions specified therein.

"Affiliate" of any specified Person means (1) any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person or (2) any executive officer or administrator of such specified Person. For purposes of this definition, "control," as used with respect to any Person, will mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by agreement or otherwise. For purposes of this definition, the terms "controlling," "controlled by" and "under common control with" will have correlative meanings.

"Applicable Premium" means, with respect to a Note at any date of redemption, the greater of (i) 1.0% of the principal amount of such Note and (ii) the excess of (A) the present value at such date of redemption of (1) the

redemption price of such Note at June 25, 2019 (such redemption price being described under "—Optional Redemption") plus (2) all remaining required interest payments due on such Note through June 25, 2019 (excluding accrued but unpaid interest to the date of redemption), computed using a discount rate equal to the Treasury Rate plus 50 basis points, over (B) the principal amount of such Note.

"*Asset Sale*" means:

- (1) the sale, lease, conveyance or other disposition (each, a "Transfer") of any assets; and
- (2) the issuance of Equity Interests by any Restricted Subsidiary or the Transfer by the Issuer or any Restricted Subsidiary of Equity Interests in any of its Subsidiaries (other than administrators' qualifying equity interests and equity interests issued to foreign nationals to the extent required by applicable law).

Notwithstanding the preceding, the following items will be deemed not to be Asset Sales:

- (1) any single transaction or series of related transactions that involves assets or Equity Interests having a Fair Market Value of less than US\$5.0 million;
- (2) a Transfer of assets that is governed by the provisions of the Indenture described above under the caption "—Repurchase at the Option of the Holders—Change of Control" and/or the provisions described above under the caption "—Certain Covenants—Merger, Consolidation or Sale of Assets;"
- (3) a Transfer of assets or Equity Interests between or among the Issuer and the Restricted Subsidiaries;
- (4) an issuance of Equity Interests by a Restricted Subsidiary to the Issuer or to another Restricted Subsidiary;
- (5) a Transfer of any assets in the ordinary course of business;
- (6) a Transfer of Cash Equivalents;
- (7) a Transfer of accounts receivable in connection with the compromise, settlement or collection thereof in the ordinary course of business or in bankruptcy or similar proceedings;
- (8) a Transfer that constitutes a Restricted Payment that is permitted by the covenant described above under the caption "—Certain Covenants—Limitation on Restricted Payments" or a Permitted Investment;
- (9) a Transfer of any property or equipment that has become damaged, worn out or obsolete or which is uneconomical and no longer useful for the Issuer or any Restricted Subsidiary in the ordinary course of business
- (10) a disposition of any real property that is ordered or agreed to as part of a settlement agreement in connection with the matter described under the caption "Business—Legal Proceedings—La Estrella Land Dispute" of this offering memorandum;
- (11) the creation of a Lien not prohibited by the Indenture (but not the sale of property subject to a Lien);
- (12) a grant of a license to use the Issuer's or any Restricted Subsidiary's patents, trade secrets, know-how or other intellectual property to the extent that such license does not limit the licensor's use of the patent, trade secret, know-how or other intellectual property;

- (13) sales or contributions of Receivables Assets to a Receivables Entity for the Fair Market Value thereof (as determined in good faith by the Issuer) in a Qualified Receivables Transaction and transfers of Receivables Assets (or a fractional undivided interest therein) by a Receivables Entity in a Qualified Receivables Transaction;
- (14) a disposition of any real property that is not then being used by the Issuer or any Restricted Subsidiary (A) to operate a Related Business or (B) in the day-to-day ordinary course of business operations of the Issuer or any Restricted Subsidiary; and
- (15) a disposition of assets in a Sale and Leaseback Transaction, if permitted by the covenant described under the caption “—Certain Covenants—Limitation on Sale and Leaseback Transactions.”

"*Attributable Debt*" in respect of a Sale and Leaseback Transaction means, at the time of determination, the present value of the obligation of the lessee for net rental payments during the remaining term of the lease included in such Sale and Leaseback Transaction, including any period for which such lease has been extended or may, at the option of the lessor, be extended. Such present value will be calculated using a discount rate equal to the rate of interest implicit in such transaction, determined in accordance with U.S. GAAP.

"*Beneficial Owner*" has the meaning assigned to such term in Rule 13d-3 and Rule 13d-5 under the Exchange Act, except that in calculating the beneficial ownership of any particular "person" (as that term is used in Section 13(d)(3) of the Exchange Act), such "person" will be deemed to have beneficial ownership of all securities that such "person" has the right to acquire by conversion or exercise of other securities, whether such right is currently exercisable or is exercisable only upon the occurrence of a subsequent condition. The terms "Beneficially Owns" and "Beneficially Owned" will have a corresponding meaning.

"*Board of Administrators*" means, with respect to:

- (1) a limited liability company, the board of administrators or managing members of the company;
- (2) a corporation, the board of directors of the corporation;
- (3) a partnership, the Board of Administrators of the general partner of the partnership; and
- (4) any other Person, the board or committee of such Person serving a similar function;

or, except in the context of the definitions of "Change of Control" of the Issuer, a duly authorized committee thereof.

"*Board Resolution*" means a resolution certified by the Secretary or an Assistant Secretary of the Issuer to have been duly adopted by the Board of Administrators of the Issuer and to be in full force and effect on the date of such certification.

"*Business Day*" means any day other than a Legal Holiday.

"*Calculation Date*" means the date on which the event for which the calculation of the Fixed Charge Coverage Ratio or the Leverage Ratio is made.

"*Capital Lease Obligation*" means an obligation that is required to be classified and accounted for as a capital lease for financial reporting purposes in accordance with U.S. GAAP; and the amount of Indebtedness represented thereby at any time shall be the amount of the liability in respect thereof that would at that time be required to be capitalized on a balance sheet in accordance with U.S. GAAP; and the Stated Maturity thereof shall be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be prepaid by the lessee without payment of a penalty.

"*Capital Stock*" of any Person means any and all shares, interests (including general or limited partnership interests, limited liability company or membership interests or limited liability partnership interests), participations or other equivalents of or interests in (however designated) equity of such Person, including any Preferred Stock.

"Cash Equivalents" means:

- (1) United States dollars and such local currencies held by the Issuer or any Restricted Subsidiary from time to time in the ordinary course of business;
- (2) securities issued or directly and fully guaranteed or insured by the United States government or any agency or instrumentality thereof (*provided* that the full faith and credit of the United States is pledged in support thereof), maturing, unless such securities are deposited to defease any Indebtedness, not more than one year from the date of acquisition;
- (3) certificates of deposit, time deposits, overnight bank deposits or bankers' acceptances with maturities of not more than one year from the date of acquisition, in each case, with any commercial bank or trust company organized under the laws of the United States or any state, commonwealth or territory thereof or any U.S. branch of a non-U.S. bank having capital and surplus in excess of US\$500.0 million (or the foreign currency equivalent thereof) and an Investment Grade Rating from Moody's or S&P at the time of acquisition thereof;
- (4) repurchase obligations with a term of not more than seven days for underlying securities of the types described in clauses (2) and (3) above entered into with any financial institution meeting the qualifications specified in clause (3) above;
- (5) commercial paper having an Investment Grade Rating from Moody's or S&P and in each case maturing within one year after the date of acquisition; and
- (6) securities issued and fully guaranteed by any state, commonwealth or territory of the United States of America, or by any political subdivision or taxing authority thereof, rated at least "A" by Moody's or S&P and having maturities of not more than one year from the date of acquisition; and
- (7) money market funds that invest substantially all of their assets in securities of the types described in clauses (1) through (6) of this definition.

"Change of Control" means such time as with respect to the Issuer (i) any "person" or "group" (as such terms are defined in Sections 13(d) and 14(d) of the Exchange Act), excluding the Permitted Holders, is or becomes the ultimate "beneficial owner" (as defined in Rule 13d 3 under the Exchange Act, except that a person shall be deemed to have "beneficial ownership" of all securities that such person has the right to acquire, whether such right is exercisable immediately or only after the passage of time), directly or indirectly, of shares of Voting Stock of the Issuer representing more than 35% of the total voting power of the total Voting Stock of the Issuer on a fully diluted basis (unless the Managing Equity Holder continues to have, directly or indirectly, the right or ability by voting power or contract to elect or designate for election a majority of the Board of Administrators of the Issuer or to manage the operations of the Issuer, including pursuant to the Administration Agreement or any agreement equivalent thereto); (ii) or the Managing Equity Holder ceases at any time to have, directly or indirectly, the right or ability by voting power or contract to elect or designate for election a majority of the Board of Administrators of the Issuer (or to manage the operations of the Issuer, including pursuant to the Administration Agreement or any agreement equivalent thereto); or (iii) during any period of two consecutive years, individuals who at the beginning of such period constituted the Board of Administrators of the Issuer, together with any new administrators whose election by such Board of Administrators or whose nomination for election by the equity holders of the Issuer was approved by a vote of a majority of the administrators of the Issuer then still in office who were either administrators at the beginning of such period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority of the Board of Administrators of the Issuer then in office (unless the Managing Equity Holder continues to have, directly or indirectly, the right or ability by voting power or contract to elect or designate for election a majority of the Board of Administrators of the Issuer or to manage the operations of the Issuer, including pursuant to the Administration Agreement or any agreement equivalent thereto); or (iv) the Issuer consolidates with, or merges with or into, another Person, or the Issuer sells, conveys, assigns, transfers, leases or otherwise disposes of all or substantially all of the assets of the Issuer, to any Person, other than a transaction where the Managing Equity Holder continues to have, directly or indirectly, the right or ability by voting power or contract to elect or designate for election a majority of the Board of Administrators of the surviving or transferee Person (or

if such surviving or transferee Person is a direct or indirect or wholly-owned subsidiary of another Person, such Person who is the ultimate parent entity) or to manage the operations of the Issuer, including pursuant to the Administration Agreement or any agreement equivalent thereto, whether or not such transaction is otherwise in compliance with the Indenture; or (v) the holders of Capital Stock of the Issuer approve any plan or proposal for the liquidation or dissolution of the Issuer, whether or not otherwise in compliance with the provisions of the Indenture.

"*Clearstream*" shall mean Clearstream Banking, société anonyme, Luxembourg (formerly Cedelbank) or any successor thereto.

"*Collateral*" means (A) the Debt Service Reserve Account, any and all amounts from time to time credited to or carried in the Debt Service Reserve Account, any and all investments carried in or made with funds therein (including without limitation any and all interest and earnings thereon), any and all other financial assets (within the meaning of Section 8-102(a)(9) of the NYUCC) credited to or carried in the Debt Service Reserve Account, and any and all security entitlements (within the meaning of Section 8-102(a)(17) of the NYUCC) of the Issuer with respect to such financial assets; and (B) all Proceeds of any of the Collateral and, to the extent related to any Collateral, all books, correspondence, credit files, records, invoices and other papers (including all tapes, cards, computer runs and other papers and documents in the possession or under the control of the Issuer or any computer bureau or service company from time to time acting for the Issuer). The term "Proceeds" has the meaning set forth in Article 9 of the NYUCC.

"*Collateral Agent*" means Deutsche Bank Trust Company Americas, appointed as such under the Pledge and Security Agreement and its successors under the Pledge and Security Agreement as the collateral agent thereunder. Notwithstanding any rights of Deutsche Bank Trust Company Americas, as the Trustee or limitations on the duties thereof, Deutsche Bank Trust Company Americas, as the Collateral Agent will continue to have its obligations under the Pledge and Security Agreement and the Indenture.

"*Common Stock*" means, with respect to any Person, any Capital Stock (other than Preferred Stock) of such Person, whether outstanding on the Issue Date or issued thereafter.

"*Consolidated EBITDA*" means, for any period, the Consolidated Net Income of the Issuer for such period *plus*:

- (1) provision for taxes based on income or profits of the Issuer and the Restricted Subsidiaries for such period, to the extent that such provision for taxes was deducted in computing such Consolidated Net Income; *plus*
- (2) Fixed Charges of the Issuer and the Restricted Subsidiaries for such period, to the extent that any such Fixed Charges were deducted in computing such Consolidated Net Income; *plus*
- (3) depreciation, amortization (including amortization of intangibles but excluding amortization of prepaid cash expenses that were paid in a prior period) and other non-cash expenses (excluding any such non-cash expense to the extent that it represents an accrual of or reserve for cash expenses in any future period or amortization of a prepaid cash expense that was paid in a prior period) of the Issuer and the Restricted Subsidiaries for such period to the extent that such depreciation, amortization and other non-cash expenses were deducted in computing such Consolidated Net Income; *minus*
- (3) non-cash items increasing such Consolidated Net Income for such period, other than the accrual of revenue in the ordinary course of business;

in each case, on a consolidated basis and determined in accordance with U.S. GAAP.

Notwithstanding the preceding, the provision for taxes based on the income or profits of, the Fixed Charges of and the depreciation and amortization and other non-cash expenses of, a Restricted Subsidiary will be added to Consolidated Net Income to compute Consolidated EBITDA of the Issuer (A) in the same proportion that the Net Income of such Restricted Subsidiary was added to compute such Consolidated Net Income of the Issuer and (B) only to the extent that a corresponding amount would be permitted at the date of determination to be dividended or

distributed to the Issuer by such Restricted Subsidiary without prior governmental approval (that has not been obtained), and without direct or indirect restriction pursuant to the terms of its charter or any agreements, instruments, judgments, decrees, orders, statutes, rules and governmental regulations applicable to that Subsidiary or its stockholders.

"*Consolidated Net Income*" means, for any period, the aggregate of the net income (loss) of the Issuer and the Restricted Subsidiaries for such period, on a consolidated basis, determined in accordance with U.S. GAAP; *provided that*:

- (1) the net income of any Person that is not a Restricted Subsidiary or that is accounted for by the equity method of accounting will be included only to the extent of the amount of dividends or distributions paid in cash to the Issuer or a Restricted Subsidiary and the Issuer's equity in the net loss of any such Person for such period shall be included only to the extent that such loss has been funded with cash from the Issuer or a Restricted Subsidiary;
- (2) the net income (but not the net loss) of any Restricted Subsidiary will be excluded to the extent that the declaration or payment of dividends or similar distributions by that Restricted Subsidiary of that net income is not at the date of determination permitted without any prior governmental approval (that has not been obtained) or, directly or indirectly, by operation of the terms of its charter or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to that Restricted Subsidiary or its equity holders;
- (3) the net income (loss) of any Person acquired during the specified period for any period prior to the date of such acquisition will be excluded;
- (4) any gain or loss, together with any related provision for taxes on such gain or loss, realized in connection with: (a) any sale of assets outside the ordinary course of business of the Issuer; or (b) the disposition of any securities by the Issuer or a Restricted Subsidiary or the extinguishment of any Indebtedness of the Issuer or any Restricted Subsidiary, will be excluded;
- (5) any extraordinary gain or loss, together with any related provision for taxes on such extraordinary gain or loss, will be excluded;
- (6) any non-cash compensation expense realized for grants of performance shares, stock options or other rights to officers, administrators and employees of the Issuer and any Restricted Subsidiary; *provided that* such shares, options or other rights can be redeemed at the option of the holder only for Capital Stock (other than Disqualified Stock of the Issuer);
- (7) any gain or loss related to currency fluctuation; and
- (8) the cumulative effect of a change in accounting principles will be excluded.

"*Consolidated Net Tangible Assets*" means the total of all assets appearing on a consolidated balance sheet of the Issuer and its Restricted Subsidiaries, net of all applicable reserves and deductions, but excluding goodwill, trade names, trademarks, patents, unamortized debt discount and all other like intangible assets, less the aggregate of the current liabilities of the Issuer and its Subsidiaries appearing on such balance sheet as determined in accordance with U.S. GAAP.

"*Credit Agreements*" means that certain (i) Credit Facility Agreement, dated May 29, 2014, by and between the Issuer and Banco Panamá, S.A., as lender, (ii) Credit Facility Agreement, dated June 13, 2014, by and between the Issuer and Banistmo, S.A. as lender, (iii) Credit Facility Agreement, dated March 30, 2012, by and between the Issuer and The Bank of Nova Scotia, as lender, (iv) Credit Facility Agreement, dated October 27, 2014, by and between the Issuer and BAC International Bank, S.A., as lender, and (v) Credit Facility Agreement, dated October 28, 2014, by and between the Issuer and the Bank of Nova Scotia (Panamá) S.A. as administrative agent and lender, and the other lender parties thereto, including any related notes, Guarantees, collateral documents, instruments and agreements executed in connection therewith, and in each case as amended, restated, modified, renewed, refunded,

replaced or refinanced from time to time, regardless of whether such amendment, restatement, modification, renewal, refunding, replacement or refinancing is with the same financial institutions or otherwise.

"*Credit Facilities*" means, one or more debt facilities (including, without limitation, the Credit Agreements), commercial paper facilities, in each case with banks or other institutional lenders, providing for revolving credit loans, term loans, receivables financing (including through the sale of receivables to such lenders or to special purpose entities formed to borrow from such lenders against such receivables), letters of credit, any related guarantees executed in connection therewith, in each case, as amended, restated, modified, renewed, refunded, replaced or refinanced in whole or in part from time to time (and whether or not with the original administrative agent and lenders or another administrative agent or agents or other lenders and whether provided under original credit or other agreement).

"*Default*" means any event that is, or with the passage of time or the giving of notice or both would be, an Event of Default.

"*Debt Service Reserve Account*" means a special, segregated and irrevocable non-interest bearing trust account established at the corporate trust office of the Trustee, which will be maintained by the Issuer at all times until the termination of the Indenture.

"*Disinterested Member*" means, with respect to any transaction or series of related transactions, a member of the Issuer's Board of Administrators who does not have any material direct or indirect financial interest in or with respect to such transaction or series of related transactions and is not an Affiliate, or an officer, administrator, member of a supervisory, executive or management board or employee of any Person (other than the Issuer or a Restricted Subsidiary) who has any direct or indirect financial interest in or with respect to such transaction or series of related transactions.

"*Disqualified Stock*" means any Capital Stock that, by its terms, by the terms of any security into which it is convertible, or for which it is exchangeable, or by contract or otherwise, is, or upon the happening of any event or passage of time would be, required to be redeemed on or prior to the date that is one year after the date on which the Notes mature, or is redeemable at the option of the holder thereof, or is convertible into or exchangeable for debt securities in any such case on or prior to such date. Notwithstanding the preceding sentence, any Capital Stock that would constitute Disqualified Stock solely because the holders thereof have the right to require the Issuer to repurchase such Capital Stock upon the occurrence of a change of control or an asset sale will not constitute Disqualified Stock if (i) the "asset sale" or "change of control" provisions applicable to such Capital Stock are no more favorable to the holders of such Capital Stock than the provisions contained under "—Repurchase at the Option of Holders—Limitation on Asset Sales" and "—Repurchase at the Option of Holders—Change of Control" covenants described herein and (ii) such Capital Stock specifically provides that such Person will not repurchase or redeem any such stock pursuant to such provision prior to the Issuer's repurchase of such Notes as are required to be repurchased pursuant to "—Repurchase at the Option of Holders—Limitation on Asset Sales" and "—Repurchase at the Option of Holders—Change of Control" covenants. The term "Disqualified Stock" will also include any options, warrants or other rights that are convertible into Disqualified Stock or that are redeemable at the option of the holder, or required to be redeemed, prior to the date that is one year after the date on which the Notes mature.

"*EGESA*" means the Electricity Generation Company (*Empresa de Generación Eléctrica, S.A.*), a generation company owned by the Panamanian government.

"*Equity Interests*" means Capital Stock and all warrants, options or other rights to acquire Capital Stock (but excluding any debt security that is convertible into, or exchangeable for, Capital Stock).

"*Estrella del Mar I PPA Sale*" means the sale of all of the Issuer's interest in Estrella del Mar I to the EGESA in accordance with the terms of the Estrella del Mar I PPA.

"*Estrella del Mar I PPA*" means that certain power purchase agreement dated as of October 27, 2014, between the Issuer and EGESA.

"*Existing Indebtedness*" means the aggregate amount of Indebtedness of the Issuer and the Restricted Subsidiaries (other than Indebtedness under the Credit Agreements (which are deemed to be incurred under clause

(1) of the definition of Permitted Debt) or under the Notes and any related Subsidiary Guarantees) in existence on the Issue Date after giving effect to the application of the proceeds of the Notes, until such amounts are repaid.

"*Event of Default*" has the meaning given to it under "—Events of Default."

"*Exchange Act*" means the United States Securities and Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

"*Fair Market Value*" means, as of any date of determination with respect to any asset or property, the price that would be paid in an arm's-length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy, as determined in good faith by the Board of Administrators of the Issuer, whose determination, will be conclusive if evidenced by a Board Resolution.

"*Fitch*" means Fitch Ratings Ltd. or any successor rating agency business thereof.

"*Fixed Charges*" means, for any period, the sum, without duplication, of:

- (1) the consolidated interest expense of the Issuer and the Restricted Subsidiaries for such period, whether paid or accrued, including, without limitation, amortization of debt issuance costs (other than debt issuance costs associated with the offering of the Notes) and original issue discount, non-cash interest payments, the interest component of any deferred payment obligations, the interest component of all payments associated with Capital Lease Obligations, imputed interest with respect to Attributable Debt, commissions, discounts and other fees and charges incurred in respect of letter of credit or bankers' acceptance financings, and net of the effect of all payments made or received pursuant to Hedging Obligations; *plus*
- (2) the consolidated interest of the Issuer and the Restricted Subsidiaries that was capitalized during such period; *plus*
- (3) any interest expense on Indebtedness of another Person that is Guaranteed by the Issuer or one of the Restricted Subsidiaries or secured by a Lien on assets of the Issuer or a Restricted Subsidiary, whether or not such Guarantee or Lien is called upon; *plus*
- (4) the product of (a) all dividends, whether paid or accrued and whether or not in cash, on any series of Disqualified Stock of the Issuer or a Restricted Subsidiary or Preferred Stock of a Restricted Subsidiary, other than dividends on Equity Interests payable solely in Equity Interests (other than Disqualified Stock) of the Issuer or to the Issuer or a Restricted Subsidiary, times (b) a fraction, the numerator of which is one and the denominator of which is one minus the then current combined federal, state, provincial and local statutory tax rate of the issuer of such Disqualified or Preferred Stock, expressed as a decimal, *plus*
- (5) the cash contributions to any employee stock ownership plan or similar trust to the extent such contributions are used by such plan or trust to pay interest or fees to any Person (other than the Issuer) in connection with Indebtedness Incurred by such plan or trust; *plus*
- (6) commissions, discounts, yield and other fees and charges Incurred in connection with any transaction pursuant to which the Issuer or any Restricted Subsidiary may sell, convey or otherwise transfer or grant a security interest in any accounts receivable or related assets.

in each case, on a consolidated basis and in accordance with U.S. GAAP.

"*Fixed Charge Coverage Ratio*" means the ratio of (i) the Consolidated EBITDA for the Issuer's most recently ended four full fiscal quarters for which internal financial statements are available immediately preceding the Calculation Date to (ii) the Fixed Charges of the Issuer for such period.

For purposes of calculating the Fixed Charge Coverage Ratio and the Leverage Ratio:

- (1) in the event that the Issuer or any Restricted Subsidiary Incurs, repays, repurchases or redeems any Indebtedness or issues, repurchases or redeems Preferred Stock subsequent to the commencement of the period for which the Fixed Charge Coverage Ratio or the Leverage Ratio is being calculated and on or prior to the Calculation Date, then the Fixed Charge Coverage Ratio and the Leverage Ratio will be calculated giving *pro forma* effect to such Incurrence, repayment, repurchase or redemption of Indebtedness, or such issuance, repurchase or redemption of Preferred Stock, and the use of the proceeds therefrom as if the same had occurred at the beginning of such period;
- (2) acquisitions and dispositions of business entities or property and assets constituting a division or line of business of any Person that have been made by the Issuer or any Restricted Subsidiary (or by any Person that has subsequently become a Restricted Subsidiary or has subsequently merged or consolidated with or into the Issuer or any Restricted Subsidiary), including through mergers or consolidations, during the four-quarter reference period or subsequent to such reference period and on or prior to the Calculation Date will be given *pro forma* effect as if they had occurred on the first day of the four-quarter reference period and Consolidated EBITDA for such reference period will be calculated on a *pro forma* basis, but without giving effect to clause (3) of the proviso set forth in the definition of Consolidated Net Income and provided that the sale of Estrella del Mar I as contractually agreed with EGESA in the Estrella del Mar I PPA shall not be considered a disposition of a line of business;
- (3) the Consolidated EBITDA attributable to discontinued operations, as determined in accordance with U.S. GAAP, will be excluded;
- (4) the Fixed Charges attributable to discontinued operations, as determined in accordance with U.S. GAAP, will be excluded, but only to the extent that the obligations giving rise to such Fixed Charges will not be obligations of the Issuer or any Restricted Subsidiary following the Calculation Date;
- (5) whenever *pro forma* effect is to be given to an acquisition or disposition, the amount of Consolidated EBITDA relating thereto and the amount of Fixed Charges associated with any Indebtedness Incurred in connection therewith, unless otherwise specified, the *pro forma* calculations will be made in compliance with Article 11 of Regulation S-X under the Securities Act, as determined in good faith by a responsible financial or accounting officer of the Issuer;
- (6) Fixed Charges attributable to interest on any Indebtedness (whether existing or being Incurred) computed on a *pro forma* basis and bearing a floating interest rate will be computed as if the rate in effect on the Calculation Date (taking into account any interest rate option, swap, cap or similar agreement applicable to such Indebtedness if such agreement has a remaining term in excess of 12 months or, if shorter, at least equal to the remaining term of such Indebtedness) had been the applicable rate for the entire period; and
- (7) Fixed Charges attributable to interest on any Indebtedness incurred under a revolving credit facility computed on a *pro forma* basis will be calculated based on the average daily balance of such Indebtedness for the four fiscal quarters subject to the *pro forma* calculation to the extent that such Indebtedness was Incurred solely for working capital purposes.

"Government Obligations" means direct obligations, including cash or certificates representing an ownership interest in obligations of the United States, including any agency or instrumentality thereof, for the payment of which the full faith and credit of the United States is pledged, and which are not callable or redeemable at the option of the issuer or issuers thereof, and shall also include a depositary receipt issued by a bank or trust company as custodian with respect to any such Government Obligation or a specific payment of interest on or principal of or any other amount with respect to any such Government Obligation held by such custodian for the account of the holder of a depositary receipt; provided that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depositary receipt from any amount received by the custodian with respect to the Government Obligation or the specific payment of interest on or principal of or any other amount with respect to the Government Obligation evidenced by such depositary receipt.

"*Guarantee*" means, as to any Person, a guarantee other than by endorsement of negotiable instruments for collection in the ordinary course of business, direct or indirect, in any manner, including, without limitation, by way of a pledge of assets or through letters of credit or reimbursement agreements in respect thereof, of all or any part of any Indebtedness of another Person, but excluding endorsements for collection or deposit in the normal course of business or Standard Receivables Undertakings in a Qualified Receivables Transaction.

"*Hedging Obligations*" means, with respect to any specified Person, the obligations of such Person under:

- (1) any interest rate protection agreement, interest rate future agreement, interest rate option agreement, interest rate swap agreement, interest rate cap agreement, interest rate collar agreement or other similar agreement or arrangement;
- (2) any commodity forward contract, commodity swap agreement, commodity option agreement or other similar agreement or arrangement; or
- (3) any foreign exchange contract, currency swap agreement or other similar agreement or arrangement.

"*Holder*" means a Person in whose name a Note is registered.

"*Incur*" means, with respect to any Indebtedness, to incur, create, issue, assume, Guarantee or otherwise become directly or indirectly liable for or with respect to, or become responsible for, the payment of, contingently or otherwise, such Indebtedness (and "Incurrence" and "Incurred" will have meanings correlative to the foregoing); *provided* that (1) any Indebtedness of a Person existing at the time such Person becomes a Restricted Subsidiary will be deemed to be Incurred by such Person at the time it becomes a Restricted Subsidiary and (2) neither the accrual of interest nor the accretion of original issue discount nor the payment of interest in the form of additional Indebtedness with the same terms or the payment of dividends on Disqualified Stock or Preferred Stock in the form of additional shares of the same class of Disqualified Stock or Preferred Stock (to the extent provided for when the Indebtedness or Disqualified Stock or Preferred Stock on which such interest or dividend is paid was originally issued) will be considered an Incurrence of Indebtedness.

"*Indebtedness*" means, with respect to any specified Person, whether or not contingent:

- (1) all indebtedness of such Person in respect of borrowed money;
- (2) all obligations of such Person evidenced by bonds, notes, debentures or similar instruments;
- (3) all obligations of such Person in respect of banker's acceptances, letters of credit or similar instruments (or reimbursement obligations in respect thereof);
- (4) all Capital Lease Obligations and Attributable Debt of such Person;
- (5) all obligations of such Person in respect of the deferred and unpaid balance of the purchase price of any property or services (except any such balance that constitutes an accrued expense or trade payable and contingent obligations to pay earn-outs), which purchase price is due more than six months after the date of placing such property in service or taking delivery and title thereto or the completion of such services;
- (6) all Hedging Obligations of such Person to the extent they appear as a liability on the balance sheet of such Person prepared in accordance with U.S. GAAP;
- (7) all Disqualified Stock issued by such Person, valued at the greater of its voluntary or involuntary liquidation preference and its maximum fixed repurchase price plus accrued dividends; or
- (8) all Preferred Stock issued by a Subsidiary of such Person, valued at the greater of its voluntary or involuntary liquidation preference and its maximum fixed repurchase price plus accrued dividends;

- (9) all Indebtedness of others secured by a Lien on any asset of the specified Person (whether or not such Indebtedness is assumed by the specified Person), *provided* that the amount of such Indebtedness will be the lesser of (A) the Fair Market Value of such asset at such date of determination and (B) the amount of such Indebtedness; and
- (10) to the extent not otherwise included, the Guarantee by the specified Person of any Indebtedness of any other Person.

For purposes hereof, the "maximum fixed repurchase price" of any Disqualified Stock or Preferred Stock which does not have a fixed repurchase price will be calculated in accordance with the terms of such Disqualified Stock or Preferred Stock, as applicable, as if such Disqualified Stock or Preferred Stock were repurchased on any date on which Indebtedness will be required to be determined pursuant to the Indenture.

The amount of any Indebtedness outstanding as of any date will be the outstanding balance at such date of all unconditional obligations as described above and, with respect to contingent obligations, the maximum liability upon the occurrence of the contingency giving rise to the obligation. The amount of any Indebtedness described in clauses (1) and (2) above will be:

- (1) the accreted value thereof, in the case of any Indebtedness issued with original issue discount; and
- (2) the principal amount thereof, together with any interest thereon that is more than 30 days past due, in the case of any other Indebtedness.

For purposes of determining any particular amount of Indebtedness, (x) Guarantees, Liens or obligations with respect to letters of credit supporting Indebtedness otherwise included in the determination of such particular amount shall not be included, and (y) any Liens granted pursuant to the equal and ratable provisions referred to in the "Limitation on Liens" covenant shall not be treated as Indebtedness.

"*Initial Purchasers*" means, with respect to the Outstanding Notes, Deutsche Bank Securities, Inc. and Banco General, S.A. and, with respect to the Notes offered hereby, Deutsche Bank Securities, Inc.

"*Investment Grade Rating*" means a senior unsecured long-term debt rating equal to or higher than Baa3 (or the equivalent) by Moody's and BBB- (or the equivalent) by S&P and Fitch, in each case, with a stable or better outlook.

"*Investments*" in any Person means all direct or indirect investments in such Person in the form of loans or other extensions of credit (including Guarantees), advances, capital contributions (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others), purchases or other acquisitions for consideration of Indebtedness, Equity Interests or other securities issued by such Person, together with all items that are or would be classified as investments on a balance sheet prepared in accordance with U.S. GAAP.

If the Issuer or any Restricted Subsidiary sells or otherwise disposes of any Equity Interests of any direct or indirect Restricted Subsidiary such that, after giving effect to any such sale or disposition, such Person is no longer a Restricted Subsidiary, the Issuer will be deemed to have made an Investment on the date of any such sale or disposition equal to the Fair Market Value of the Investment in such Subsidiary not sold or disposed of. The acquisition by the Issuer or any Restricted Subsidiary of a Person that holds an Investment in a third Person will be deemed to be an Investment by the Issuer or such Restricted Subsidiary in such third Person in an amount equal to the Fair Market Value of the Investment held by the acquired Person in such third Person unless such Investment in such third party was not made in anticipation or contemplation of the Investment by the Issuer or such Restricted Subsidiary and such third party Investment is incidental to the primary business of such Person in whom the Issuer or such Restricted Subsidiary is making such Investment.

"*Issue Date*" means June 25, 2015, the first date Notes are issued under the Indenture.

"*Issuer*" means AES Panamá, S.R.L., and any successor pursuant to the Indenture.

"*Legal Holiday*" means a Saturday, a Sunday or a day on which banking institutions in The City of New York, Panama or at a place of payment are authorized or required by law, regulation or executive order to remain closed.

"*Letter of Credit*" means a direct-pay, irrevocable 364-day letter of credit in favor of the Trustee provided by a commercial bank or other financial institution with an Investment Grade Rating with respect to its long-term senior unsecured debt, provided, however, that any such Letter of Credit provides a repayment term of not less than one year for any draws made thereunder.

"*Leverage Ratio*" means, on any Calculation Date, the ratio of (i) the aggregate amount of Indebtedness of the Issuer and its Restricted Subsidiaries on a consolidated basis outstanding on such Calculation Date to (ii) the Consolidated EBITDA of the Issuer for the Issuer's most recently ended four full fiscal quarters for which internal financial statements are available immediately preceding the Calculation Date, calculated in the manner described under Fixed Charge Coverage Ratio.

"*Lien*" means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such asset, whether or not filed, recorded or otherwise perfected under applicable law, including any conditional sale or other title retention agreement, any lease in the nature thereof, any option or other agreement to sell or give a security interest in and any filing of or agreement to give any financing statement under the Uniform Commercial Code (or equivalent statutes) of any jurisdiction.

"*Managing Equity Holder*" means the AES Corporation, a Delaware corporation, or any controlled Affiliate of the AES Corporation.

"*Moody's*" means Moody's Investors Service, Inc. or any successor rating agency business thereof.

"*Net Available Cash*" means the aggregate proceeds, including payments in respect of deferred payment obligations (to the extent corresponding to the principal, but not the interest component, thereof), received in Cash Equivalents by the Issuer or any Restricted Subsidiary in respect of any Asset Sale (including, without limitation, any Cash Equivalents received upon the sale or other disposition of any non-cash consideration received in any Asset Sale), net of (1) the direct costs relating to such Asset Sale, including, without limitation, legal, accounting, investment banking and brokerage fees, and sales commissions, and any relocation expenses incurred as a result thereof, (2) taxes paid or payable as a result thereof, in each case, after taking into account any available tax credits or deductions and any tax sharing arrangements, (3) in the case of any Asset Sale by a Restricted Subsidiary, payments to holders of Equity Interests in such Restricted Subsidiary in such capacity (other than such Equity Interests held by the Issuer or any Restricted Subsidiary) to the extent that such payment is required to permit the distribution of such proceeds in respect of the Equity Interests in such Restricted Subsidiary held by the Issuer or any Restricted Subsidiary and (4) appropriate amounts to be provided by the Issuer or the Restricted Subsidiaries as a reserve against liabilities associated with such Asset Sale, including, without limitation, pension and other post-employment benefit liabilities, liabilities related to environmental matters and liabilities under any indemnification obligations associated with such Asset Sale, all as determined in accordance with U.S. GAAP; *provided* that (a) excess amounts set aside for payment of taxes pursuant to clause (2) above remaining after such taxes have been paid in full or the statute of limitations therefor has expired and (b) amounts initially held in reserve pursuant to clause (4) no longer so held, will, in the case of each of subclause (a) and (b), at that time become Net Available Cash.

"*Net Cash Proceeds*" with respect to any issuance or sale of Capital Stock or debt securities, any incurrence of Indebtedness or any sale or other disposition of any Investment, means the cash proceeds of such issuance or sale net of attorneys' fees, accountants' fees, underwriters' or placement agents' fees, discounts or commissions and brokerage, consultant and other fees and expenses actually Incurred in connection with such issuance or sale and net of taxes paid or payable as a result thereof.

"*Notes*" means the \$300,000,000 aggregate principal amount of the Issuer's 6.000% Senior Notes due 2022 originally issued under the Indenture on the Issue Date and any Additional Notes issued thereafter under and in accordance with the Indenture.

"Obligations" with respect to any Indebtedness means any principal, premium, interest, Additional Amounts, penalties, fees, indemnifications, reimbursements, damages and other liabilities payable under the documentation governing such Indebtedness.

"Offer to Purchase" means an offer to purchase Notes by the Issuer from the Holders commenced by mailing a notice to the Trustee and each Holder stating:

- (1) the provision of the Indenture pursuant to which the offer is being made and that all Notes validly tendered will be accepted for payment on a *pro rata* basis;
- (2) the purchase price and the date of purchase, which shall be a business day no earlier than 30 days nor later than 60 days from the date such notice is mailed (the "Payment Date");
- (3) that any Note not tendered will continue to accrue interest pursuant to its terms;
- (4) that, unless the Issuer defaults in the payment of the purchase price, any Note accepted for payment pursuant to the Offer to Purchase shall cease to accrue interest and Additional Amounts, if any, on and after the Payment Date;
- (5) that Holders electing to have a Note purchased pursuant to the Offer to Purchase will be required to surrender the Note, together with the form entitled "Option of the Holder to Elect Purchase" on the reverse side of the Note completed, to the paying agent at the address specified in the notice prior to the close of business on the business day immediately preceding the Payment Date;
- (6) that Holders will be entitled to withdraw their election if the paying agent receives, not later than the close of business on the third business day immediately preceding the Payment Date, facsimile transmission or letter setting forth the name of such Holder, the principal amount of Notes delivered for purchase and a statement that such Holder is withdrawing his election to have such Notes purchased; and
- (7) that Holders whose Notes are being purchased only in part will be issued new Notes equal in principal amount to the unpurchased portion of the Notes surrendered; *provided* that each Note purchased and each new Note issued shall be in a principal amount of US\$200,000 or an integral multiple of US\$1,000 in excess thereof.

On the Payment Date, the Issuer shall (a) accept for payment on a *pro rata* basis Notes or portions thereof (and, in the case of an Offer to Purchase made pursuant to "Repurchase at the Option of Holders—Asset Sales," any other *Pari Passu* Debt included in such Offer to Purchase) tendered pursuant to an Offer to Purchase; (b) deposit with the paying agent money sufficient to pay the purchase price of all Notes or portions thereof so accepted; and (c) deliver, or cause to be delivered, to the Trustee all Notes or portions thereof so accepted together with an Officers' Certificate specifying the Notes or portions thereof accepted for payment by the Issuer. The paying agent shall promptly mail to the Holders of Notes so accepted payment in an amount equal to the purchase price, and the Trustee shall promptly authenticate and mail to such Holders a new Note equal in principal amount to any unpurchased portion of the Note surrendered; *provided* that each Note purchased and each new Note issued shall be in a principal amount of \$200,000 or an integral multiple of US\$1,000 in excess thereof. The Issuer will publicly announce the results of an Offer to Purchase as soon as practicable after the Payment Date. The Trustee shall act as the paying agent for an Offer to Purchase. The Issuer will comply with Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder, to the extent such laws and regulations are applicable, in the event that the Issuer is required to repurchase Notes pursuant to an Offer to Purchase. To the extent that the provisions of any securities laws or regulations conflict with the provisions of the Indenture relating to an Offer to Purchase, the Issuer will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under such provisions of the Indenture by virtue of such conflict.

"Officer" means, with respect to any Person, the Chairman of the Board, the Chief Executive Officer, the President, the Chief Operating Officer, the Chief Financial Officer, the Treasurer, any Assistant Treasurer, the Controller, the Secretary or any Vice-President of such Person.

"*Officers' Certificate*" means a certificate signed on behalf of the Issuer by at least two Officers of the Issuer, one of whom must be the principal executive officer or the principal financial officer or the principal accounting officer of the Issuer, that meets the requirements of the Indenture.

"*Opinion of Counsel*" means an opinion from legal counsel who is reasonably acceptable to the Trustee (who may be counsel to or an employee of the Issuer) that meets the requirements of the Indenture.

"*Panama*" means the Republic of Panama.

"*Panama Stock Exchange*" shall mean the Bolsa de Valores de Panamá, S.A.

"*Pari Passu Debt*" means (a) any Indebtedness of the Issuer that ranks equally in right of payment with the Notes or (b) any Indebtedness of a Subsidiary Guarantor that ranks equally in right of payment with such Subsidiary Guarantor's Subsidiary Guarantee.

"*Permitted Business*" means any business conducted or proposed to be conducted (as described in the offering memorandum) by the Issuer on the Issue Date and other businesses reasonably related or ancillary thereto.

"*Permitted Holders*" means the Managing Equity Holder and the Republic of Panama.

"*Permitted Investments*" means:

- (1) any Investment in the Issuer or in a Restricted Subsidiary;
- (2) any Investment in Cash Equivalents or Temporary Cash Investments;
- (3) any Investment by the Issuer or any Restricted Subsidiary in a Person, if as a result of such Investment:
 - (a) such Person becomes a Restricted Subsidiary; or
 - (b) such Person is merged, consolidated or amalgamated with or into, or transfers or conveys all or substantially all of its assets to, or is liquidated into, the Issuer or a Restricted Subsidiary;
- (4) any Investment made as a result of the receipt of non-cash consideration from an Asset Sale that was made pursuant to and in compliance with the covenant described above under the caption "—Repurchase at the Option of Holders—Asset Sales;"
- (5) Hedging Obligations that are designed solely to protect the Issuer or its Restricted Subsidiaries against fluctuations in interest rates, commodity prices or foreign currency exchange rates (or to reverse or amend any such agreements previously made for such purposes), and not for speculative purposes, and that do not increase the Indebtedness of the obligor outstanding at any time other than as a result of fluctuations in interest rates, commodity prices or foreign currency exchange rates or by reason of fees, indemnities and compensation payable thereunder;
- (6) (i) stock, obligations or securities received in satisfaction of judgments, foreclosure of Liens or settlement of Indebtedness and (ii) any Investments received in compromise of obligations of any trade creditor or customer that were incurred in the ordinary course of business, including pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of any such Person;
- (7) advances to customers or suppliers in the ordinary course of business that are, in conformity with U.S. GAAP, recorded as accounts receivable, prepaid expenses or deposits on the balance sheet of the Issuer or the Restricted Subsidiaries and endorsements for collection or deposit arising in the ordinary course of business;

- (8) commission, payroll, travel and similar advances to officers and employees of the Issuer or any Restricted Subsidiary that are expected at the time of such advance ultimately to be recorded as an expense in conformity with U.S. GAAP;
- (9) any Investment by the Issuer or a Subsidiary of the Issuer in a Receivables Entity in connection with a Qualified Receivables Transaction, including Investments of funds held in accounts permitted or required by the arrangement governing such Qualified Receivables Transaction or any related Indebtedness; *provided* that such Investment is in the form of a Purchase Money Note, contribution of additional Receivables Assets, cash and Cash Equivalents or Equity Interests;
- (10) any Investment existing on the Issue Date;
- (11) other Investments in any Person other than an Unrestricted Subsidiary (provided that any such Person is not an Affiliate of the Issuer or is an Affiliate of the Issuer solely because the Issuer, directly or indirectly, owns Equity Interests in, or controls, such Person) having an aggregate Fair Market Value (measured on the date each such Investment was made and without giving effect to subsequent changes in value), when taken together with all other Investments made pursuant to this clause (11) since the Issue Date, not to exceed US\$10.0 million; and
- (12) receivables owing to the Issuer or any Restricted Subsidiary if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms; provided, however, that such trade terms may include such concessionary trade terms as the Issuer or any such Restricted Subsidiary deems reasonable under the relevant circumstance.

"*Permitted Liens*" means:

- (1) Liens on the assets of the Issuer and any Restricted Subsidiary securing Indebtedness Incurred under clause (1) of the definition of Permitted Debt;
- (2) Liens in favor of the Issuer or any Subsidiary Guarantor;
- (3) Liens on property or assets of a Person existing at the time such Person is merged with or into or consolidated with the Issuer or any Restricted Subsidiary, or any Liens on the property or assets of any Person existing at the time such Person becomes a Restricted Subsidiary; *provided* that such Liens were in existence prior to the contemplation of such transaction and do not extend to any other property or assets owned by the Issuer or any Restricted Subsidiary;
- (4) Liens on property or assets (including, without limitation, equity interests) existing at the time of acquisition thereof by the Issuer or any Restricted Subsidiary of the Issuer, *provided* that such Liens were in existence prior to the contemplation of such acquisition and do not extend to any property or assets other than the property or assets so acquired by the Issuer or the Restricted Subsidiary;
- (5) Liens securing the Notes and the Subsidiary Guarantees, if any;
- (6) Liens existing on the Issue Date (other than any Liens securing Indebtedness Incurred under clause (1) of the covenant described under the caption "Certain Covenants—Limitation on Indebtedness");
- (7) Liens securing Permitted Refinancing Indebtedness; *provided* that such Liens do not extend to any property or assets other than the property or assets that secure the Indebtedness being refinanced;
- (8) Liens on property or assets securing Indebtedness used to defease or to satisfy and discharge the Notes; *provided* that (a) the Incurrence of such Indebtedness was not prohibited by the Indenture and (b) such defeasance or satisfaction and discharge is not prohibited by the Indenture;
- (9) Liens on assets transferred to or held by a Receivables Entity incurred in connection with a Qualified Receivables Transaction;

- (10) Liens to secure Indebtedness (including Capital Lease Obligations) permitted by clause (4) of the second paragraph of the covenant described under the caption "—Certain Covenants—Incurrence of Indebtedness;" *provided* that any such Lien (i) covers only the assets acquired, constructed or improved with such Indebtedness and (ii) is created within 180 days of such acquisition, construction or improvement;
- (11) Liens on Cash Equivalents securing Hedging Obligations of the Issuer or any Restricted Subsidiary (a) that are Incurred for the purpose of fixing, hedging or swapping interest rate, commodity price or foreign currency exchange rate risk (or to reverse or amend any such agreements previously made for such purposes), and not for speculative purposes, or (b) securing letters of credit that support such Hedging Obligations;
- (12) Liens incurred or deposits made in the ordinary course of business in connection with worker's compensation, unemployment insurance or other social security obligations;
- (13) Liens, deposits or pledges to secure the performance of bids, tenders, contracts (other than contracts for the payment of Indebtedness), leases, or other similar obligations arising in the ordinary course of business;
- (14) Liens, deposits or pledges to secure public or statutory obligations, surety, stay, appeal, indemnity, performance or other similar bonds or obligations; and Liens, deposits or pledges in lieu of such bonds or obligations, or to secure such bonds or obligations, or to secure letters of credit in lieu of or supporting the payment of such bonds or obligations;
- (15) Liens in favor of collecting or payor banks having a right of setoff, revocation, refund or chargeback with respect to money or instruments of the Issuer or any Subsidiary thereof on deposit with or in possession of such bank;
- (16) any interest or title of a lessor, licensor or sublicensor in the property subject to any lease, license or sublicense (other than any property that is the subject of a Sale Leaseback Transaction);
- (17) any Lien on the Capital Stock of an Unrestricted Subsidiary;
- (18) Liens on the property or assets of the Issuer or any Restricted Subsidiary for taxes, assessments, governmental charges, levies or claims which are not yet due or that can thereafter can be paid without penalty or are being contested in good faith by appropriate proceedings or the period within which such proceedings may be initiated has not expired;
- (19) any Lien securing claims of laborers, workmen, suppliers, carriers, or vendors or other claims provided for by mandatory provisions of the laws of any jurisdiction in which the Issuer or any Restricted Subsidiary conducts its business which are being contested in good faith by appropriate proceedings;
- (20) Liens required by any contract or statute in order to permit the Issuer or any Restricted Subsidiary to perform any contract or subcontract made by it with or at the request of a governmental entity or any department, agency or instrumentality thereof, or to secure partial progress, advance or any other payments to the Issuer or any Restricted Subsidiary by a governmental entity or any department, agency or instrumentality thereof pursuant to the provisions of any contract or statute;
- (21) any Lien arising solely by operation of law;
- (22) any Lien created by or resulting from any litigation or legal proceeding that is currently being contested in good faith by appropriate proceedings promptly initiated and diligently conducted and

for which such reserves or other appropriate provision, if any, as is required by U.S. GAAP shall have been made; and

- (23) any other Liens not otherwise described in clauses (1) to (22) above securing Indebtedness of the Issuer or any Restricted Subsidiary in an aggregate principal amount that does not exceed the greater of US\$25.0 million or 5.0% of Consolidated Net Tangible Assets.

"*Permitted Refinancing Indebtedness*" means any Indebtedness of the Issuer or any Restricted Subsidiary issued in exchange for, or the Net Cash Proceeds of which are used to extend, refinance, renew, replace, defease or refund other Indebtedness of the Issuer or any Restricted Subsidiary (other than Indebtedness owed to the Issuer or to any Subsidiary of the Issuer which intercompany Indebtedness is governed by clause (6) of the definition of Permitted Debt); *provided* that:

- (1) the amount of such Permitted Refinancing Indebtedness does not exceed the amount of the Indebtedness so extended, refinanced, renewed, replaced, defeased or refunded (plus all accrued and unpaid interest thereon and the amount of any reasonably determined premium necessary to accomplish such refinancing and such reasonable expenses incurred in connection therewith);
- (2) such Permitted Refinancing Indebtedness has a final maturity date no earlier than the final maturity date of, and has a Weighted Average Life to Maturity not less than the Weighted Average Life to Maturity of, the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded;
- (3) if the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded is subordinated in right of payment to the Notes or any Subsidiary Guarantee, such Permitted Refinancing Indebtedness is subordinated in right of payment to the Notes or such Subsidiary Guarantees, as applicable, on terms at least as favorable, taken as a whole, to the Holders of Notes as those contained in the documentation governing the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded; and
- (4) if the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded is *Pari Passu* Debt, such Permitted Refinancing Indebtedness ranks equally in right of payment with, or is subordinated in right of payment to, the Notes or such Subsidiary Guarantees.

"*Person*" means any individual, corporation, partnership, joint venture, association, joint-stock Issuer, trust, unincorporated organization, limited liability Issuer or government or other entity.

"*Pledge and Security Agreement*" means the pledge and security agreement dated as of the Issue Date between the Issuer and Deutsche Bank Trust Company Americas, as Collateral Agent thereunder, as amended, modified or supplemented from time to time in accordance with the terms of the Indenture and the terms thereof.

"*Preferred Stock*" means, with respect to any Person, any Capital Stock of such Person that has preferential rights to any other Capital Stock of such Person with respect to dividends or redemptions upon liquidation.

"*Purchase Agreement*" means the Purchase Agreement, dated as of June 18, 2015, by and between the Issuer and the Initial Purchasers relating to the issuance and sale of the Notes offered hereby.

"*Purchase Money Note*" means a promissory note of a Receivables Entity evidencing a line of credit, which may be irrevocable, from the Issuer or any Subsidiary of the Issuer to a Receivables Entity in connection with a Qualified Receivables Transaction, which note is intended to finance that portion of the purchase price that is not paid in cash or a contribution of equity and which (a) shall be repaid from cash available to the Receivables Entity, other than (i) amounts required to be established as reserves, (ii) amounts paid to investors in respect of interest, (iii) principal and other amounts owing to such investors and (iv) amounts paid in connection with the purchase of newly generated receivables and (b) may be subordinated to the payments described in clause (a).

"*Qualified Receivables Transaction*" means any transaction or series of transactions entered into by the Issuer or any of its Subsidiaries pursuant to which the Issuer or any of its Subsidiaries sells, conveys or otherwise transfers to (1) a Receivables Entity (in the case of a transfer by the Issuer or any of its Subsidiaries) or (2) any other

Person (in the case of a transfer by a Receivables Entity), or transfers an undivided interest in or grants a security interest in, any Receivables Assets (whether now existing or arising in the future) of the Issuer or any of its Subsidiaries.

"Ratings Agencies" means each of Fitch and S&P or, if any of Fitch or S&P shall not make a rating on the Notes publicly available, a nationally recognized statistical rating agency or agencies, as the case may be, selected by the Issuer (as certified by a resolution of the Board of Administrators) which shall be substituted for Fitch or S&P, as the case may be.

"*Receivables Assets*" means any accounts receivable and any assets related thereto, including, without limitation, all collateral securing such accounts receivable and assets and all contracts and contract rights, and all guarantees or other supporting obligations (within the meaning of the New York Uniform Commercial Code Section 9-102(a)(77)) (including Hedging Obligations), in respect of such accounts receivable and assets and all proceeds of the foregoing and other assets which are customarily transferred, or in respect of which security interests are customarily granted, in connection with asset securitization transactions involving Receivables Assets.

"*Receivables Entity*" means a Subsidiary of the Issuer (or another Person formed for the purposes of engaging in a Qualified Receivables Transaction in which the Issuer or any of its Subsidiaries makes an Investment and to which the Issuer or any of its Subsidiaries transfers Receivables Assets) which engages in no activities other than in connection with the financing of Receivables Assets of the Issuer or its Subsidiaries, and any business or activities incidental or related to such financing, and which is designated by the Board of Administrators of the Issuer or of such other Person (as provided below) to be a Receivables Entity (a) no portion of the Indebtedness or any other Obligations (contingent or otherwise) of which (1) is guaranteed by the Issuer or any Subsidiary of the Issuer (excluding guarantees of Obligations (other than the principal of, and interest on, Indebtedness) pursuant to Standard Receivables Undertakings), (2) is recourse to or obligates the Issuer or any Subsidiary of the Issuer in any way other than pursuant to Standard Receivables Undertakings or (3) subjects any property or asset of the Issuer or any Subsidiary of the Issuer (other than Receivables Assets and related assets as provided in the definition of "Qualified Receivables Transaction"), directly or indirectly, contingently or otherwise, to the satisfaction thereof other than pursuant to Standard Receivables Undertakings, (b) with which neither the Issuer nor any Subsidiary of the Issuer has any material contract, agreement, arrangement or understanding (other than on terms which the Issuer reasonably believes to be no less favorable to the Issuer or such Subsidiary than those that might be obtained at the time from Persons who are not Affiliates of the Issuer) other than fees payable in the ordinary course of business in connection with servicing Receivables Assets, and (c) with which neither the Issuer nor any Subsidiary of the Issuer has any obligation to maintain or preserve such entity's financial condition or cause such entity to achieve certain levels of operating results. Any such designation by the Board of Administrators of the Issuer or of such other Person will be evidenced to the Trustee by filing with the Trustee a certified copy of a resolution of the Board of Administrators of the Issuer or of such other Person giving effect to such designation, together with an Officers' Certificate certifying that such designation complied with the foregoing conditions.

"*Receivables Repurchase Obligation*" means any obligation of a seller of Receivables Assets in a Qualified Receivables Transaction to repurchase Receivables Assets arising as a result of a breach of a Standard Receivables Undertaking, including as a result of a Receivables Asset or portion thereof becoming subject to any asserted defense, dispute, offset or counterclaim of any kind as a result of any action taken by, any failure to take action by or any other event relating to the seller.

"*Replacement Assets*" means (1) non-current assets that will be used or useful in a Permitted Business, (2) substantially all the assets of a Permitted Business, or (3) a majority of the Voting Stock of any Person engaged in a Permitted Business that will become on the date of acquisition thereof a Restricted Subsidiary.

"*Restricted Subsidiary*" means any Subsidiary of the Issuer that is not an Unrestricted Subsidiary.

"*S&P*" means Standard & Poor's Ratings Group, Inc. or any successor rating agency business thereof.

"*Sale and Leaseback Transaction*" means, with respect to any Person, any transaction involving any of the assets or properties of such Person whether now owned or hereafter acquired, whereby such Person sells or otherwise transfers such assets or properties and then or thereafter leases such assets or properties or any part thereof

or any other assets or properties which such Person intends to use for substantially the same purpose or purposes as the assets or properties sold or transferred.

"*Significant Subsidiary*" means any Subsidiary that would constitute a "significant subsidiary" within the meaning of Article 1 of Regulation S-X of the Securities Act.

"*Standard Receivables Undertakings*" means representations, warranties, covenants and indemnities entered into by the Issuer or any Subsidiary of the Issuer which are customary in a Qualified Receivables Transaction, including, without limitation, those relating to the servicing of the assets of a Receivables Entity, it being understood that any Receivables Repurchase Obligation shall be deemed to be a Standard Receivables Undertaking.

"*Stated Maturity*" means, with respect to any installment of interest or principal on any series of Indebtedness, the date on which such installment of interest or principal was scheduled to be paid in the original documentation governing such Indebtedness, and will not include any contingent obligations to repay, redeem or repurchase any such interest or principal prior to the date originally scheduled for the payment thereof.

"*Subordinated Indebtedness*" means any Indebtedness of the Issuer or any Restricted Subsidiary (whether outstanding on the Issue Date or thereafter Incurred) that is subordinate or junior in right of payment to the Notes and the Subsidiary Guarantees pursuant to a written agreement.

"*Subsidiary*" means, with respect to any Person the accounts of which would be consolidated with those of a parent in the parent's consolidated financial statements if such financial statements were prepared in accordance with U.S. GAAP as of such date, as well as, in the case of the Issuer:

- (1) a corporation a majority of whose Voting Stock is at the time owned or controlled, directly or indirectly, by such Person, one or more Subsidiaries thereof or such Person and one or more Subsidiaries thereof; and
- (2) any other Person (other than a corporation), including, without limitation, a partnership, limited liability Issuer, business trust or joint venture, in which such Person, one or more Subsidiaries thereof or such Person and one or more Subsidiaries thereof, directly or indirectly, at the date of determination thereof, has at least majority ownership interest entitled to vote in the election of administrators, managers or trustees thereof (or other Person performing similar functions).

"*Subsidiary Guarantee*" means any Guarantee by a Restricted Subsidiary of the Notes, executed pursuant to the provisions of the Indenture.

"*Subsidiary Guarantors*" means any Restricted Subsidiary that executes a Subsidiary Guarantee in accordance with the provisions of the Indenture and their respective successors and assigns until released from their obligations under their Subsidiary Guarantees and the Indenture in accordance with the terms of the Indenture.

"*Temporary Cash Investments*" means any of the following (a) marketable direct obligations issued or unconditionally Guaranteed by Panama, (b) time deposits or certificates of deposit of a Panamanian bank, the long-term unsecured debt obligations of which (or in the case of a bank that is the principal subsidiary of a holding company, such holding company) are rated no less than "BB+" by S&P, "BB+" by Fitch or "Baa3" by Moody's, and maturing within 180 days from the date of acquisition thereof by the Issuer or a Restricted Subsidiary, (c) time deposits or certificates of deposit of a Panamanian bank, the commercial paper or other short-term unsecured debt obligations of which (or in the case of a bank that is the principal subsidiary of a holding company, the holding company) are rated the highest rating of any Panamanian bank, but in no event less than the short term rating of "A-1" by S&P or "P-1" by Moody's, and maturing within one (1) year from the date of acquisition thereof by the Issuer or a Restricted Subsidiary, (d) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (a) above entered into with a bank meeting the qualifications described in clause (b) above, or (e) commercial paper of a Panamanian issuer the long-term unsecured debt obligations of which are rated the highest rating of a Panamanian issuer, but in no event not less than the equivalent short term rating of "A-2" by S&P or "P-2" by Moody's, and maturing within 90 days (unless the short term rating is not less than "A-1" by S&P

or "P 1" by Moody's, in which case maturing within one (1) year) from the date of acquisition thereof by the Issuer or a Restricted Subsidiary.

"*Transaction Documents*" means the Indenture, the Notes and the Pledge and Security Agreement.

"*Treasury Rate*" means the yield to maturity at the time of computation of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) which has become publicly available at least two Business Days prior to the date fixed for prepayment (or, if such Statistical Release is no longer published, any publicly available source for similar market data)) most nearly equal to the then remaining term of the Notes to June 25, 2019; *provided, however*, that if the then remaining term of the Notes to June 25, 2019, is not equal to the constant maturity of a United States Treasury security for which a weekly average yield is given, the Treasury Rate will be obtained by linear interpolation (calculated to the nearest one-twelfth of a year) from the weekly average yields of United States Treasury securities for which such yields are given, except that if the then remaining term of the Notes to June 25, 2019 is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used.

"*U.S. Dollar Equivalent*" means with respect to any monetary amount in a currency other than U.S. dollars, at any time for determination thereof, the amount of U.S. dollars obtained by converting such foreign currency involved in such computation into U.S. dollars at the spot rate for the purchase of U.S. dollars with the applicable foreign currency as published in The Wall Street Journal in the "Exchange Rates" column under the heading "Currency Trading" on the date two business days prior to such determination.

"*U.S. GAAP*" means generally accepted accounting principles in the United States, which are in effect from time to time.

"*Unrestricted Subsidiary*" means any Subsidiary of the Issuer that is designated by the Board of Administrators of the Issuer as an Unrestricted Subsidiary pursuant to a Board Resolution in compliance with the covenant described under the caption "*—Certain Covenants—Designation of Restricted and Unrestricted Subsidiaries*," and any Subsidiary of such Subsidiary.

"*Voting Stock*" of any Person as of any date means the Capital Stock of such Person that is ordinarily entitled to vote in the election of the Board of Administrators of such Person.

"*Weighted Average Life to Maturity*" means, when applied to any Indebtedness at any date, the number of years obtained by dividing:

- (1) the sum of the products obtained by multiplying (a) the amount of each then remaining installment, sinking fund, serial maturity or other required payments of principal, including payment at final maturity, in respect thereof, by (b) the number of years (calculated to the nearest one-twelfth) that will elapse between such date and the making of such payment; by
- (2) the then outstanding principal amount of such Indebtedness.

TAXATION

General

The following discussion summarizes certain material Panamanian tax and U.S. federal income tax consequences to beneficial owners arising from the purchase, ownership and disposition of the Notes. The summary does not purport to be a comprehensive description of all potential Panamanian tax and U.S. federal income tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and is not intended as tax advice to any particular investor. This summary does not describe any tax consequence arising under the laws of any state, locality or other taxing jurisdiction other than Panama and the U.S.

Prospective purchasers of the Notes should consult their own tax advisors as to the Panamanian, U.S. or other tax consequences of the purchase, ownership and disposition of the Notes, including, in particular, the application of the tax considerations discussed below to their particular situations, as well as the application of state, local, foreign or other tax laws.

Panamanian Taxation

The following is a summary of the principal Panamanian income tax consequences resulting from the beneficial ownership and disposition of the notes by certain persons. This summary is based on the Panamanian Tax Code of 1956, as amended, other applicable tax laws, decrees and regulations issued thereunder, and judicial and administrative interpretations thereof, all as in effect on the date hereof, and is subject to any changes in these or other laws, decrees, regulations and interpretations occurring after such date, possibly with retroactive effect. This summary is intended as a descriptive summary only and is not a complete analysis or listing of all potential Panamanian income tax consequences to holders of the notes. The summary does not address the tax treatment of potential investors that may be subject to special income tax withholding rules. The summary is not intended as tax advice to any particular investor, nor does it purport to furnish information in the level of detail or with attention to an investor's specific tax circumstances that would be provided by an investor's own tax advisor. Prospective purchasers of the notes are urged to consult their own tax advisors as to the precise Panamanian and other tax consequences of acquiring, owning and disposing of the notes.

Taxation of Interest

Interest payable on the Notes will be exempt from income tax or withholding requirements in Panama, provided that the Notes are registered with the Panama Securities Market Superintendency and, in addition, are placed through a securities exchange or through an organized market in Panama. The Notes have been registered with the Panama Securities Market Superintendency and will be initially placed on the Panama Stock Exchange. Accordingly, interest payments made on the Notes will be exempt from income tax or withholding requirements in Panama. Should the Notes not be initially placed on the Panama Stock Exchange, interest payments will be subject to a five percent (5%) income tax, which would have to be withheld by the Issuer.

Taxation of Dispositions

Under current Panamanian tax law, because the Notes have been registered with the Panama Securities Market Superintendency, any capital gains realized by a holder of the Notes on the sale or other disposition of Notes will be exempt from income tax in Panama, provided that the sale or disposition of the Notes is made through a securities exchange or another organized market. The Notes will be listed on the Panama Stock Exchange. Thus, any gains realized on the sale of the Notes on this exchange will be exempt from income tax in Panama.

If the Notes are not sold through a securities exchange or another organized market, pursuant to Law No. 18 of June 19, 2006, which was further regulated through Executive Decree No. 135 of February 6, 2012, (i) the seller will be subject to income tax in Panama on capital gains realized on the sale of the Notes calculated at a fixed rate of ten percent (10%) on the gain realized, and; (ii) the buyer will be obligated to withhold from the seller an amount equal to five percent (5%) of the aggregate proceeds of the sale, as an advance in respect of the capital gains income tax payable by the seller, and the buyer will be required to send to the fiscal authorities the withheld amount within ten days following the date of withholding; (iii) the seller will have the option of considering the amount withheld by the buyer as definitive payment in full of the seller's obligation to pay income tax on capital gains; and

(iv) in the event the amount withheld by the buyer is greater than the amount of capital gains income tax payable by the seller, that is, exceeding ten percent (10%) of the capital gain actually realized on the sale, the seller may file a sworn declaration before the tax authorities claiming a tax credit or refund in respect of the amounts paid in excess. The capital gains income tax provisions of Law No. 18 of June 19, 2006 and its regulations do not provide an exemption from income tax in Panama with respect to capital gains on sales of Notes outside Panama by holders not resident in Panama and, therefore, such provisions would apply, for example, to sales of Notes by "qualified institutional buyers" in the United States, including sales through the facilities of DTC.

Notwithstanding Law No. 18 of June 19, 2006, based on Tax Opinion No. 201-01-706 of June 27, 2006 issued by the Dirección General de Ingresos, or the Tax Authority, any capital gains realized by a holder of Notes who is not resident in Panama on the sale or other disposition of Notes that is executed and effected outside Panama, and which payment thereof is made outside of Panama, will not be deemed Panamanian source income and the inference from the foregoing would, therefore, be that the income realized from said sale would not be subject to income tax in Panama. Losses recognized on the sale or disposition of Notes will likewise be disallowed as a deduction for income tax purposes in Panama. However, we have been advised by our Panamanian counsel, that the Tax Opinion is not a legally binding interpretation of the 2006 Tax Law.

Stamp and Other Taxes

As the Notes have been registered with the Panama Securities Market Superintendency, the Notes are not subject to stamp taxes.

Foreign Investors

A person domiciled outside of Panama is not required to file a tax return in Panama, solely by reason of his or her investment in the Notes, provided that gains realized on the sale and disposition of the Notes are, in effect, exempt from income tax as indicated above.

United States Taxation

The following discussion is a summary of generally applicable U.S. federal income tax considerations of the purchase, ownership and disposition of the Notes by a U.S. holder (as defined below), but does not purport to be a complete analysis of all potential tax effects. This summary is based upon the U.S. Internal Revenue Code of 1986, as amended, or the Code, Treasury regulations issued thereunder, and judicial and administrative interpretations thereof, each as available and in effect on the date hereof, and all of which are subject to change, possibly with retroactive effect. This discussion does not address all of the U.S. federal income tax consequences that may be relevant to a holder in light of such holder's particular circumstances or to holders subject to special rules, such as banks, financial institutions, certain U.S. expatriates, insurance companies, dealers or traders in securities or currencies, U.S. holders whose functional currency is not the U.S. dollar, tax-exempt organizations, regulated investment companies, real estate investment trusts, partnerships and partners in partnerships that purchase notes, persons subject to alternative minimum tax, or the medicare unearned income tax or surtax, and persons holding the Notes as part of a "straddle," "hedge," "conversion transaction" or other integrated transaction. In addition, this discussion is limited to persons that purchase the Notes for cash in the initial offering and at their "issue price" (the first price at which a substantial part of the Notes are sold to the public) and that hold the Notes as capital assets for U.S. federal income tax purposes. No ruling will be sought from the U.S. Internal Revenue Service (the "IRS") with respect to any statement or conclusion in this discussion, and there can be no assurance that the IRS will not challenge such statement or conclusion in the following discussion or, if challenged, a court will uphold such statement or conclusion.

For purposes of this discussion, you are a "U.S. holder" if you are a beneficial owner of a Note that is for U.S. federal income tax purposes: (i) a citizen or resident alien of the United States; (ii) a corporation, or any entity taxable as a corporation, created or organized in or under the laws of the United States or of any political subdivision thereof; (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source; or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons (as defined in the Code) have the authority to control all substantial decisions of the trust.

If a partnership or any entity or arrangement classified as a partnership for U.S. federal income tax purposes holds the Notes, the U.S. federal income tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership.

You should consult your own tax advisor concerning the tax consequences of investing in the Notes in light of your particular circumstances, including the application of the U.S. federal income tax considerations discussed below, as well as the application of state, local, non-U.S. or other tax laws.

Pre-issuance Accrued Interest

A portion of the price paid for the additional Notes will be allocable to interest that accrued prior to the date the Note is purchased (the "pre-issuance accrued interest"). The issuer intends to take the position that, on the first interest payment date, a portion of the interest received in an amount equal to the pre-issuance accrued interest will be treated as a return of the pre-issuance accrued interest and not as a payment of interest on the additional note. A U.S. Holder's basis in an additional note will not include the portion of purchase price allocable to the pre-issuance accrued interest. Amounts treated as a return of pre-issuance accrued interest should not be taxable when received. U.S. holders should consult their tax advisors with regard to the tax treatment of the pre-issuance accrued interest on an additional Note.

Interest

Subject to the discussion above under the caption "Pre-Issuance Accrued Interest," payments of stated interest (including any additional amounts) on the Notes generally will be taxable to you as foreign source ordinary income at the time that such payments are received or accrued, in accordance with your method of accounting for U.S. federal income tax purposes.

If taxes are withheld from interest payments, you will have income in an amount greater than the amount of cash you receive on the Notes. The limitation on non-U.S. taxes eligible for credit is calculated separately with respect to specific classes of income and the relevant rules are very complicated. Subject to generally applicable conditions and limitations, withholding tax paid at the rate applicable to a U.S. holder would be eligible for credit against your U.S. federal income tax liability or, at your election, eligible for deductions in computing your taxable income, provided that you elect to deduct (rather than credit) all foreign income taxes for the year. You should consult your own tax advisors concerning the availability and utilization of this tax credit or deduction.

Amortizable Bond Premium

If a U.S. holder purchases an additional Note for an amount that is greater than the amount payable at maturity, the U.S. holder will be considered to have purchased the note with amortizable bond premium equal in amount to the excess of the purchase price (excluding an amount equal to the pre-issuance accrued interest) over the amount payable at maturity. The U.S. holder may elect to amortize this premium, using a constant yield method, over the remaining term of the note. A U.S. holder may generally use the amortizable bond premium allocable to an accrual period to offset qualified stated interest required to be included in the U.S. holder's income with respect to the Note in that accrual period. A U.S. holder who elects to amortize bond premium must reduce the U.S. holder's tax basis in the Note by the amount of the premium amortized in any year. An election to amortize bond premium applies to all taxable debt obligations then owned and thereafter acquired by the U.S. holder and may be revoked only with the consent of the IRS. If a U.S. holder does not elect to amortize bond premium, that premium will decrease the gain or increase the loss such U.S. holder would otherwise recognize on the disposition of the additional note.

Sale, Exchange and Redemption of Notes

Generally, upon the sale, exchange or redemption of a Note, you will recognize capital gain or loss equal to the difference between the amount realized on the sale, exchange, or redemption (less any amounts attributable to accrued but unpaid interest, which will be subject to tax as ordinary income to the extent not previously included in your gross income) and your adjusted basis in the Note. Your adjusted tax basis in a Note will generally equal the cost of the Note to you decreased by amortized bond premium on the Note and the amount treated as pre-issuance accrued interest. Such gain or loss generally will be long-term capital gain or loss if at the time of sale, exchange or

redemption the Note you have held the Note for more than one year. Capital gain or loss will generally be treated as United States source gain or loss and, consequently, you may not be able to claim a credit for Panamanian tax, if any, imposed upon a disposition of the Note (see the discussion above under "Taxation—Panamanian Taxation—Taxation of Dispositions" regarding the possible application of Panamanian taxes to the sale or other disposition of the Notes). The amount deductible in respect of capital loss is subject to limitations.

Information Reporting and Backup Withholding

Information returns may be filed with the IRS in connection with payments on, and the proceeds from the sale, exchange or other disposition of, the Notes unless you establish you are eligible for an exemption from such reporting. If information reports are required to be made, you may be subject to U.S. backup withholding if you fail to provide your taxpayer identification number and otherwise comply with the backup withholding rules. The amount of any backup withholding imposed on a payment will be allowed as a credit against your U.S. federal income tax liability and may entitle you to a refund, provided the required information is timely furnished to the IRS.

You should consult your own tax advisor regarding any reporting obligations as a result of your acquisition, ownership or disposition of Notes. Failure to comply with certain reporting obligations could result in imposition of substantial penalties.

CERTAIN ERISA AND RELATED CONSIDERATIONS

The U.S. Employee Retirement Income Security Act of 1974, as amended ("ERISA"), imposes certain requirements on "employee benefit plans" (as defined in Section 3(3) of ERISA) subject to Title I of ERISA, including entities such as collective investment funds and separate accounts whose underlying assets include the assets of such plans (collectively, "ERISA Plans") and on those persons who are fiduciaries with respect to ERISA Plans. Investments by ERISA Plans are subject to ERISA's general fiduciary requirements, including the requirement of investment prudence and diversification and the requirement that an ERISA Plan's investments be made in accordance with the documents governing the ERISA Plan.

Section 406 of ERISA and Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the "Code") prohibit certain transactions involving the assets of an ERISA Plan (as well as those plans that are not subject to ERISA but which are subject to Section 4975 of the Code, such as individual retirement accounts (together with ERISA Plans, "Plans")) and certain persons (referred to as "parties in interest" or "disqualified persons") having certain relationships to such Plans, unless a statutory or administrative exemption is applicable to the transaction. A party in interest or disqualified person who engages in a prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the Code and the prohibited transaction itself may have to be rescinded. Accordingly, each original or subsequent purchaser or transferee of a Note that is or may become a Plan is responsible for determining that its purchase and holding of such Note will not constitute a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code.

Prohibited transactions within the meaning of Section 406 of ERISA or Section 4975 of the Code may arise if any Notes (or interests therein) are acquired by a Plan with respect to which the Issuer or the Initial Purchaser or any of their respective affiliates are a party in interest or a disqualified person. Certain exemptions from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code may be applicable, however, depending in part on the type of Plan fiduciary making the decision to acquire Notes and the circumstances under which such decision is made. There can be no assurance that any exemption will be available with respect to any particular transaction involving the Notes, or that, if an exemption is available, it will cover all aspects of any particular transaction. Governmental plans and certain church and various other plans, while not subject to the fiduciary responsibility provisions of ERISA or the prohibited transaction provisions of Section 406 of ERISA or Section 4975 of the Code, may nevertheless be subject to Similar Law (as defined below). Fiduciaries of any such plans should consult with their counsel and other advisers before purchasing any Notes (or interest therein).

Accordingly, by its purchase and holding of any Notes (including any interest in a Note), the purchaser (including a transferee) thereof will be deemed to have represented and agreed that either: (i) it is not and for so long as it holds Notes (including any interest in a Note) will not be (and is not acquiring the Notes (or such interest) directly or indirectly with the assets of a person who is or while the Notes are held will be) a Plan, an entity whose underlying assets include, or are deemed for purposes of ERISA or the Code to include, "plans assets" by reason of investment by a Plan in the entity, or a governmental, church, non-U.S., or other employee benefit plan which is subject to any U.S. federal, state or local law, or non-U.S. law, that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code ("Similar Law"), or (ii) its purchase, holding or disposition of the Notes (or any interest in a Note) will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of such a governmental, church, non-U.S. or other employee benefit plan, a violation of any Similar Law).

The foregoing discussion of ERISA should not be construed as legal advice. Trustees and other fiduciaries of employee benefit plans (as well as other investors) subject to ERISA should consult with their own counsel with respect to issues arising under ERISA and make their own independent investment decisions. This offering memorandum is not directed to any particular investor, nor does it address the needs of any particular Investor. None of the Issuer, the Trustee, the Initial Purchaser nor any of their affiliates shall provide any advice or recommendation with respect to the management of any interests in the Notes or the advisability of acquiring, holding, disposing or exchanging of any such interest.

PLAN OF DISTRIBUTION

Subject to the terms and conditions set forth in a purchase agreement among AES Panamá and the Initial Purchaser, AES Panamá has agreed to sell to the Initial Purchaser, and the Initial Purchaser has agreed to purchase from AES Panamá, U.S.\$75,000,000 aggregate principal amount of Notes.

Subject to the terms and conditions set forth in the purchase agreement, the Initial Purchaser has agreed to purchase all of the Notes sold under the purchase agreement if any of these Notes are purchased.

AES Panamá has agreed to indemnify the Initial Purchaser against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the Initial Purchaser may be required to make in respect of those liabilities.

The Initial Purchaser is offering the Notes, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by its counsel, including the validity of the Notes, and other conditions contained in the purchase agreement, such as the receipt by the Initial Purchaser of officer's certificates and legal opinions. The Initial Purchaser reserves the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part. The Initial Purchaser may offer and sell the Notes through any of its affiliates.

We estimate that our portion of the total expenses of this offering, including the Initial Purchaser's discount, will be U.S.\$2,214,775.

The Notes offered hereby will be listed on and offered by AES Panamá through the Panama Stock Exchange. AES Panamá has appointed BG Investment Co., Inc. and BG Valores, S.A., both as the Broker-Dealer Houses of the offering and the Initial Purchaser has appointed BG Investment Co., Inc. and BG Valores, S.A. as Broker-Dealer Houses of the Initial Purchaser for the purchase of the Notes through the Panama Stock Exchange (Bolsa de Valores de Panamá, S.A.). AES Panamá has appointed BG Investment Co., Inc. and BG Valores, S.A., both as the Broker-Dealer Houses of the offering and the Initial Purchaser has appointed BG Investment Co., Inc. and BG Valores, S.A. as Broker-Dealer Houses of the Initial Purchaser for the purchase of the Notes through the Panama Stock Exchange (*Bolsa de Valores de Panamá, S.A.*). BG Investment Co., Inc. has a Trading Post at the Panama Stock Exchange and is a broker-dealer authorized to act as such by the SMV, pursuant to Resolutions CNV-322-00 of November 24, 2000 and CNV-376-00 of December 22, 2000 respectively.

Between 9:30 a.m. and 10:00 a.m. Panama time on the date the Issuer offers the Notes through the Panama Stock Exchange, each person registered as a member of the Panama Stock Exchange, or a Local Broker, will be permitted to submit bids for the Notes. At 10:00 a.m. Panama time, the Initial Purchaser will submit its bid for the Notes through BG Investment Co., Inc. or BG Valores, S.A., as Local Brokers. AES Panamá anticipates that the aggregate principal amount of the bids for the Notes that it accepts from the Initial Purchaser through the Local Brokers will equal the aggregate principal amount of the Notes set forth on the cover page of this offering memorandum. Bids accepted from Local Brokers may be at prices equal to or higher than the price at which the Notes will be offered to investors initially, which is set forth on the front cover page of this offering memorandum.

The offices of BG Investment Co., Inc. are located at calle Aquilino de la Guardia y Ave. 5ta B Sur, Panama City, Republic of Panama and their telephone number is + 507 303-5001 and their fax number is + 507 265-0291.

BG Investment Co., Inc. has entered into a broker-dealer house agreement with the Issuer to carry out the purchase and sale of the Notes through the Panama Stock Exchange. Among the services to be rendered in its role as placing agents of the Notes, BG Investment Co., Inc.:

- (i) carry out the offers of the Notes through the Panama Stock Exchange pursuant to the rules of the Panama Stock Exchange; and
- (ii) deliver to the Panama Stock Exchange and at the disposal of the broker-dealer houses, brokers, investments advisors and the public in general, this offering memorandum of the Notes and any amendments to it.

Limitations and Reserves

Except as described below, there are no limitations in the Republic of Panama as to the persons that may purchase the Notes, nor as to the number or percentage of Notes that a person may acquire or hold. There are no preferential rights that may affect the liquidity of the Notes.

No amount of the offering has been reserved or assigned for sale to any specific group of investors, including current equity holders, affiliate entities or subsidiaries, administrators, officers, executives, employees or former employees of the Issuer, nor does any person or institutional investor have a preferential subscription right over the Notes.

The proceeds of this offering shall be used as described under the caption "Use of Proceeds" in this offering memorandum.

Commissions and Discounts

The Initial Purchaser proposes initially to offer the Notes at the offering price set forth on the cover page of this offering circular. After the initial offering, the offering price or any other term of the offering may be changed.

Notes Are Not Being Registered under the Securities Act

The Notes have not been registered under the Securities Act or the state securities laws of any state or other jurisdiction in the United States. The Initial Purchaser proposes to offer the Notes for resale in transactions not requiring registration under the Securities Act or applicable state securities laws, including sales pursuant to Rule 144A and Regulation S. The Initial Purchaser will not offer or sell the Notes except to persons they reasonably believe to be qualified institutional buyers or pursuant to offers and sales to non-U.S. persons that occur outside of the United States within the meaning of Regulation S.

The Initial Purchaser has offered and sold, and will offer and sell, the Notes (a) as part of its distribution at any time and (b) otherwise until 40 days after the later of the commencement of the offering and the date that the Notes are issued, or the distribution compliance period, only in accordance with Rule 903 of Regulation S or Rule 144A. Accordingly, neither the Initial Purchaser nor its affiliates, nor any persons acting on its or their behalf, have engaged or will engage in any directed selling efforts (as defined in Regulation S) with respect to the Notes, and the Initial Purchaser, its affiliates and all persons acting on its or their behalf have complied and will comply with the offering restrictions requirement of Regulation S. At or prior to confirmation of sale of the Notes (other than a sale pursuant to Rule 144A), the Initial Purchaser will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases the Notes from it during the distribution compliance period a confirmation or notice to substantially the foregoing effect.

In addition, until 40 days following the commencement of this offering, an offer or sale of Notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act unless the dealer makes the offer or sale in compliance with Rule 144A or another exemption from registration under the Securities Act. Each purchaser of the Notes will be deemed to have made acknowledgments, representations and agreements as described under "Notice to Investors."

The Notes offered hereby are expected to be listed on the Panama Stock Exchange and the Official List of the Luxembourg Stock Exchange and to be admitted to trading on the Euro MTF. AES Panamá has been advised by the Initial Purchaser that it presently intends to make a market in the Notes. However, the Initial Purchaser is under no obligation to do so and may discontinue any market-making activities at any time without any notice. If an active trading market for the Notes does not develop, the market price and liquidity of the Notes may be adversely affected. If the Notes are traded, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, AES Panamá's operating performance and financial condition, general economic conditions and other factors.

Settlement

AES Panamá expects that delivery of the Notes will be made to investors on , 2016, which will be the fifth business day following the date of this offering circular (such settlement being referred to as "T+ 5"). Under Rule 15c6-1 under the United States Securities Exchange Act of 1934, trades in the secondary market are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes prior to the third business day prior to delivery of the Notes hereunder will be required, by virtue of the fact that the Notes initially settle in T+ 5, to specify an alternate settlement arrangement at the time of any such trade to prevent a failed settlement. Purchasers of the Notes who wish to trade the Notes prior to the third business day prior to their date of delivery hereunder should consult their advisors.

No Sales of Similar Securities

AES Panamá has agreed that it will not, for a period of 180 days after the date of this offering memorandum, without first obtaining the prior written consent of the Initial Purchaser offer, sell, contract to sell or otherwise dispose of any securities of AES Panamá (or guaranteed by AES Panamá) that are substantially similar to the Notes, except for the Notes sold to the Initial Purchaser pursuant to the purchase agreement.

Short Positions

In connection with the offering, the Initial Purchaser may purchase and sell the Notes in the open market. These transactions may include short sales and purchases on the open market to cover positions created by short sales. Short sales involve the sale by the Initial Purchaser of a greater principal amount of Notes than they are required to purchase in the offering. The Initial Purchaser must close out any short position by purchasing Notes in the open market. A short position is more likely to be created if the Initial Purchaser is concerned that there may be downward pressure on the price of the Notes in the open market after pricing that could adversely affect investors who purchase in the offering.

Similar to other purchase transactions, the Initial Purchaser's purchases to cover the syndicate short sales may have the effect of raising or maintaining the market price of the Notes or preventing or retarding a decline in the market price of the Notes. As a result, the price of the Notes may be higher than the price that might otherwise exist in the open market.

Neither the Issuer nor the Initial Purchaser makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Notes. In addition, neither AES Panamá nor the Initial Purchaser makes any representation that the Initial Purchaser will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

Other Relationships

The Initial Purchaser is a full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Initial Purchaser and its affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with AES Panamá or its affiliates. The Initial Purchaser has received, or may in the future receive, customary fees and commissions for these and similar transactions.

In addition, in the ordinary course of their business activities, the Initial Purchaser and its affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of AES Panamá or its affiliates. If the Initial Purchaser or any of its affiliates has a lending relationship with Issuer, they may hedge their credit exposure to AES Panamá consistent with their customary risk management policies. Typically, the Initial Purchaser and its affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities of AES Panamá, including potentially the Notes. Any such credit default swaps or short positions could adversely affect future trading prices of the Notes. The Initial Purchaser and its affiliates may also make investment recommendations and/or publish or express

independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Selling Restrictions

Notice to Prospective Investors in the European Economic Area

In relation to each Member State of the European Economic Area (each, a "Relevant Member State"), no offer of the Notes may be made to the public in that Relevant Member State other than:

- to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the Initial Purchaser; or
- in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of the Notes shall require AES Panamá or the Initial Purchaser to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

Each person in a Relevant Member State who initially acquires any Notes or to whom any offer is made will be deemed to have represented, acknowledged and agreed that it is a "qualified investor" within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive. In the case of any Notes being offered to a financial intermediary as that term is used in Article 3(2) of the Prospectus Directive, each such financial intermediary will be deemed to have represented, acknowledged and agreed that the Notes acquired by it in the offer have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to, persons in circumstances which may give rise to an offer of any Notes to the public other than their offer or resale in a Relevant Member State to qualified investors as so defined or in circumstances in which the prior consent of the Initial Purchaser has been obtained to each such proposed offer or resale.

AES Panamá, the Initial Purchaser and its affiliates will rely upon the truth and accuracy of the foregoing representations, acknowledgements and agreements.

This offering memorandum has been prepared on the basis that any offer of Notes in any Relevant Member State will be made pursuant to an exemption under the Prospectus Directive from the requirement to publish a prospectus for offers of Notes. Accordingly any person making or intending to make an offer in that Relevant Member State of Notes which are the subject of the offering contemplated in this offering memorandum may only do so in circumstances in which no obligation arises for AES Panamá or any of the underwriters to publish a prospectus pursuant to Article 3 of the Prospectus Directive in relation to such offer. Neither AES Panamá nor the Initial Purchaser has authorized, nor do they authorize, the making of any offer of Notes in circumstances in which an obligation arises for AES Panamá or the Initial Purchaser to publish a prospectus for such offer.

For the purpose of the above provisions, the expression "an offer to the public" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in the Relevant Member State by any measure implementing the Prospectus Directive in the Relevant Member State and the expression "Prospectus Directive" means Directive 2003/71/EC (including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member States) and includes any relevant implementing measure in the Relevant Member State and the expression "2010 PD Amending Directive" means Directive 2010/73/EU.

Notice to Prospective Investors in the United Kingdom

In addition, in the United Kingdom, this offering memorandum is being distributed only to, and is directed only at, and any offer subsequently made may only be directed at persons who are "qualified investors" (as defined

in the Prospectus Directive) (i) who have professional experience in matters relating to investments falling within Article 19 (5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended, or the Order, and/or (ii) who are high net worth companies (or persons to whom it may otherwise be lawfully communicated) falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"). This offering memorandum must not be acted on or relied on in the United Kingdom by persons who are not relevant persons. In the United Kingdom, any investment or investment activity to which this offering memorandum relates is only available to, and will be engaged in with, relevant persons.

Notice to Prospective Investors in Switzerland

AES Panamá has not and will not register with the Swiss Financial Market Supervisory Authority, or FINMA, as a foreign collective investment scheme pursuant to Article 119 of the Federal Act on Collective Investment Scheme of 23 June 2006, as amended, or CISA, and accordingly the Notes being offered pursuant to this offering memorandum have not and will not be approved, and may not be licensable, with FINMA. Therefore, the Notes have not been authorized for distribution by FINMA as a foreign collective investment scheme pursuant to Article 119 CISA and the Notes offered hereby may not be offered to the public (as this term is defined in Article 3 CISA) in or from Switzerland. The Notes may solely be offered to "qualified investors," as this term is defined in Article 10 CISA, and in the circumstances set out in Article 3 of the Ordinance on Collective Investment Scheme of 22 November 2006, as amended, or CISO, such that there is no public offer. Investors, however, do not benefit from protection under CISA or CISO or supervision by FINMA. This offering memorandum and any other materials relating to the Notes are strictly personal and confidential to each offeree and do not constitute an offer to any other person. This offering memorandum may only be used by those qualified investors to whom it has been handed out in connection with the offer described herein and may neither directly or indirectly be distributed or made available to any person or entity other than its recipients. It may not be used in connection with any other offer and shall in particular not be copied and/or distributed to the public in Switzerland or from Switzerland. This offering memorandum does not constitute an issue prospectus as that term is understood pursuant to Article 652a and/or 1156 of the Swiss Federal Code of Obligations. We have not applied for a listing of the Notes on the SIX Swiss Exchange or any other regulated Notes market in Switzerland, and consequently, the information presented in this offering memorandum does not necessarily comply with the information standards set out in the listing rules of the SIX Swiss Exchange and corresponding prospectus schemes annexed to the listing rules of the SIX Swiss Exchange.

Notice to Prospective Investors in Chile

The offer of the Notes is subject to General Rule No. 336 of the Chilean Securities Commission (Superintendencia de Valores y Seguros de Chile, SVS). The Notes being offered are not registered in the Securities Registry (Registro de Valores) or the Foreign Securities Registry (Registro de Valores Extranjeros) of the SVS and therefore, the Notes are not subject to the supervision of the SVS. The Notes may not be offered or sold in Chile, directly or indirectly, by means of a "Public Offer" (as defined under Law 18.045 and regulations from the SVS). Chilean institutional investors (such as banks, pension funds and insurance companies) are required to comply with specific restrictions relating to the purchase of the Notes.

NOTICE TO INVESTORS

The Notes have not been registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of U.S. persons (as defined in Regulation S under the Securities Act) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, Notes are being offered hereby only (a) to "qualified institutional buyers" as defined in Rule 144A under the Securities Act, or QIBs, in compliance with Rule 144A under the Securities Act and (b) in offers and sales to persons other than U.S. persons in offshore transactions meeting the requirements of Rule 903 of Regulation S. As used herein, the terms "offshore transactions," "United States" and "U.S. person" have the respective meanings given to them in Regulation S.

Each purchaser of Notes offered otherwise than in reliance on Regulation S, or the Restricted Notes, will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Rule 144A or Regulation S under the Securities Act are used herein as defined therein):

- (1) The purchaser (A) (i) is a qualified institutional buyer, (ii) is aware that the sale to it is being made in reliance on Rule 144A and (iii) is acquiring such Notes for its own account or for the account of a qualified institutional buyer or (B) is not a U.S. person (and is not acquiring such Notes for the account or benefit of a U.S. person) and is purchasing such Notes in an offshore transaction pursuant to Regulation S.
- (2) The purchaser understands that the Notes are being offered in a transaction not involving any public offering in the United States within the meaning of the Securities Act, that such Notes have not been and will not be registered under the Securities Act and that (A) if in the future it decides to offer, resell, pledge or otherwise transfer any of the Notes, such Notes may be offered, resold, pledged or otherwise transferred only (i) to the Issuer, (ii) in the United States to a person whom the seller reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A, (iii) outside the United States to non-U.S. persons in offshore transactions complying with the provisions of Rule 904 of Regulation S under the Securities Act, (iv) pursuant to another available exemption from registration or in a transaction not requiring registration under the Securities Act, including the exemption provided by Rule 144 thereunder (if available), or (v) pursuant to an effective registration statement under the Securities Act, in each of cases (i) through (v) in accordance with any applicable securities laws of any State of the United States, and that (B) the purchaser will, and each subsequent holder is required to, notify any subsequent purchaser of the Notes from it of the resale restrictions referred to in (A) above.
- (3) The purchaser of Rule 144A Notes understands that the Rule 144A Notes will, until the expiration of the applicable holding period with respect to Notes set forth in Rule 144 of the Securities Act, unless otherwise agreed by the Issuer and the holder thereof, bear a legend substantially to the following effect, or the Rule 144A Note Legend:

THIS NOTE (OR ITS PREDECESSOR) WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE UNITED STATES SECURITIES ACT OF 1933 (THE "SECURITIES ACT"). THE NOTES EVIDENCED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT, OR ANY STATE SECURITIES LAWS. NEITHER THIS NOTE NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS THE TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. EACH PURCHASER OF THIS NOTE IS HEREBY NOTIFIED THAT THE SELLER OF THIS NOTE MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A THEREUNDER.

THE HOLDER OF THIS NOTE BY ITS ACCEPTANCE HEREOF (1) REPRESENTS THAT (A) IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) OR (B) IT IS

NOT A U.S. PERSON AND IS ACQUIRING THIS NOTE IN AN "OFFSHORE TRANSACTION" PURSUANT TO RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT ("REGULATION S") AND, WITH RESPECT TO (A) AND (B), EXERCISES SOLE INVESTMENT DISCRETION WITH RESPECT TO SUCH ACCOUNT, (2) AGREES THAT IT WILL NOT OFFER, SELL, PLEDGE OR OTHERWISE TRANSFER THIS NOTE EXCEPT (A)(i) IN THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT ACQUIRING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION COMPLYING WITH RULE 144A, (ii) IN AN OFFSHORE TRANSACTION COMPLYING WITH THE REQUIREMENTS OF RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (iii) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT, INCLUDING THE EXEMPTION PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), (iv) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR (v) TO THE ISSUER OR ANY SUBSIDIARY THEREOF, AND (B) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND OTHER JURISDICTIONS, AND (3) AGREES THAT IT WILL GIVE TO EACH PERSON TO WHOM THIS NOTE IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. AS USED HEREIN, THE TERMS "OFFSHORE TRANSACTION," "UNITED STATES" AND "U.S. PERSON" HAVE THE RESPECTIVE MEANINGS GIVEN TO THEM BY REGULATION S UNDER THE SECURITIES ACT.

BY ITS ACQUISITION HEREOF, THE PURCHASER REPRESENTS THAT EITHER (A) IT IS NOT AND FOR SO LONG AS IT HOLDS THE NOTE REPRESENTED HEREBY (OR ANY INTEREST HEREIN) WILL NOT BE (I) AN "EMPLOYEE BENEFIT PLAN" AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA") THAT IS SUBJECT TO TITLE I OF ERISA, (II) A "PLAN" AS DEFINED IN AND SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"), (III) AN ENTITY WHOSE UNDERLYING ASSETS INCLUDE THE ASSETS OF ANY SUCH EMPLOYEE BENEFIT PLAN SUBJECT TO ERISA OR OTHER PLAN SUBJECT TO SECTION 4975 OF THE CODE (WITHIN THE MEANING OF 29 C.F.R. SECTION 2510.3-103 AS MODIFIED BY SECTION 3(42) OF ERISA OR OTHERWISE), OR (IV) A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN WHICH IS SUBJECT TO ANY STATE, LOCAL, OTHER FEDERAL LAW OF THE UNITED STATES OR NON-U.S. LAW THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE ("SIMILAR LAW"), OR (B) ITS ACQUISITION, HOLDING AND DISPOSITION OF THE NOTE REPRESENTED HEREBY WILL NOT RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE, OR, IN THE CASE OF SUCH A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN, ANY SUCH SIMILAR STATE, FOR WHICH AN EXEMPTION IS NOT AVAILABLE.

- (4) It is purchasing the Notes for its own account or an account with respect to which it exercises sole investment discretion and that it and any such account is (a) a QIB, and is aware that the sale to it is being made in reliance on Rule 144A under the Securities Act or (b) a non-U.S. purchaser that is outside the United States (or a non-U.S. purchaser that is a dealer or other fiduciary as referred to above);

- (5) Either: (A) the purchaser is not a Plan (which term includes (i) employee benefit plans that are subject to the Employee Retirement Income Security Act of 1974, as amended, or ERISA, (ii) plans, individual retirement accounts and other arrangements that are subject to Section 4975 of the Internal Revenue Code of 1986, as amended, or the Code, or to provisions under applicable Federal, state, local, non-U.S. or other laws or regulations that are similar to such provisions of ERISA or the Code, or Similar Laws, and (iii) entities the underlying assets of which are considered to include "plan assets" of such plans, accounts and arrangements) and it is not purchasing Notes on behalf of, or with the "plan assets" of, any Plan; or (B) the purchaser's purchase, holding and subsequent disposition of Notes either (i) are not a prohibited transaction under ERISA or the Code and are otherwise permissible under all applicable Similar Laws or (ii) are entitled to exemptive relief from the prohibited transaction provisions of ERISA and the Code in accordance with one or more available statutory, class or individual prohibited transaction exemptions and are otherwise permissible under all applicable Similar Laws;
- (6) Each purchaser acquiring a beneficial interest in a Regulation S Global Note offered pursuant to this offering memorandum acknowledges and agrees that, until the expiration of the forty (40) day "distribution compliance period" within the meaning of Regulation S, any offer, sale, pledge or other transfer shall not be made by it in the United States or to, or for the account or benefit of, a U.S. person, except pursuant to Rule 144A to a QIB taking delivery thereof in the form of a beneficial interest in a Rule 144A Global Note and in accordance with all state securities laws, and that each Regulation S Global Note will contain a legend to substantially the following effect, or the Regulation S Legend:

THIS NOTE (OR ITS PREDECESSOR) WAS ORIGINALLY ISSUED IN A TRANSACTION ORIGINALLY EXEMPT FROM REGISTRATION UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES ACT. PRIOR TO EXPIRATION OF THE FORTY (40) DAY DISTRIBUTION COMPLIANCE PERIOD (AS DEFINED IN REGULATION S, OR REGULATION S, UNDER THE SECURITIES ACT), THIS NOTE MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES (AS DEFINED IN REGULATION S) OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY U.S. PERSON (AS DEFINED IN REGULATION S) EXCEPT TO A PERSON REASONABLY BELIEVED TO BE A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A ("RULE 144A") UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A AND THE INDENTURE REFERRED TO HEREIN.

Rule 144A Notes may be exchanged for Notes not bearing the Rule 144A Legend but bearing the Regulation S Legend upon certification by the transferor in the form set forth in the Indenture that the transfer of any such Rule 144A Note has been made in accordance with Rule 904 under the Securities Act. We understand that under current market practices settlement of the transfer of any such Note may be effected through the facilities of DTC, but that prior to the fortieth (40th) day after the latest of the commencement of this offering and the last original issue date of the Notes, any such transfer may only occur through the facilities of Euroclear and/or Clearstream, Luxembourg. See "Book-Entry; Delivery and Form."

(7) The purchaser understands that any Notes that would otherwise be unrestricted for purposes of the Securities Act because they were previously sold in an offshore transaction in reliance on Regulation S may lose their unrestricted status if purchased and resold by any affiliate of the Issuer in any market-making transaction. Accordingly, holders of any Note will only be able to resell Notes in reliance on Rule 144A or Regulation S or to the Issuer, any of its affiliates or any of the agents.

- (8) The purchaser will not transfer the Notes to any person or entity, unless such person or entity could itself truthfully make the representations and covenants set forth in this "Notice to Investors";
- (9) Each purchaser of Notes acknowledges that the restrictions set forth in this "Notice to Investors" apply to holders of beneficial interests in the Notes, as well as holders of the Notes;

- (10) Each purchaser of Notes acknowledges that the Trustee will not be required to accept for registration of transfer any Notes acquired by it, except upon presentation of evidence satisfactory to the Issuer and the Trustee that the restrictions set forth herein have been complied with; and
- (11) Each purchaser acknowledges that the Issuer, the Trustee, the Initial Purchaser and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements and agrees that if any of the acknowledgments, representations or agreements deemed to have been made by its purchase of Notes are no longer accurate, it shall promptly notify the Issuer, the Trustee and the Initial Purchaser. If it is acquiring Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account, that each such account meets the requirements of (1) above and it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each such account.

GENERAL INFORMATION

The issuance of the Notes was authorized by our board of administrators on July 13, 2016.

Copies of our latest audited annual financial statements and unaudited interim financial statements, if any, may be obtained during normal business hours at the offices of the Trustee and any paying agent, including the Luxembourg Paying Agent. Copies of our articles of association (*pacto social*) and by-laws (*estatutos sociales*), as well as the Indenture (including forms of the Notes) and the Pledge Security Agreement, will be available during normal business hours free of charge at the offices of the Trustee and any paying agent, including the Luxembourg Paying Agent.

Responsibility for this Offering Memorandum

The Issuer accepts responsibility for the information contained herein. To the best of our knowledge and belief (having taken all reasonable care to ensure that such is the case), the information contained herein is in accordance with the facts and does not omit anything likely to affect the importance of such information.

Except as disclosed in this offering memorandum, there has been no material adverse change in our financial position since June 30, 2016, the date of our unaudited interim financial statements included in this offering memorandum.

Except as disclosed in this offering memorandum, we are not involved in any litigation or arbitration proceedings relating to claims or amounts that are material in the context of this offering, nor so far as we are aware is any such litigation or arbitration pending or threatened.

Governing Law

The Notes, the Indenture, the Pledge and Security Agreement and the purchase agreement relating to the Notes are each governed by the laws of the State of New York.

Clearance and Settlement

The Notes have been accepted for clearance and settlement through the facilities of DTC, Euroclear, Clearstream and, as a participant of Clearstream, Latinclear. Certain trading information with respect to the Notes is set forth below:

	CUSIP	ISIN	Common Code
Rule 144A Notes	00107T AA6	US00107TAA60	125240038
Regulation S Notes (Temporary) ⁽¹⁾	P0608CAB8	USP0608CAB83	150109787
Regulation S Notes (Permanent)	P0608C AA0	USP0608CAA01	125240119

(1) Through the 40th day following the delivery of the Notes offered hereby, which will occur on Sunday, November 13, 2016, the Regulation S Global Notes offered hereby will have the temporary CUSIP number, ISIN and common code. Thereafter, for the Regulation S Global Notes the CUSIP number, ISIN and common code will be identical to the Outstanding Notes.

Notice in Luxembourg

So long as the Notes are admitted to listing on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF, copies of all notices to holders of the Notes will be published in a leading daily newspaper of general circulation in Luxembourg, which is expected to be the *Luxemburger Wort*, and on the website of the Luxembourg Stock Exchange at <http://www.bourse.lu>.

For further information regarding clearance and settlement of the Notes, see "Book-Entry; Delivery and Form."

VALIDITY OF THE NOTES

Certain legal matters in connection with this offering and the Notes will be passed upon for the Issuer by Clifford Chance U.S. LLP as to certain matters of New York and United States federal law and by Alemán, Cordero, Galindo & Lee as to certain matters of Panamanian law. Certain legal matters in connection with this offering and the Notes will be passed upon for the Initial Purchaser by Mayer Brown LLP, U.S. legal counsel to the Initial Purchaser, as to certain matters of New York and United States federal law and by Morgan & Morgan, special Panamanian legal counsel to the Initial Purchaser, as to certain matters of Panamanian law.

INDEPENDENT AUDITORS

The financial statements of AES Panamá, S.R.L. as of and for the years ended December 31, 2015, 2014 and 2013 and as of December 31, 2015 and 2014, included in this offering memorandum, have been audited by Ernst & Young Limited Corp. (Panama), a member firm of Ernst & Young Global Limited, independent auditors, as stated in their reports appearing herein.

INDEX TO FINANCIAL STATEMENTS

As of June 30, 2016 and December 31, 2015 and for the six months ended June 30, 2016 and 2015:

Unaudited Balance Sheets as of June 30, 2016 and December 31, 2015.....	F-1-3
Unaudited Statement of Comprehensive Income for the six months ended June 30, 2016 and 2015	F-1-5
Unaudited Statements of Changes in Stockholders' Equity for the six months ended June 30, 2016 and 2015.....	F-1-6
Unaudited Statements of Cash Flows for the six months ended June 30, 2016 and 2015	F-1-7
Notes to Unaudited Financial Statements	F-1-9

As of December 31, 2015 and 2014 and for the Years Ended December 31, 2015, and 2014:

Report of Independent Auditors	F-2-3
Audited Balance Sheets as of December, 2015 and 2014.....	F-2-4
Audited Statement of Comprehensive Income for the Years Ended December 31, 2015 and 2014.....	F-2-6
Audited Statements of Changes in Stockholders' Equity for the Years ended December 31, 2015 and 2014.....	F-2-7
Audited Statements of Cash Flows for the Years Ended December 31, 2015 and 2014	F-2-8
Notes to Financial Statements	F-2-10

As of December 31, 2014 and 2013 and for the Years Ended December 31, 2014 and 2013:

Report of Independent Auditors	F-3-3
Audited Balance Sheets as of December, 2014 and 2013.....	F-3-4
Audited Statement of Comprehensive Income for the Years Ended December 31, 2014 and 2013.....	F-3-6
Audited Statements of Changes in Stockholders' Equity for the Years ended December 31, 2014 and 2013.....	F-3-7
Audited Statements of Cash Flows for the Years Ended December 31, 2014 and 2013	F-3-8
Notes to Financial Statements	F-3-10

Unaudited Interim Financial Statements

AES Panamá, S.R.L.

For the six months periods ended June 30, 2016 and 2015

CONTENTS

Unaudited Interim Balance Sheets.....	1
Unaudited Interim Statements of Comprehensive Income	3
Unaudited Interim Statements of Changes in Stockholders' Equity	4
Unaudited Interim Statements of Cash Flows.....	5 - 6
Notes to Unaudited Interim Financial Statements.....	7 - 40

AES Panamá, S.R.L.
Unaudited Interim Balance Sheets
As of June 30, 2016 and December 31, 2015
(Amounts stated in thousands of US dollars)

<i>Notes</i>		2016 (Unaudited)	2015 (Audited)
	ASSETS		
	Current assets		
	Cash and cash equivalents	\$ 37,443	\$ 33,089
	Accounts receivable:		
	Trade	3,436	4,859
4	Related parties	60,273	57,790
4	Affiliates	5,269	6,818
	Other	59	79
	Inventories, net	6,068	6,297
6	Prepaid expenses	4,033	806
	Total current assets	116,581	109,738
	Long term assets		
	Property, plant and equipment, net	423,160	432,212
5	Total property, plant and equipment, net	423,160	432,212
	Non current assets		
7 & 12	Restricted cash	2,636	2,635
4 & 6	Prepaid expenses	10,140	10,489
8	Intangible assets, net	16,000	18,000
	Advances to suppliers	1,254	1,020
9	Investment in affiliate	47,159	45,166
	Others	1,334	1,123
	Total non current assets	78,523	78,433
	TOTAL ASSETS	\$ 618,264	\$ 620,383

Unaudited Interim Financial Statements

<i>Notes</i>		2016 (Unaudited)	2015 (Audited)
	LIABILITIES AND STOCKHOLDERS' EQUITY		
	Current liabilities		
12	Bonds payable, net	\$ 82,496	\$ 82,296
	Accounts payable:		
	Suppliers	10,818	23,478
4	Related parties	2,981	4,656
4	Affiliates	28,562	34,519
	Interest payable	446	438
	Income tax payable	5,712	7,818
	Accrued expenses and other liabilities	4,621	6,330
	Total current liabilities	135,636	159,535
	Non current liabilities		
	Employee benefits	535	749
	Accounts payable	717	267
12 & 19	Bonds payable, net	295,024	294,688
18	Deferred income tax, net	43,424	42,863
5	Asset retirement obligation	1,293	1,266
4	Deferred income	2,628	—
	Total non current liabilities	343,621	339,833
	STOCKHOLDERS' EQUITY		
	Participating stock	141,139	141,139
	Additional paid-in-capital	14,289	14,252
	Accumulated deficit	(12,495)	(30,127)
	Deemed tax	(1,475)	(1,475)
	Other comprehensive income of affiliate	(2,451)	(2,774)
	Total stockholders' equity	139,007	121,015
	TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 618,264	\$ 620,383

The accompanying notes are an integral part of these unaudited interim financial statements.

AES Panamá, S.R.L.

Unaudited Interim Statements of Comprehensive Income

For the six months ended June 30, 2016 and 2015

(Amounts stated in thousands of US dollars)

<i>Notes</i>	2016	2015
	(Unaudited)	
4 Electricity sales	\$ 153,997	\$ 136,679
Operating costs and expenses		
4 Electricity purchases	60,978	56,588
15 Other costs of electricity sales	12,964	13,075
4 Transmission costs	1,465	1,753
4, 6 & 10 Operating lease expense	9,293	3,692
16 Operating and maintenance expenses	15,777	13,161
5 Depreciation and amortization	16,868	13,485
4 Management fee	3,151	2,887
Total operating costs and expenses	120,496	104,641
Operating income	33,501	32,038
Other (expenses) income		
4 Interest income	37	97
Interest expense	(11,475)	(11,307)
5 Accretion expense	(27)	(26)
4 & 17 Other income (expenses), net	515	(14,581)
9 Equity earnings in investment in affiliate	1,670	1,915
Total of other expenses, net	(9,280)	(23,902)
Income before income tax expense	24,221	8,136
18 Income tax expense	6,589	1,585
Net income	\$ 17,632	\$ 6,551
Other comprehensive income of affiliate	323	—
Total comprehensive income of the period	\$ 17,955	\$ 6,551

The accompanying notes are an integral part of these unaudited interim financial statements.

AES Panamá, S.R.L.
Unaudited Interim Statements of Changes in Stockholders' Equity
For the six months ended June 30, 2016 and 2015

(Amounts stated in thousands of US dollars)

	Participating <u>Stock</u>	Additional Paid-in- <u>Capital</u>	Accumulated <u>Deficit</u>	Deemed <u>Tax</u>	Other Comprehensive Income of <u>Affiliate</u>	Total Stockholders' <u>Equity</u>
Balances as of January 1, 2015	\$ 141,139	\$ 14,191	\$ (48,642)	\$ (1,475)	\$ —	\$ 105,213
Net income	—	—	6,551	—	—	6,551
Share based compensation	—	30	—	—	—	30
Balances as of June 30, 2015	<u>\$ 141,139</u>	<u>\$ 14,221</u>	<u>\$ (42,091)</u>	<u>\$ (1,475)</u>	<u>\$ —</u>	<u>\$ 111,794</u>
Balances as of January 1, 2016	\$ 141,139	\$ 14,252	\$ (30,127)	\$ (1,475)	\$ (2,774)	\$ 121,015
Net income	—	—	17,632	—	—	17,632
Other comprehensive income of affiliate	—	—	—	—	323	323
Share based compensation	—	37	—	—	—	37
Balances as of June 30, 2016	<u>\$ 141,139</u>	<u>\$ 14,289</u>	<u>\$ (12,495)</u>	<u>\$ (1,475)</u>	<u>\$ (2,451)</u>	<u>\$ 139,007</u>

The accompanying notes are an integral part of these unaudited interim financial statements.

AES Panamá, S.R.L.**Unaudited Interim Statements of Cash Flows****For the six months ended June 30, 2016 and 2015***(Amounts stated in thousands of US dollars)*

	2016	2015
	(Unaudited)	
Cash flows from operating activities		
Net income	\$ 17,632	\$ 6,551
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	14,861	13,478
Amortization	2,007	7
Gain on sale of fixed assets	—	(52)
Loss on debt extinguishment	—	14,632
Inventory obsolescence	—	399
Accretion expense	27	26
Deferred income tax	561	787
Amortization of deferred financing cost	494	569
Equity earnings in investment in affiliate	(1,670)	(1,915)
Amortization of bond discount	42	488
Share based compensation	37	30
Cash flows before changes in operating assets and liabilities	<u>33,991</u>	<u>35,000</u>
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	532	(10,295)
Decrease (increase) in inventories	229	(1,462)
Increase in prepaid expenses	(2,878)	(4,110)
Increase in deferred income	2,628	—
Dividends received	—	848
(Decrease) increase in accounts payable	(17,076)	2,919
(Decrease) increase in income tax payable	(2,106)	685
Increase (decrease) in interest payable	8	(115)
(Decrease) increase in accrued expenses and other liabilities	(1,709)	883
(Decrease) increase in employee benefit	(214)	12
Net cash provided by operating activities	<u>13,405</u>	<u>24,365</u>
Cash flows from investing activities		
Increase in advances for the acquisition of property, plant and equipment	(234)	2,090
Acquisition of property, plant and equipment	(180)	(68)
Construction in progress	(8,425)	(22,134)
Restricted cash	(1)	7,206
Other non current assets	(211)	(192)
Net cash used in investing activities	<u>(9,051)</u>	<u>(13,098)</u>
Carried forward...	\$ 4,354	\$ 11,267

AES Panamá, S.R.L.**Unaudited Interim Statements of Cash Flows (continued)****For the six months ended June 30, 2016 and 2015***(Amounts stated in thousands of US dollars)*

	2016	2015
Brought forward...	\$ 4,354	\$ 11,267
Cash flows from financing activities		
Loan payments	—	(102,050)
Proceeds from new loans	—	20,000
Bonds payments	—	(217,296)
Proceeds from new bonds	—	300,000
Payment for financing costs	—	(5,387)
Make-whole premiums payment	—	(12,480)
Net cash used in financing activities	<u>—</u>	<u>(17,213)</u>
Net increase (decrease) in cash and cash equivalents	4,354	(5,946)
Cash and cash equivalents at the beginning of the period	<u>33,089</u>	<u>56,469</u>
Cash and cash equivalents at the end of the period	<u>\$ 37,443</u>	<u>\$ 50,523</u>
Supplementary disclosure		
Interest paid	<u>\$ 11,618</u>	<u>\$ 11,816</u>
Income tax paid	<u>\$ 7,962</u>	<u>\$ —</u>
Acquisition of property, plant and equipment in accounts payable	<u>\$ (2,766)</u>	<u>\$ —</u>

The accompanying notes are an integral part of these unaudited interim financial statements.

AES Panamá, S.R.L.

Notes to Unaudited Interim Financial Statements

June 30, 2016

(Amounts stated in thousands of US dollars)

1. Corporate Information

AES Panamá, S.R.L. (the Company) was incorporated on October 26, 1999 as a result of the merger of Empresa de Generación Eléctrica Chiriquí, S. A. (Chiriquí) and Empresa de Generación Eléctrica Bayano, S. A. (Bayano) and being Empresa de Generación Eléctrica S.A. (Chiriquí) the surviving company. Chiriquí and Bayano were incorporated as companies on January 19, 1998 in connection with the privatization and restructuring of the Panamanian energy industry. At the time of its incorporation, the Company operated a hydroelectric power plant with an installed capacity of 150 megawatts in Bayano, a thermal power plant with a capacity of 42.8 megawatts located in Panama City (which was shut down in 2005 and transferred to Empresa de Generación, S. A. (EGESA) who assumed all the obligations and responsibilities of the plant on October 18, 2006 as established in the transfer agreement), and the hydroelectric power plants of La Estrella and Los Valles with installed capacities of 42 and 48 megawatts, respectively, located in the Province of Chiriquí. The Bayano plant completed the expansion of two existing units increasing its total capacity from 75 to 87 megawatts for both units and also the construction of a third unit of 86 megawatts was finished in February 2004, for a total of 260 megawatts of installed capacity for the Bayano plant. The Company built the Estí hydroelectric plant with an installed capacity of 120 megawatts, which is located in the Province of Chiriquí and initiated its commercial operation on November 20, 2003. Additionally, in March 2006, the Company began a project to increase capacity of generating units at La Estrella and Los Valles power plants to 45 and 51 megawatts, respectively. In 2007, their capacity was increased again to 48 and 54 megawatts, respectively.

The Company began in the last quarter of 2014, the installation of a thermal power plant barge called "Thermal Power Barge Project Estrella del Mar I" with an installed capacity of 72 MW using Bunker C (Fuel Oil No. 6) as its main fuel. Estrella del Mar I is located in Cativá, province of Colón and began operating on March 25, 2015. With the installation of this new thermal power plant the company has a total capacity of 554 megawatts.

On September 25, 2013, the Company converted into equity ownership the accounts receivables with its affiliate AES Changuinola, S.R.L. Through this transaction, the Company became the owner of 20% of AES Changuinola, S.R.L. On November 25, 2013, the transaction was completed upon the transfer and issuance of the corresponding shares.

On October 16, 2014, the Company structure was changed to a limited liability company ("S.R.L." or "Sociedad de Responsabilidad Limitada" in Spanish). The change was approved by the Company's Board of Directors and Stockholders. As a result of this change, the Company canceled its outstanding common stock and issued participating stock to its members representing the same percentage of ownership. In addition, treasury stock was canceled.

On June 25, 2015, "The Partners" approved the transfer of participating stock owned by AES Panamá Energy, S.A. in favor of AES Elsta, B.V., 100% subsidiary of The AES Corporation, as result of a corporate restructuring of the Parent Company. The transfer was duly registered in the Public Registry of Panama and was effective on September 30, 2015.

AES Panamá, S.R.L.

Notes to Unaudited Interim Financial Statements

June 30, 2016

(Amounts stated in thousands of US dollars)

1. Corporate Information (continued)

As of June 30, 2016, AES Elsta, B.V., 100% subsidiary of The AES Corporation (the Corporation), owns 105,353,687 (49.07%) of the Company's participating stock, the Republic of Panama owns 108,347,536 (50.46%) of the Company's participating stock, and employees and former employees own 1,016,205 (0.47%) of the Company's participating stock.

The Company generates and sells electricity in the Panamanian electric market and the Regional Electric Market (MER), where the Panamanian electric market is regulated by the National Authority of Public Services (ASEP by its initials in Spanish) (formerly Regulator of Public Services).

As of June 30, 2016, 93.5% of the energy capacity of the plants in operation of the Company are contracted to date under several energy purchases agreements to purchase-sell electrical power and energy or only electrical power to distribution companies, "large customers" which are defined by Law 6 of February 3, 1991, as those users with peak demand over 100 KW per site, who have the option to purchase energy directly from other agents of the electricity market and the generation company AES Changuinola, S.R.L. These agreements have average terms of one to ten years. Excess energy is sold in the spot market at the prevailing rates (spot prices).

2. Basis for the Preparation of Financial Statements

These financial statements are prepared based on generally accepted accounting principles in the United States of America (US GAAP).

The accounting records are maintained in Balboas, the official currency of the Republic of Panama, which is the country in which the Company operates. The Balboa is on a par and is freely exchangeable with the US Dollar. The Republic of Panama does not issue paper currency; instead it uses the US dollar as the legal currency.

The financial statements and notes are presented in thousands of US dollars (\$), except otherwise indicated.

3. Summary of Significant Accounting Policies

The Company's significant accounting policies are summarized as follows:

Cash and cash equivalents

The Company considers as cash and cash equivalents its cash on hand, deposits in current and savings accounts, and time deposits with initial maturity dates that are less than three (3) months.

AES Panamá, S.R.L.
Notes to Unaudited Interim Financial Statements
June 30, 2016

(Amounts stated in thousands of US dollars)

3. Summary of Significant Accounting Policies (continued)

Restricted cash

Restricted cash includes cash and cash equivalents, which have restricted availability, due to restrictions imposed by financing arrangements, which are used as collateral for the payment of interest on the 2016 bonds described in Notes 7 and 12.

Accounts receivable

Accounts receivable are shown at their nominal value less an allowance for uncollectible accounts, if any. The estimated allowance considers the customer and related parties billing records, the age of the balances due, as well as specific evaluations of individual balances. As of June 30, 2016 and December 31, 2015, there are no allowances for uncollectible accounts.

Inventories

Inventories, which consist primarily of fuel, materials and spare parts, are valued at the lower of cost or market value. The cost is determined using the average cost method. The inventories include an allowance for obsolescence of \$496 as of June 30, 2016 and December 31, 2015, respectively.

Property, plant and equipment

Property, plant and equipment are recorded at their acquisition cost, less accumulated depreciation. Cost includes major expenditures for improvements and replacement, including critical replacement parts for the turbine generator units, which extend useful lives or increases capacity. Maintenance and repair costs are charged to expense accounts as incurred. When assets are sold or retired, the corresponding cost and accumulated depreciation are removed, and the resulting gain or loss is reflected in the statements of comprehensive income.

Depreciation is calculated according to the useful life of the respective assets using the straight-line method.

The depreciation rates used are based on the estimated useful life of the assets and are described below:

	<u>Useful Life</u>
Buildings	30 to 50 years
Generating assets (generation equipment)	15 to 50 years
Generating assets (electricity equipment)	5 to 50 years
Generating assets (transmission equipment)	35 years
Office furniture and equipment	3 to 20 years
Vehicles	3 to 8 years

AES Panamá, S.R.L.

Notes to Unaudited Interim Financial Statements

June 30, 2016

(Amounts stated in thousands of US dollars)

3. Summary of Significant Accounting Policies (continued)

Asset retirement obligation

The Company records the fair value of the liability for a contractual obligation to retire an asset in the period in which the obligation is incurred. When a new liability is recognized, the Company capitalizes the costs of the liability by increasing the carrying amount of the related long-lived asset. The liability is accreted to its present value each period and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the obligation, the Company eliminates the liability and, based on the actual cost to retire, may incur a gain or loss.

Impairment valuation of long-lived assets

The Company assesses impairment of long-lived assets based on projected undiscounted cash flows whenever events or changes indicate that the value of an asset may not be recoverable. The carrying amount is not recoverable when the discounted future cash flows expected to result from the use of the asset are less than the carrying value of assets. The Company recognizes an impairment loss as the difference between the asset's carrying value and fair value determined based on non discounted future cash flows.

Investment in affiliate

Investments in entities over which the Company has the ability to exercise significant influence, but not control, are accounted for using the equity method of accounting and reported in "Investment in affiliate" on the Balance Sheets. The Company periodically assesses if there is an indication that the fair value of an equity method investment is less than its carrying amount. When an indicator exists, any excess of the carrying amount over its estimated fair value is recognized as impairment when the loss in value is deemed other-than-temporary.

The Company discontinues the application of the equity method when an investment is reduced to zero and the Company is not otherwise committed to provide further financial support to the investee. The Company resumes the application of the equity method if the investee subsequently reports net income to the extent that the Company's share of such net income equals the share of net losses not recognized during the period in which the equity method of accounting was suspended.

Operating lease

Operating leases are leases where the lessor retains substantially all the risks and rewards of ownership of the asset. The minimum lease payments, according to the rates established in the respective contracts, are recognized as expense on a straight-line basis over the lease term. The excess of minimum lease payments over lease expense is recognized as a prepaid asset or as a liability, whichever applicable.

AES Panamá, S.R.L.

Notes to Unaudited Interim Financial Statements

June 30, 2016

(Amounts stated in thousands of US dollars)

3. Summary of Significant Accounting Policies (continued)

Major and minor maintenance

Disbursements for major maintenance represent the reconditioning of the plant or other assets. These expenses are capitalized and amortized based on the useful life of each asset. Minor maintenance expenses are charged directly to operating and maintenance expenses in the statements of comprehensive income.

Construction in progress

Construction progress payments, engineering costs, insurance costs, salaries, interest and other costs directly relating to construction in progress are capitalized during the construction period, provided the completion of the project is deemed probable, or expensed at the time the Company determines that development of a particular project is no longer probable. The continued capitalization of such costs is subject to ongoing risks related to successful completion, including those related to government approvals, site identification, financing, construction permitting and contract compliance. Construction in progress balances are transferred to electricity generation facilities when an asset group is ready for its intended use. Government subsidies, liquidated damages recovered for construction delays and income tax credits are recorded as a reduction to property, plant and equipment and reflected in cash flows from investing activities. The construction in progress consists primarily of costs associated with the barge, which was under construction at December 31, 2014.

During the six months periods ended June 30, 2016, the Company capitalized \$3,054 related to projects mainly associated with hydroelectric power plants. During the construction period, interest is capitalized and included as part the cost of construction in process. For the six months periods ended June 30, 2016 and 2015, the Company capitalized interest of \$702 and \$1,111, respectively, which is transferred to fixed assets together with all construction costs upon the project completion.

Share based compensation

Certain Company employees were granted stock options under an option plan created by The Corporation. This plan allows for the issuance of options to purchase common stock of The Corporation at a price equal to 100% of the market price on the date on which the option is granted. Generally, the stock options issued under this plan become exercisable by employees one year after the grant date and vest over three years from the date of the grant (33% per year).

The weighted average fair value of the options granted under The Corporation plans was estimated as of the grant dates using the Black-Scholes option-pricing model.

AES Panamá, S.R.L.

Notes to Unaudited Interim Financial Statements

June 30, 2016

(Amounts stated in thousands of US dollars)

3. Summary of Significant Accounting Policies (continued)

The cost is measured at the date of the grant of the option based on the fair value of the option estimated by the Corporation and is expensed on a straight line basis for the required period of service to earn the right to exercise the option (vesting period) against a capital contribution (additional paid-in capital).

For the six months periods ended June 30, 2016 and 2015, the compensation cost recognized of the options amounted to \$37 and \$30, respectively.

Deferred financing costs

Financing costs on long-term loans obtained for the construction of assets are capitalized and amortized during the financing period using the effective interest rate method over the life of the loan. As of June 30, 2016 and December 31, 2015, the deferred financing costs amounted to \$5,140 and \$5,634, respectively.

Revenue recognition and concentration

Revenues produced by the sale of electricity are recognized based on output delivered to clients according to the monthly reports prepared by the National Dispatch Center of the Republic of Panama, considering rates and kilowatts specified under contract terms; the Company also recognizes revenues from the sale of energy in the spot market. For the six months periods ended June 30, 2016 and 2015, 94% and 90% of contract revenues, respectively, were derived from sales to distribution companies (EDEMET, EDECHI and ENSA), and the "Empresa de Generación Eléctrica S.A. (EGESA), nine large customers, (Cemento Panamá, Contraloría General de la República, Caja de Seguro Social, Sunstar Hotel, Gold Mills, Avipac, Inc, Cemento Interoceanico, United States Embassy and Varela Hermanos) and reserve contracts with the Company's affiliate AES Changuinola, S.R.L.

Interest income

Interest income corresponds to interest earned on time deposits and commercial interests that are determined by customer contracts.

AES Panamá, S.R.L.

Notes to Unaudited Interim Financial Statements

June 30, 2016

(Amounts stated in thousands of US dollars)

3. Summary of Significant Accounting Policies (continued)

Income tax

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statements carrying amounts of the existing assets and liabilities, and their respective income tax bases. The Company establishes a valuation allowance when it is more likely than not that all or a portion of a deferred tax asset will not be realized. The Company's tax positions are evaluated under a more likely than not recognition threshold and measurement analysis before they are recognized for financial statements reporting.

In interim periods, the Company calculates its provision for income taxes by applying an estimated annual effective tax rate to ordinary pre tax income for the interim period.

The Company's policy for interest and penalties related to income tax exposures is to recognize interest and penalties as a component of the provision for income taxes in the statements of comprehensive income.

Use of estimates

The presentation of the financial statements in accordance with generally accepted accounting principles in the United States requires management to make estimates and assumptions affecting the reported amounts of assets, liabilities, gain and losses, as well as the disclosure of contingent assets and liabilities. Actual results might differ from these estimates. The most important estimates are the useful lives of long-lived assets, the assessments of the asset retirement obligation and obsolescence reserve for inventory.

Seniority premiums and termination severance provision

According to the Panamanian Labor Code, upon termination of any employee with an open ended contract, regardless the causes, the employee is entitled to a seniority premium at the rate of one week's salary for every year of work, since they were first employed. Seniority premiums represent 1.92% of total salaries paid and are reported in the balance sheets under employee benefits.

Law N° 44 dated August 12, 1995, introduced reforms to the Panamanian Labor Code by requiring all employers to make a cash contribution to a severance fund that would cover the payment of a seniority premium to the employee and severance in case of unjustified dismissal or resignation. This fund is based on the contribution on the seniority premiums and 5% quote of the monthly severance.

AES Panamá, S.R.L.

Notes to Unaudited Interim Financial Statements

June 30, 2016

(Amounts stated in thousands of US dollars)

3. Summary of Significant Accounting Policies (continued)

New accounting standards adopted

ASU No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30)

The standard simplifies the presentation of debt issuance costs by requiring that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the standard. The implementation was retrospective and the date of adoption was January 1, 2016. Deferred financing costs of \$322 previously classified within other current assets and \$5,312 previously classified within other noncurrent assets were reclassified to reduce the related debt liabilities as of December 31, 2015. Additionally, the amortization of deferred financing cost were reclassified to interest expenses by \$569 in the statement of comprehensive income as of June 30, 2015.

ASU No. 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes

Effective December 31, 2015, the Company prospectively adopted ASU No. 2015-17, which requires that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as noncurrent on the balance sheet. As a result, each jurisdiction will now only have one net noncurrent deferred tax asset or liability. The guidance does not change the existing requirement that only permits offsetting within a jurisdiction; that is, companies will remain prohibited from offsetting deferred tax liabilities from one jurisdiction against deferred tax assets of another jurisdiction. Additionally, the current requirement that deferred tax liabilities and assets of a tax-paying component of an entity be offset and presented as a single amount is not affected by the update. As December 31, 2015, the Company elected to applied this ASU 2015-17 prospectively; and the prior periods were not adjusted.

New accounting standards issued but not yet effective

ASU No. 2016-09, Compensation — Stock Compensation (Topic 718) Improvements to Employee Share-Based Payment Accounting:

The standard simplifies the following aspects of accounting for share-based payments awards: accounting for income taxes, classification of excess tax benefits on the statement of cash flows, forfeitures, statutory tax withholding requirements, classification of awards as either equity or liabilities and classification of employee taxes paid on statement of cash flows when an employer withholds shares for tax-withholding purposes. The implementation will be various and the date of adoption is January 1, 2017. Early adoption is permitted.

The Company is currently evaluating the impact of adopting the standard on its financial statements.

AES Panamá, S.R.L.
Notes to Unaudited Interim Financial Statements
June 30, 2016

(Amounts stated in thousands of US dollars)

3. Summary of Significant Accounting Policies (continued)

ASU No. 2016-02, Leases (Topic 842)

The standard creates Topic 842, Leases, which supersedes Topic 840, Leases, and introduces a lessee model that brings substantially all leases onto the balance sheet while retaining most of the principles of the existing lessor model in U.S. GAAP and aligning many of those principles with ASC 606, Revenue from Contracts with Customers. The implementation will be retrospective approach with certain practical expedients and the date of adoption is January 1, 2019. Early adoption is permitted.

The Company is currently evaluating the impact of adopting the standard on its financial statements

ASU No. 2016-01, Financial Instruments — Overall (Topic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities

The standard significantly revises an entity's accounting related to the classification and measurement of investments in equity securities and the presentation of certain fair value changes for financial liabilities measured at fair value. Also, it amends certain disclosure requirements associated with the fair value of financial instruments. The implementation will be cumulative effect in Retained Earnings as of adoption or prospectively for equity investments without readily determinable fair value and the date of adoption is January 1, 2018. Limited early adoption permitted.

The Company is currently evaluating the impact of adopting the standard, but does not anticipate a material impact.

ASU No. 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory

The standard replaces the current lower of cost or market test with a lower of cost or net realizable value test. The implementation will be prospectively and the date of adoption is January 1, 2017. Early adoption is permitted.

The Company is currently evaluating the impact of adopting the standard on its financial statements.

AES Panamá, S.R.L.
Notes to Unaudited Interim Financial Statements
June 30, 2016

(Amounts stated in thousands of US dollars)

3. Summary of Significant Accounting Policies (continued)

ASU No. 2014-09/2016-08/2016-10/2016-12 Revenue from Contracts with Customers (Topic 606)

The Revenue from Contracts with Customers standard provides a single and comprehensive revenue recognition model for all contracts with customers to improve comparability. The standard contains principles to determine the measurement and timing of revenue recognition. The standard requires an entity to recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The amendments to the standard provide further clarification on contract revenue recognition specifically related to the implementation of the principal versus agent evaluation, the identification of performance obligations, clarification on accounting for licenses of intellectual property, and allows for the election to account for shipping and handling activities performed after control of a good has been transferred to the customer as a fulfillment cost. The implementation will be a full retrospective or modified retrospective approach and the date of adoption is January 1, 2018 (deferred by ASU No. 2015-14). Earlier application is permitted only as of January 1, 2017.

The Company is currently evaluating the impact of adopting the standard on its financial statements.

4. Balances and Transactions with Affiliates of The Corporation and Related Parties

The Panamanian Government has a significant investment in the generation, distribution and transmission companies in the electric power industry in Panama. Consequently, all the transactions between the Company and such companies are considered transactions with related parties.

To reduce the impact of high spot market prices on hydro companies due to the transmission constraints to transport energy from the west of the country, delays in expansion projects and transmission line improvements, in 2013, the Panamanian Government began to negotiate compensation mechanisms. Under the agreement, the Government agreed to reimburse the difference between the cost at which the Company purchase energy in the spot market and the price at which the Company sell that energy under the PPAs with the Distribution Companies for an agreed quantity of 70 MW per hour, but subject to a maximum reimbursement of \$40,000 in 2014 and \$30,000 in each of 2015 and 2016.

In 2014, the Company invoiced \$39,506 and collected \$36,594 in reimbursements, reducing the costs of our purchases of electricity. As of June 30, 2016, and December 31, 2015, are invoiced but not collected \$883 and \$5,760, respectively, and the outstanding balance by \$9,555 is recorded in the balance sheet under account receivable - related parties.

On April 20, 2015, the Comptroller General of Panama filed a motion before the Supreme Court to determine whether or not the resolution of the Panamanian government that authorizes an agreement with AES Panamá, S.R.L. (Cabinet Resolution No. 42 dated March 31, 2014, or the Cabinet Resolution) contravenes certain articles of the Panamanian Constitution.

AES Panamá, S.R.L.**Notes to Unaudited Interim Financial Statements****June 30, 2016***(Amounts stated in thousands of US dollars)***4. Balances and Transactions with Affiliates of The Corporation and Related Parties (continued)**

Pursuant to Panamanian law, the Supreme Court requested the Attorney General of Panama to render an opinion on the motion. On May 7, 2015, the Attorney General opined that the Cabinet Resolution should be declared unconstitutional. The Supreme Court ordered that a summons be published in a local newspaper for 3 consecutive days, so that within 10 business days of the last publication date, the Comptroller General and any other person may submit written arguments on the merits of the case. In July 2015, AES Panamá, S.R.L. lawyers submitted its closing arguments and at this moment, is pending of final decision. According to Company lawyers the probability of risks or implications by AES Panama S.R.L. is remote, based on the legal merits cited by the Attorney General of Panama.

The balances and transactions with related parties as of June 30, 2016 and December 31, 2015, are as follow:

<u>In the balance sheets:</u>	<u>Jun-2016</u>	<u>Dec-2015</u>
Accounts receivable:		
Empresa de Distribución Eléctrica Metro Oeste, S. A. (EDEMET)	\$ 30,514	\$ 31,609
Ministerio de Economía y Finanzas	9,555	8,672
Elektra Noreste, S. A. (ENSA)	9,049	9,145
Empresa de Distribución Eléctrica Chiriquí (EDECHI)	6,668	6,030
Caja de Seguro Social	1,139	678
Empresa de Transmisión Eléctrica, S. A. (ETESA)	1,859	967
Contraloría General de la República	330	70
Enel Fortuna, S.A.	563	332
Empresa de Generación Eléctrica Bahía Las Minas, S. A.	142	262
Autoridad del Canal de Panamá	4	2
Oficina de Electrificación Rural (OER)	—	23
Gas Natural Atlántico II, S.R.L.	450	—
	\$ 60,273	\$ 57,790
Accounts payable:		
Enel Fortuna, S. A.	\$ 955	\$ 355
Autoridad del Canal de Panamá	952	1,843
Empresa de Transmisión Eléctrica, S. A. (ETESA)	520	572
Empresa de Generación Eléctrica Bahía Las Minas, S. A.	180	98
Elektra Noreste, S. A. (ENSA)	153	809
Empresa de Generación Eléctrica, S.A. (EGESA)	123	90
Empresa de Distribución Eléctrica Metro Oeste, S. A. (EDEMET)	75	830
Empresa de Distribución Eléctrica Chiriquí, S. A. (EDECHI)	23	59
	\$ 2,981	\$ 4,656

AES Panamá, S.R.L.**Notes to Unaudited Interim Financial Statements****June 30, 2016***(Amounts stated in thousands of US dollars)***4. Balances and Transactions with Affiliates of The Corporation and Related Parties
(continued)**

In the statements of comprehensive income, for the six months periods ended June 30, 2016 and 2015:

<u>In the statements of comprehensive income:</u>	<u>Jun-2016</u>	<u>Jun-2015</u>
Electricity sales:		
Empresa de Distribución Eléctrica Metro Oeste, S. A. (EDEMET)	\$ 91,518	\$ 72,455
Elektra Noreste, S. A. (ENSA)	26,317	12,045
Empresa de Distribución Eléctrica Chiriquí, S. A. (EDECHI)	19,164	14,036
Empresa de Transmisión Eléctrica, S. A. (ETESA)	4,123	1,144
Caja de Seguro Social	1,372	1,556
Enel Fortuna, S.A.	871	1,063
Contraloría General de la República	311	342
Empresa de Generación Eléctrica Bahía Las Minas, S. A.	234	484
Autoridad del Canal de Panamá	10	42
Empresa de Generación Eléctrica, S.A. (EGESA)	—	22,243
Oficina de electrificación Rural (OER)	—	2,164
	<u>\$ 143,920</u>	<u>\$ 127,574</u>
Transmission costs:		
Empresa de Transmisión Eléctrica, S. A. (ETESA)	\$ 1,422	\$ 1,710
Empresa de Distribución Eléctrica Metro Oeste, S. A. (EDEMET)	43	43
	<u>\$ 1,465</u>	<u>\$ 1,753</u>
Electricity purchases:		
Enel Fortuna, S. A.	\$ 4,869	\$ 5,327
Elektra Noreste, S. A. (ENSA)	2,588	17
Autoridad del Canal de Panamá	3,500	3,586
Empresa de Distribución Eléctrica Metro Oeste, S. A. (EDEMET)	1,456	17
Empresa de Generación Eléctrica Bahía Las Minas, S. A.	1,034	572
Empresa de Distribución Eléctrica Chiriquí, S. A. (EDECHI)	168	—
Emp. De Generación Eléctric (EGESA)	50	1,453
Empresa de Transmisión Eléctrica, S. A. (ETESA)	28	36
	<u>\$ 13,693</u>	<u>\$ 11,008</u>
Electricity purchases: (reimbursement and penalties)		
Ministerio de Economía y Finanzas (Compensation)	\$ 883	\$ 3,662
Elektra Noreste, S. A. (ENSA) (Penalties)	116	—
	<u>\$ 999</u>	<u>\$ 3,662</u>

AES Panamá, S.R.L.**Notes to Unaudited Interim Financial Statements****June 30, 2016***(Amounts stated in thousands of US dollars)***4. Balances and Transactions with Affiliates of The Corporation and Related Parties
(continued)**

<u>In the statements of comprehensive income:</u>	<u>Jun-2016</u>	<u>Jun-2015</u>
Other cost of electricity sales:		
Empresa de Generación Eléctrica, S. A. (EGESA)	\$ —	\$ 2,726
Empresa de Transmisión Eléctrica, S. A. (ETESA)	1,133	1,530
Empresa de Distribución Eléctrica Metro Oeste, S. A. (EDEMET)	431	493
Elektra Noreste, S. A. (ENSA)	43	128
	<u>\$ 1,607</u>	<u>\$ 4,877</u>

The balances with affiliates as of June 30, 2016 and December 31, 2015, are as follow:

<u>In the balance sheets:</u>	<u>Jun-2016</u>	<u>Dec-2015</u>
Accounts receivable:		
AES Changuinola, S.R.L.	\$ 3,000	\$ 3,935
Other affiliates	631	638
AES Latin America S.R.L.	—	401
AES Corporation	1	207
AES Elsta BV	1,448	1,448
Global Energy Holding	189	189
	<u>\$ 5,269</u>	<u>\$ 6,818</u>
Accounts payable:		
AES Changuinola, S.R.L.	\$ 16,403	\$ 24,792
AES Solution LLC	11,763	9,329
AES Corporation	41	176
Other affiliates	209	222
AES CLESA y Cía, Sociedad en Comandita de Capital variable	83	—
Empresa Electrica de Oriente, S.A. de C.V.	63	—
	<u>\$ 28,562</u>	<u>\$ 34,519</u>

AES Panamá, S.R.L.

Notes to Unaudited Interim Financial Statements

June 30, 2016

(Amounts stated in thousands of US dollars)

**4. Balances and Transactions with Affiliates of The Corporation and Related Parties
(continued)**

Sales-purchases energy

On March 9, 2007, the Company signed with its affiliate AES Changuinola, S.R.L., a contract for the purchase - sale of firm capacity and energy for a period of ten years (from 2011 to 2020) then extended until December 31, 2030. On May 14, 2010, the Company signed the first amendment to its Contract of Reserve 01-07 and two new items of purchase and sale of firm capacity and energy were added for a period of 10 years, from 2012 and 2013. On June 25, 2012, the Company signed the second amendment to the contract which modifies its duration, extending its term until December 31, 2030. On August 29, 2013, the third amendment of this contract was signed converting the contract into a physical delivery contract and a new line was added to complete the sale of firm capacity of Changuinola I up to the year 2030.

As a result of the 2013 amendment, the Company recognizes the PPA as an operating lease for \$615.4 per month until December 31, 2030. On December 7, 2015, amendment No. 4 was signed. This amendment sets the power and energy prices contracted until 2030, resulting from the act of tender ETESA 01-12. For the six months periods ended June 30, 2016 and 2015, \$9,293 and \$3,692, respectively, have been recorded as operating lease costs in the statements of comprehensive income. As of June 30, 2016 and December 31, 2015, respectively, \$10,140 and \$10,489 related to the excess of expense are recorded in prepaid expenses and \$2,628 and \$0 as deferred income in the balance sheets (Notes 6 and 10).

For the six months periods ended June 30, 2016 and 2015, the Company has recorded sales for this contract of \$2,805 and \$18, respectively, and purchases of \$32,271 and \$41,142, respectively.

On June 30, 2015, the Company signed with AES Changuinola, S.R.L.; a capacity reserve contract for a period of 5 years, beginning July 1, 2015.

Management fee

The Company has a management contract with AES Changuinola, S.R.L. which establishes a fee equivalent to 1% of the Changuinola's income before depreciation, interest and income tax. The income related to this management fee is recorded in other (expenses) income, net for \$313 and \$272 for the six months periods ended June 30, 2016 and 2015, respectively.

In November 2010, the Company entered into a new management contract with AES Solutions LLC, a subsidiary of The AES Corporation, effective January 1, 2010 through December 31, 2018. The contract provides that the annual management fee will be for the minimum amount of \$4,000; and shall be adjusted annually due to changes in inflation. The Administrative Council approves the charges every six months which, annually, should be at least the minimum amount agreed.

AES Panamá, S.R.L.

Notes to Unaudited Interim Financial Statements

June 30, 2016

(Amounts stated in thousands of US dollars)

**4. Balances and Transactions with Affiliates of The Corporation and Related Parties
(continued)**

The total fee recorded as management fee expense amounted to \$3,111 and \$2,848 for the six months periods ended June 30, 2016 and 2015, respectively.

Rental income

For the six months periods ended June 30, 2016 and 2015, the Company invoiced for rentals to affiliated companies the amount of \$135 and \$135, respectively. The corresponding lease agreement is currently effective from February 2016, and has a term of one year with an automatic renewal option and it is recorded as other income, in the statements of comprehensive income.

Insurance

The Company maintains an "all risk" insurance policy with the insurance company ASSA Compañía de Seguros, S. A. This insurance company, in turn, diversifies the risk by reinsuring with a group of insurance companies among which includes a related party of the Company, AES Global Insurance Corporation. The policy taken with ASSA Insurance Company S.A. covers all operational risks including machinery breakdown and income losses. For this contract, the Company has recorded insurance expense of \$1,922 and \$1,999 for the six months periods ended June 30, 2016 and 2015, respectively. These amounts are classified as operating and maintenance expenses in the statements of comprehensive income.

Dividends

For the six months periods ended June 30, 2016 and 2015, the Company received dividends from its affiliate AES Changuinola, S.R.L. by \$0 and \$848, respectively.

Others

The Company maintains accounts receivable of \$3,000 and \$3,935 as of June 30, 2016 and December 31, 2015, respectively, which corresponds to the sales of energy related to the power purchase agreement with its affiliate AES Changuinola, S.R.L.

AES Panamá, S.R.L.
Notes to Unaudited Interim Financial Statements
June 30, 2016

(Amounts stated in thousands of US dollars)

5. Property, Plant and Equipment, Net

	June 30, 2016						
	Land	Buildings	Electricity generation facilities	Office furniture and equipment	Transportation equipment	Construction in progress	Total
Cost:							
Beginning balance	\$ 5,702	\$ 253,430	\$ 478,856	\$ 8,013	\$ 1,958	\$ 22,734	\$ 770,693
Additions	—	—	35	121	24	5,629	5,809
Reclassifications and adjustments	—	79	2,963	(22)	34	(3,054)	—
Ending balance	<u>5,702</u>	<u>253,509</u>	<u>481,854</u>	<u>8,112</u>	<u>2,016</u>	<u>25,309</u>	<u>776,502</u>
Accumulated depreciation:							
Beginning balance	—	82,715	248,724	5,911	1,131	—	338,481
Depreciation	—	4,261	10,167	306	127	—	14,861
Reclassifications and adjustments	—	—	—	(8)	8	—	—
Ending balance	<u>—</u>	<u>86,976</u>	<u>258,891</u>	<u>6,209</u>	<u>1,266</u>	<u>—</u>	<u>353,342</u>
Net balance	<u>\$ 5,702</u>	<u>\$ 166,533</u>	<u>\$ 222,963</u>	<u>\$ 1,903</u>	<u>\$ 750</u>	<u>\$ 25,309</u>	<u>\$ 423,160</u>

	December 31, 2015						
	Land	Buildings	Electricity generation facilities	Office furniture and equipment	Transportation equipment	Construction in progress	Total
Cost:							
Beginning balance	\$ 5,702	\$ 252,239	\$ 427,531	\$ 7,392	\$ 1,735	\$ 43,626	\$ 738,225
Additions	—	—	37	340	197	34,156	34,730
Reclassifications and adjustments	—	1,191	53,484	281	92	(55,048)	—
Sales and disposals	—	—	(2,196)	—	(66)	—	(2,262)
Ending balance	<u>5,702</u>	<u>253,430</u>	<u>478,856</u>	<u>8,013</u>	<u>1,958</u>	<u>22,734</u>	<u>770,693</u>
Accumulated depreciation:							
Beginning balance	—	74,230	231,111	5,300	981	—	311,622
Depreciation	—	8,485	18,998	611	216	—	28,310
Reclassifications and adjustments	—	—	—	—	—	—	—
Sales and disposals	—	—	(1,385)	—	(66)	—	(1,451)
Ending balance	<u>—</u>	<u>82,715</u>	<u>248,724</u>	<u>5,911</u>	<u>1,131</u>	<u>—</u>	<u>338,481</u>
Net balance	<u>\$ 5,702</u>	<u>\$ 170,715</u>	<u>\$ 230,132</u>	<u>\$ 2,102</u>	<u>\$ 827</u>	<u>\$ 22,734</u>	<u>\$ 432,212</u>

For the six months periods ended June 30, 2016 and 2015, capitalized interest and financing costs included in property, plant and equipment were \$732 and \$1,175, respectively.

AES Panamá, S.R.L.**Notes to Unaudited Interim Financial Statements****June 30, 2016***(Amounts stated in thousands of US dollars)***5. Property, Plant and Equipment, Net (continued)**

In 2014, the Company recognized an asset retirement obligation related to the required future retirement and dismantlement of equipment and facilities located on the land leased from Refinería Panamá, S.R.L. for the operation of the barge "Estrella del Mar I" (Note 13). The present value for this concept is \$910 and \$1,031 as of June 30, 2016 and December 31, 2015, respectively, and is presented in the balance sheets under electricity generation facilities and is detailed below:

	<u>Jun-2016</u>	<u>Dec-2015</u>
Cost	\$ 1,213	\$ 1,213
Accumulated depreciation	(303)	(182)
Balance at the end of the period	<u><u>\$ 910</u></u>	<u><u>\$ 1,031</u></u>

The following table summarizes the amounts recognized related to asset retirement obligations for the periods indicated:

	<u>Jun-2016</u>	<u>Dec-2015</u>
Balance at beginning of the period	\$ 1,266	\$ 1,213
Accretion expense	27	53
Balance at the end of the period	<u><u>\$ 1,293</u></u>	<u><u>\$ 1,266</u></u>

6. Prepaid Expenses

Prepaid expenses as of June 30, 2016 and December 31, 2015, are shown below:

	<u>Jun-2016</u>	<u>Dec-2015</u>
Insurance	\$ 2,127	\$ 68
Advance payments to suppliers	1,317	567
Guaranty	83	102
ANAM - Water concessions	32	31
Others	474	38
Total prepaid expenses, current	<u><u>\$ 4,033</u></u>	<u><u>\$ 806</u></u>
Prepaid expenses - affiliate (note 4)	<u><u>\$ 10,140</u></u>	<u><u>\$ 10,489</u></u>
Total prepaid expenses, non current	<u><u>\$ 10,140</u></u>	<u><u>\$ 10,489</u></u>

AES Panamá, S.R.L.
Notes to Unaudited Interim Financial Statements
June 30, 2016

(Amounts stated in thousands of US dollars)

7. Restricted Cash

In December 2006, the Company issued senior notes, issued under Rule 144A/Regulation S of the New York Stock Exchange (Securities and Exchange Commission) in the national and international markets in the amount of \$300,000 for the main purpose of refinancing the balance of capital, interest, and other charges owed by the Company due to the issuance of a \$320,000 in bonds in 2003. The agreement for obtaining the new debt of \$300,000 required the creation of a trust fund with the account "Debt Service Reserve Account". This trust fund was set up by the Company as Trustor, and HSBC Bank USA and National Association as Trustee and Collateral Agent, and its general purpose is to maintain a cash fund to secure the payment of interest of one semester.

In June 2015, the Company issued senior notes in the local and international markets for the amount of \$300,000 with the main purpose of refinancing the balance of capital, interest, and other charges owed by the Company related to the bonds issued in 2006, and pay the syndicated loan obtained in 2014 for the construction of the barge. With this refinancing, the Company canceled \$217,296 of the \$300,000, bonds with maturity on 2016. Due to the anticipated cancellation of the 2016 bonds, the restricted cash required to pay interest of this financing was reduced. The restricted cash balance is \$2,636 and \$2,635, as of June 30, 2016 and December 31, 2015, respectively.

8. Intangible Assets

In June 2015, AES Panamá, S.R.L. signed an agreement with Erryl Capital Inc. and International Electric Power, LLC, to acquire three power purchase agreements in the amount of \$20,000, for a period of 5 years from July 2015. The yearly amortization is \$4,000, ending in July 2020.

The amount paid for power purchase contracts was recognized as an intangible asset amortized over the term of these contracts, under the straight line method.

The intangible asset is detailed below:

	<u>Jun-2016</u>	<u>Dec-2015</u>
Intangible assets	\$ 20,000	\$ 20,000
Amortization	(4,000)	(2,000)
Intangible assets, net	<u><u>\$ 16,000</u></u>	<u><u>\$ 18,000</u></u>

9. Investment in Affiliate

On September 25, 2013, the Board approved the conversion of the debt that AES Changuinola, S.R.L. maintained with the Company of \$63,227 into equity ownership in this affiliate. The Board, after reviewing independent evaluations to determine the fair value of AES Changuinola S.R.L., determined that the amount represented 20% of the value of AES Changuinola, S.R.L. On November 25, 2013, the transaction was completed when the transfer and issuance of the corresponding shares occurred.

AES Panamá, S.R.L.**Notes to Unaudited Interim Financial Statements****June 30, 2016***(Amounts stated in thousands of US dollars)***9. Investment in Affiliate (continued)**

As the affiliate AES Changuinola, S.R.L. is under common control with the same entity as the Company the initial recognition of the investment was made at the carrying value of the assets of the affiliate which, at the date of the transaction, totaled \$208,535. The amount equivalent to the 20% of the share amounted to \$41,707. The difference between the value of the share of investment and the capitalized debt (\$63,227) had been recorded in equity and applied to retained earnings (accumulated deficit) since no profit or loss for the transfer of assets between entities under common control should be recognized; the amount in equity is \$21,520. The presentation of this amount as retained earnings has been retrospectively adjusted from additional paid in capital in the accompanying financial statements.

Investment in affiliate is shown below:

<u>Affiliate</u>	<u>Commercial activity</u>	<u>% of equity participation</u>		<u>June 30,</u>	<u>December 31,</u>
		<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
AES Changuinola,S.R.L.	Electricity generation (Hydroelectric)	20%	20%	<u>\$ 47,159</u>	<u>\$ 45,166</u>

<u>As of June 30, 2016</u>						Net	Equity	Other
<u>Affiliate</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Equity</u>	<u>Revenues</u>	<u>Expenses</u>	<u>Income</u>	<u>Share</u>	<u>Comprehensive Income</u>
AES Changuinola,S.R.L.	\$ 653,813	\$ 415,412	\$ 238,401	\$ 41,995	\$ 33,647	\$ 8,348	\$ 1,670	\$ 323

<u>As of June 30, 2015</u>						Net	Equity
<u>Affiliate</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Equity</u>	<u>Revenues</u>	<u>Expenses</u>	<u>Income</u>	<u>Share</u>
AES Changuinola,S.R.L.	\$ 659,143	\$ 427,335	\$ 231,808	\$ 45,296	\$ 35,722	\$ 9,574	\$ 1,915

For the six months periods ended June 30, 2016 and 2015, the Company has recorded in relation to its 20% share in earnings of AES Changuinola, S.R.L., an income of \$1,670 and \$1,915, respectively. This amount is recorded in the balance sheets under the investment in affiliate and in the statement of comprehensive income under equity earnings in investments in affiliate.

10. Operating Lease

In August 2013, the Power Purchase Agreement (PPA) with AES Changuinola S.R.L. was amended with the purpose that the Company buys from AES Changuinola S.R.L. all its generated energy, its firm capacity and the construction prime factor for both energy and capacity. Through the terms of the PPA, AES Changuinola S.R.L. could only supply it with its own generation assets. Under commercial terms, the PPA as ammended is classified as a physical delivery agreement.

AES Panamá, S.R.L.**Notes to Unaudited Interim Financial Statements****June 30, 2016***(Amounts stated in thousands of US dollars)***10. Operating Lease (continued)**

As it is remote that a party other than the Company would take energy from the AES Changuinola S.R.L. generation assets, the Company is required to pay for the capacity and the capacity construction prime factor even when no energy is generated. In accordance with how the PPA is structured, Management determined that it shall be accounted as an operating lease in accordance with Accounting Standard Codification 840 (Leases). The minimum lease payments of the PPA are determined based on the capacity and its construction prime factor; energy payments and its related construction prime factor are not considered as part of the minimum lease payments since there is no minimum amount established for them. Minimum lease payments determined throughout the term of the PPA are accounted for on a straight-line basis and the difference between such amount and the amounts invoiced is presented as an asset in the Company's balance sheets as prepaid expenses.

The total of future minimum payments from the non-cancellable operating lease contract as of June 30, 2016 will be paid during the following periods:

	<u>2016</u>
Within one year	\$ 17,892
After one year and up to five years	71,568
After five years	169,889
Total operating lease payments, net	<u>\$ 259,349</u>

11. Loans Payable

The short term loans are originated by the use of credit lines with a maturity of six months. As of June 30, 2016 and December 31, 2015, the Company does not maintain outstanding balances related to these credit lines.

As of June 30, 2016, the Company has credit lines authorized (unused) with different banking institutions for a total of \$81,332.

Additionally, on October 28, 2014, the Company entered into a syndicated loan totaling \$57,300 with a group of banks and with The Bank of Nova Scotia (Panama) S.A. (Scotiabank) acting as administrative agent, for a period of 5 years.

This loan was acquired to finance one hundred percent (100%) of the cost of acquisition and commissioning of the barge Estrella del Mar I, its installation and its connection to the interconnection network. This loan was repaid in June 2015, after the partial refinancing of the 2016 bonds (Note 12) made in that month.

As of June 30, 2016 and December 31, 2015, the Company does not maintain outstanding balances related to loans payable.

AES Panamá, S.R.L.
Notes to Unaudited Interim Financial Statements
June 30, 2016

(Amounts stated in thousands of US dollars)

12. Bond Payable, Net

2016 Bonds

On December 21, 2006, the Company refinanced the \$320,000 debt with new credit for \$300,000. The credit was subscribed and distributed by Credit Suisse and UBS Investment Bank and was instrumented throughout new bonds amounting \$300,000 issued under rule 144A/Regulation S of the New York Stock Exchange in the local and international market with a due date of December 21, 2016 and an annual interest rate of 6.35% with a single payment upon maturity, and semiannual interest payments. Net deferred financing costs for this bond amounted to \$164 and \$322 as of June 30, 2016 and December 31, 2015, respectively.

The bonds were issued in accordance with the provisions of the Note Issuance Facility signed by AES Panamá, S.R.L. and HSBC Bank USA, National Association, as trustee.

The relevant commitments and restrictions of the bonds, which were modified after the execution of partial refinancing of 2016 bonds, are as follows:

- The Company has to maintain a “Debt Service Reserve Account” with funds deposited and available to secure the semiannual interest payments.

As of June 30, 2016 and December 31, 2015, the Company is in compliance with all of its commitments and restrictions.

2022 Bonds

On June 18, 2015, the Company issued new bonds for \$300,000 and used the proceeds to pay \$217,046 of the 2016 bonds and the outstanding balance of the syndicated loan for \$55,491. This new debt was subscribed and distributed by Banco General, S.A. and Deutsche Bank Securities Inc. and was instrumented throughout new bonds amounting \$300,000 issued under rule 144A/Regulation S of the New York Stock Exchange in the local and international market with a due date of June 25, 2022 and an annual interest rate of 6.00% with a single payment upon maturity, and semiannual interests payments. The Company is obliged to secure the next interest payment, during the term of the agreement, though a letter of credit or cash. The Company decided to secure it thought a letter of credit. Net deferred financing costs for this bond amounted to \$4,976 and \$5,312 as of June 30, 2016 and December 31, 2015, respectively.

The 2022 bonds were issued in accordance with the provisions of the Note Issuance Facility signed by AES Panamá, S.R.L. and Deutsche Bank Trust Company Americas, as trustee.

Relevant commitments and restrictions of the bonds payable are detailed below:

- The Company has to maintain a “Debt Service Reserve Account” with the funds deposited and available to secure the semiannual interest payments.

AES Panamá, S.R.L.**Notes to Unaudited Interim Financial Statements****June 30, 2016***(Amounts stated in thousands of US dollars)***12. Bond Payable, Net (continued)**

- Limitation at the time for contracting certain debt:
 - a. The Company may incur debt as long as the interest coverage ratio is no less than 2.5;
 - b. The Debt Service Reserve Account is fully funded.
 - c. The Company may take additional debt up to \$50,000 without having to meet the ratio.
 - d. The ratio may be greater than zero and less than 4.25 if debt is incurred at any time from the date of issuance until June 30, 2016, inclusive; less than 3.75 if debt is incurred after June 30, 2016 until June 30, 2017, inclusive; and less than 3.5 if debt is incurred at any later date.
- Limitations on the sale of generation assets.
- Audited financial statements must be presented no later than 120 days after the close of the fiscal period.

As of June 30, 2016 and December 31, 2015, the Company is in compliance with all of its commitments and restrictions.

As of June 30, 2016 and December 31, 2015, bonds payable, net of discount, was as follows:

	<u>Jun-2016</u>	<u>Dec-2015</u>
2016 Bonds	\$ 82,704	\$ 82,704
2022 Bonds	300,000	300,000
Unamortized discount	(44)	(86)
Deferred financing cost	(5,140)	(5,634)
Total bonds payable,net	<u>\$ 377,520</u>	<u>\$ 376,984</u>

Amortization of the discount is included in interest expense in the accompanying statements of comprehensive income.

13. Commitments and Contingencies**Commitments****Purchase – sale energy contracts**

The Company has contracted certain obligation in connection with the concession contracts and purchase of energy. The Company maintains contract performance guarantees of \$76,769 to guarantee the obligations according to the contracts signed with the distribution companies. The Company also maintains contract performance guarantees of \$28,000 in favor of the Autoridad Nacional de los Servicios Públicos / Contraloría General de la República de Panamá for the concession of the hydroelectric exploitation, which guarantee the generation of electric energy.

AES Panamá, S.R.L.

Notes to Unaudited Interim Financial Statements

June 30, 2016

(Amounts stated in thousands of US dollars)

13. Commitments and Contingencies (continued)

The Company also maintains a stand-by letter of credit for \$7,140 to guarantee the payments for purchases in the spot market and \$91 for purchases in the regional electricity market. In addition, the Company maintains guarantees in favor of ETESA for \$724 and \$10 to guarantee the payments for transmission services.

The Company also maintains a stand-by letter of credit for an amount of \$3,000 to ensure the payments for the purchase of fuel required for the barge operation.

As a result of the bid of EDEMET-EDECHI 01-05, on December 7, 2005, the Company signed the contracts EDEMET 05-12 and EDECHI 013-05 for the supply of power and energy in the long term, both for a period of 10 years that goes from 2009 to 2018.

On October 26, 2006, for the bid of EDEMET-EDECHI 02-05, the Company signed the contracts EDEMET 15-06 and EDECHI 19-06 for the supply of power and energy in the long term. The first contract 15-06 with EDEMET for a total of 15MW and contract 19-06 with EDECHI for a total of 35MW were both effective from January 1, 2011 to December 31, 2020.

On March 9, 2007, the Company signed with its affiliate AES Changuinola S.R.L., a contract for the purchase - sale of firm capacity and energy for a period of ten years (from 2011 to 2020). On May 14, 2010, the Company signed the first amendment to Reserve Contract 01-07 where two new items of purchase and sale of firm capacity and energy were added for a period of 10 years, from 2012 and 2013. On June 25, 2012, the second amendment to the contract was signed, extending its term until December 31, 2030. By note dated May 30, 2013, AES Changuinola S.R.L. has exercised its rights under the ninth clause of the Reserve Contract 01-07, and its amendments, to be relieved from fulfilling the commitments under the contract, considering a fortuitous event due to the extreme hydrological conditions experienced in the Republic of Panama in that year. As a result, starting May 1, 2013, AES Changuinola S.R.L. billings only include the energy generated by the units of the Chan I Hydroelectric plant at the price established on the above mentioned contract. AES Changuinola S.R.L. terminated the fortuitous event on October 2, 2013. On August 29, 2013, the third amendment of this contract was signed where, from January 1, 2014, the reserve contract will be managed as a physical delivery and a new line was added to complete the sale of firm capacity of Chan I up to the year 2030. On December 7, 2015, amendment No. 4 was signed, through which power prices and energy contracted is established until 2030, resulting from the act of tender ETESA 01-12.

In October 13, 2008, as consequence of the bid EDEMET 01-08, the Company signed contracts EDEMET 04-08 and ELEKTRA 07-08 to supply firm capacity and energy for a 10-year period that runs from the year 2012 to 2022. Further in the same tender EDEMET 01-08, the Company signed contracts EDEMET 08-08 and ELEKTRA 09-08 to supply firm capacity and energy in the long term, for a period of ten years from 2013 to 2022 year. Later, on July 16, 2009, amendment No. 1 to these contracts was signed. As of December 31, 2015, the Company has letters of credit of \$ 4,437, related to these contracts.

AES Panamá, S.R.L.

Notes to Unaudited Interim Financial Statements

June 30, 2016

(Amounts stated in thousands of US dollars)

13. Commitments and Contingencies (continued)

On November 28, 2008, the Company signed the Contract GC. 01-09 (Large Customer) with Cemento Panamá for supply firm capacity and energy for a period of 10 years beginning in 2009.

In addition, in April 2011, the Company signed the second amendment to the contract GC 02-09 and the first amendment to the contract GC 02-10, both of them with Importadora Ricamar for the “Supply of firm capacity and energy to large customers” and effective until December 31, 2015. This contract was not renewed.

In August 2012, the Company participated in the act of long-term tender ETESA 01-12 and on September 17, 2012, ETESA notified the Company of the award of the principal bid of power in the amount of 159 MW from 2019-2020, 209 MW in 2021, 309 MW in 2022 and 350 MW from 2023 to 2030. In October 2012, the corresponding contracts to this adjudication were signed with the three distribution companies (EDEMET 117-12, EDECHI 122-12 AND ELEKTRA 062-12).

On November 7, 2012, the Company signed the contract No. 254-2012-ADM with the Comptroller General of the Republic for the supply of firm power and energy to a large customer. This contract will be in force until November 2015. However, the Comptroller General of the Republic approved the signing of Amendment No. 1 to Contract No. 254-2012-ADM for continued supply firm power and energy.

On December 28, 2012, the Company signed a contract with Gold Mills in Panama for the supply of firm power and energy, effective through December 31, 2018. The start date of delivery was in April 27, 2013.

In December 2012, the Company signed a surplus power and energy contract with large customer Caja de Seguro Social, effective until December 2016. The supply started in December 7, 2013.

As a result of the award of the International Competitive Bidding ETESA 03-12, the Company signed contract DME-016-12 with Elektra Noreste (ENSA), Contract No. 24-12 with EDEMET and Contract 45-12 with EDECHI, to supply surplus energy from July 2012 to December 31, 2015. This contract was not renewed.

On February 28, 2013, the contract GC No.01-12 kept with the OER ended. This contract was replaced by the contract GC No. 01-13 signed on March 1, 2013, starting on the same day, for self-generating power with the OER effective until October 31, 2013. In October 2013, addendum No. 1 was signed to extend the supply agreement until December 31, 2013. On August 1, 2013, Addendum No. 2 was signed to extend this agreement until February 28, 2014. On December 17, 2014, addendum No. 3 was signed to extend the supply agreement until March 31, 2015. This contract expired on March 31, 2015. This contract was not renewed.

AES Panamá, S.R.L.

Notes to Unaudited Interim Financial Statements

June 30, 2016

(Amounts stated in thousands of US dollars)

13. Commitments and Contingencies (continued)

In June 2013, the Company signed the following contracts for the supply of firm capacity and energy to large customers:

- Cement Interoceanico, contract No. 02-13, from July 1, 2013 to December 31, 2015. The client began supplying on August 20, 2013. In December 2015, the Company entered into Amendment No. 2 to contract No. 02-13, which it extended the contract of supply of power and energy until December 31, 2020.
- United States Embassy, contract No. 05-13, from September 15, 2013 to December 31, 2015. The client began supplying on November 2, 2013. In December 2015, the Company entered into Amendment No. 1 to contract No. 05-13, which extended the contract of supply of power and energy until December 31, 2020.
- Avipac Inc, contract No. 06-13, from August 1, 2013 to December 31, 2015. The client began supplying on August 10, 2013. In December 2015, the Company entered into Amendment No. 1 to contract No. 06-13, which extended the contract term supply of power and energy until December 31, 2020.
- Varela Hermanos, Contract No. 07-13, from September 1, 2013 to December 31, 2015. The client began supplying on February 8, 2014. In December 2015, the Company entered into Amendment No. 1 to contract No. 07-13, which extended the contract term supply of power and energy until December 31, 2020.

On May 20, 2014, the Company signed with Empresa de Generación Eléctrica, S.A. (EGESA) the contract N° 2014-05 for the service of thermal power generation using the recently acquired Estrella del Mar I barge with an installed capacity of 72MW, using Bunker C (Fuel Oil No. 6) as main fuel and acquired by AES Panamá, S.R.L. The barge began testing on March 21, 2015, ending the test on March 25, 2015, on which date the Company received the National Dispatch Center to operate within the National Electricity System.

On June 23, 2015, by the Cabinet Resolution No. 62, the Cabinet Council issued a favorable opinion to the unilateral termination of Contract No. 2014-05 for the provision of thermal generation signed between AES Panama, S.R.L. and EGESA, and the contract ended on June 30, 2015. This contract was not renewed.

On June 30, 2015, the Company signed the contracts EDEMET No. 29-14, EDECHI No. 33-14 and ENSA No. DME 012-14 for the supply of capacity and energy for a period of 5 years from July 1, 2015. These contracts will be mainly supplied by the barge Estrella del Mar I.

On June 30, 2015, the Company signed with AES Changuinola, S.R.L. a capacity reserve contract for a period of 5 years, beginning July 1, 2015.

AES Panamá, S.R.L.**Notes to Unaudited Interim Financial Statements****June 30, 2016***(Amounts stated in thousands of US dollars)***13. Commitments and Contingencies (continued)****Fuel Purchase Contract**

On October 29, 2014, the Company entered into a contract with Refinería Panamá, S.R.L. for the purchase of fuel oil (Fuel Oil No. 6) needed for the operation of the barge Estrella del Mar I. The contract term is for a period of five years and began March 2015. Additionally, the Company signed an addendum #1 to purchase Fuel Oil #2 (diesel) required for the ancillary services of the barge Estrella del Mar I. In April 2016 the company signed the amendment No.2, modifying clauses that established the Premium Price for the purchase of Fuel Oil # 6 (bunker).

The table below represent the total contract amounts for the term of the contract with Refinería Panamá, S.R.L.:

	Commitment
<u>Year</u>	<u>(in thousand US\$)</u>
2016	\$ 10,542
2017	19,952
2018	10,386
2019	895
2020	325
Total:	<u>\$ 42,100</u>

Operating lease contract

The Company has commitments under operating leases with Refinería Panamá, S.R.L. for the land located in Bahía Las Minas, Province of Colón in Panamá which is used by the Company for the ground based equipment needed for installation and connection of the electric power generation barge Estrella del Mar I. The Company built support structures in the leased property including, an electrical substation and transmission equipment, pipeline to supply fuel docks, storage tanks for equipment, among others. This lease is effective for five years after March 2015, the date of commercial operation of the barge Estrella del Mar I.

The amounts set out in the following table represent the total contractual amount for the term of the operating lease agreement with Panama Refinery, S.R.L:

	<u>2016</u>
One year	\$ 960
After one year to five years	2,480
Total future payments	<u>\$ 3,440</u>

AES Panamá, S.R.L.

Notes to Unaudited Interim Financial Statements

June 30, 2016

(Amounts stated in thousands of US dollars)

13. Commitments and Contingencies (continued)

Concession contracts

The Company has acquired fifty-year water concession contracts which give certain rights, including the generation and sale of electricity generated by the hydroelectric plants and water rights for the use of the Bayano, Chiriquí, Los Valles and Caldera rivers. The Company is required to manage, operate, and provide maintenance to the plants throughout the contract's term.

The most important terms of the concession contracts signed between the Company and the National Authority of Public Services (ASEP) are described below:

- The ASEP grants the Company a concession for the generation of hydroelectric energy by means of the exploitation of hydroelectric resources located on the Bayano, Chiriquí, Los Valles and Caldera rivers.
- The Company is authorized to render the generation of electricity as a public service, which entails the operation and maintenance of power plants with their respective transmission lines to connect to the public network, and transformation equipment for producing and selling power on the national electrical system as well as selling energy on the international market.
- The duration of each of the concessions granted is 50 years, and they can be extended for a period of up to 50 years by means of a request to the ASEP.
- The Company will have the right to own, operate and maintain the property on the facilities and to make improvements to them. Previous authorization is required in those cases in which the Company increases the capacity of any of the plants by 15% or more at the same site.
- The Company will have full access to its own property and to the property of the facilities.
- The Company will have rights over the real estate as well as the right of way or easement within the hydroelectric facilities so that it can accomplish all of the activities required for the generation and sale of hydroelectric energy. Likewise, the Company will also have the right of way and access to the areas of the hydroelectric facilities that are currently in working condition and in use.
- The Company has the right to request the forcible acquisition of real estate and the establishment of easements in its favor in accordance with the provisions of Law No.6 and its regulation.

Guarantee

During June 2016, the Company has given unconditional and irrevocable guarantee for the payment of the capital and interest related with the debt agreement of Gas Natural Atlántico II, S.R.L. indirect subsidiary of 100% of The AES Corporation by \$30,060. The total fee charged was \$450, recognized as an account receivable and the total commitment was \$450, recognized as an account payable in the balance sheet.

AES Panamá, S.R.L.

Notes to Unaudited Interim Financial Statements

June 30, 2016

(Amounts stated in thousands of US dollars)

13. Commitments and Contingencies (continued)

Contingencies

The Company is involved in certain legal processes as part of the ordinary course of business. It is the opinion of the lawyers and the Company that none of the outstanding claims will have an adverse effect on the results of its operations, financial position, or cash flows.

The Company may be exposed to environmental costs as part of the ordinary course of business. The liabilities are recognized when the environmental impact studies indicate that corrective measures are probable and the costs can be reasonably estimated.

The estimates of the liabilities are based on currently available facts, existing technology, and current laws and regulations. They also take into consideration the probable effects of inflation and other social and economic factors, and include an estimate of associated legal costs. As of June 30, 2016 and December 31, 2015, there are no known environmental liabilities.

The ASEP issued on October 22, 2010, Resolution AN No.3932-Elec related to dam safety in the electric sector. This legislation provides very sensitive and important issues concerning safety and the environment. The resolution took effect on November 9, 2011.

As of December 31, 2012, the Company was preparing its draft amendments to the Plan of Action for Emergencies (PADE) of the Bayano plant to present it to the ASEP, which was approved on 2013; the PADE of Esti, La Estrella and Los Valles are still under review by the ASEP. As for the rules related to dam safety, the Company contracted a consulting firm to review the adequacy of all documents of the Central Bayano, who is currently in the process of reviewing the documents to be delivered to ASEP. For Chiriquí, efforts are being made to hire a consultant.

In October 2015, Ganadera Guerra, S.A. and Constructora Tymsa, S.A. filed separate lawsuits against AES Panama in the local courts of Panama. The claimants allege that AES Panama profited from a hydropower facility (La Estrella) being partially located on land owned first by Ganadera Guerra, S.A. and later by Constructora Tymsa, S.A., and that AES Panama must pay compensation for its use of the land. The damages sought from AES Panama are approximately \$680,000 to Ganadera Guerra, S.A. and \$100,000 to Constructora Tymsa, S.A.

14. Retirement Plans and Seniority Premiums

According to Panamanian labor laws, the Company is required to contribute to a severance fund to cover payments and seniority premium of employees upon retirement or termination. The contributions are based on 1.92% for the seniority premiums and 0.32% for severance pay of the remuneration paid to employees. The severance pay fund must be deposited with and administered by an authorized private institution.

AES Panamá, S.R.L.**Notes to Unaudited Interim Financial Statements****June 30, 2016***(Amounts stated in thousands of US dollars)***14. Retirement Plans and Seniority Premiums (continued)**

Additionally, the Company offers a defined contribution plan available to all employees. The Company makes contributions of up to 9% of their annual salary (2015: 9%), in addition to the possibility of discretionary contributions by the employees. The contributions to the plan are restricted for a period of 10 years. The Company had contributed \$173 and \$73 to the plan for the six months periods ended June 30, 2016 and 2015, respectively.

The Company also offers its employees a bonus in the form of shares of The Corporation. These shares are deposited in a Trust Fund known as the “Non Contributive Pension Plan” which is managed by an authorized third party that maintains individual accounts for each employee. The contributions to this plan are subject to the decisions of the Board of Directors and the calculations are based on a percentage of the salary of each permanent employee. The provision for this contribution amounted to \$149 and \$101 for the six months periods ended June 30, 2016 and 2015, respectively.

15. Other Cost of Electricity Sales

The other costs of electricity sales for the six months periods ended June 30, 2016 and 2015, are as follows:

	<u>Jun-2016</u>	<u>Jun-2015</u>
Fuel and generation related costs	\$ 11,357	\$ 8,198
Transmission charges	1,607	2,151
Penalty	—	2,726
	<u>\$ 12,964</u>	<u>\$ 13,075</u>

16. Operating and Maintenance Expenses

The operating and maintenance expenses for the six months periods ended June 30, 2016 and 2015, are as follows:

	<u>Jun-2016</u>	<u>Jun-2015</u>
Salaries, wages and benefits	\$ 7,024	\$ 6,267
Service and maintenance contracts	2,319	1,324
Insurance	2,090	2,164
Leasing expenses	1,605	1,128
Other market related fee	973	656
Others	829	702
Basic services	554	500
Advisory and professional fees	383	420
	<u>\$ 15,777</u>	<u>\$ 13,161</u>

AES Panamá, S.R.L.**Notes to Unaudited Interim Financial Statements****June 30, 2016***(Amounts stated in thousands of US dollars)***17. Other Income (Expenses), Net**

For the six months periods ended June 30, 2016 and 2015, other income (expenses) is as follows:

	<u>Jun-2016</u>	<u>Jun-2015</u>
Administrative services income	\$ 313	\$ 272
Rental income	135	135
Other income (expenses)	67	(9)
Loss on debt extinguishment	—	(14,632)
Gain on sale of fixed assets	—	52
Inventory discard	—	(399)
Total other income (expenses), net	<u>\$ 515</u>	<u>\$ (14,581)</u>

The loss on debt extinguishment, net includes (1) payment of premium for early debt extinction by the amount of \$12,480 (2) expense recognition of deferred financing costs by paying off previous debt (Bonds 2016) for the sum of \$1,815 (3) debt discount from previous bonds (bonds 2016) of \$337.

18. Income Tax

For the six months periods ended June 30, 2016 and 2015, the income tax expense (benefit) consists of the following:

	<u>Jun-2016</u>	<u>Jun-2015</u>
Current	\$ 6,028	\$ 798
Deferred	561	787
Income tax expense (benefit)	<u>\$ 6,589</u>	<u>\$ 1,585</u>

In Panama, as established under the Tax Code, the income tax for individuals legal entities in which the state has a stockholding of more than 40%, is calculated using a rate of income tax of 30%.

Additionally, entities whose taxable income exceeds \$1,500 calculate the annual income tax by applying the tax rate to the greater of:

- The net taxable income calculated by the established method (Traditional)
- The net taxable income resulting from applying the total taxable revenues by 4.67%, (Alternate Method of calculating income tax - CAIR).

For the period ended June 30, 2016, the Company generated taxable earnings. As a result, the estimate of current income tax has been determined under the traditional method, applied the 30% rate to taxable income for determining the tax year.

AES Panamá, S.R.L.

Notes to Unaudited Interim Financial Statements

June 30, 2016

(Amounts stated in thousands of US dollars)

18. Income Tax (continued)

For the six months ended June 30, 2016 and 2015, the Company's statutory income tax rate was 30%. During those same periods, its effective income tax rate for financial reporting purposes was approximately 27.20% and 19.48% respectively. The primary differences between the expected statutory income tax rates relate to the tax treatment for equity earnings in affiliate. Other less significant differences also existed in both periods.

The current tax code establishes that taxpayers must submit a statement of estimated income that will be realized in the next year which follows the presented tax return. This estimated income as declared shall not be less than the income specified in the tax return. Taxpayers must make advance payments based on the determination of the estimated statement divided into three installments to be paid quarterly in the months of June, September and December.

Tax returns of the Company are subject to review by the tax authorities for the last three fiscal years including the year ended December 31, 2015 according to the tax regulations.

The deferred tax asset is composed mainly by the difference in the tax basis of assets, tax loss carryforward provisions and expenses according to current tax legislation will be deductible when they are actually paid or used.

Net operating loss carry forward

According to the tax law in force, the net operating losses can be deducted ratable over the next 5 years; this deduction can not reduce by more than 50% the taxable income for those years. As of June 30, 2016, the Company has a net operating loss carry forward that can be applied to future taxable income which expire as follows:

<u>Year</u>	<u>Total</u>
2016	\$ 14,984
2017	14,984
2018	14,984
2019	10,597
Loss carry forward	\$ 55,549

Based on current and projected results of the Company, the administration believes there will be enough taxable income to realize the deferred tax assets recognized.

Law No. 28 of June 20, 1995, which was in force until the year 2000, allowed companies to invest in technology in order to obtain an investment tax credit. The investment had to be validated by a qualified technical institution in order to apply for this fiscal incentive that consists of the application of a tax credit of 25% on income tax payable in the fiscal period. The tax credit is applicable until the Company has fully utilized the total cost of the investments.

AES Panamá, S.R.L.

Notes to Unaudited Interim Financial Statements

June 30, 2016

(Amounts stated in thousands of US dollars)

18. Income Tax (continued)

The tax credit would apply until the Company consummates the total investment cost. As of June 30, 2016 and December 31, 2015, the liability for deferred income tax comprises the depreciation of the assets that gave rise to the investment tax credit, which has been used by the Company to reduce the current 25% tax each year. For tax purposes, the depreciation of these assets is not considered deductible while for financial purposes it is depreciated over the asset's useful life.

Since 2009, the Company applies the tax benefit of accelerated depreciation (sum of digits) one of the methods allowed under income tax rules. The application of this method was calculated for a group of Company assets, but such assets for financial reporting purposes, are depreciated by the straight-line method.

Dividend tax

Stockholders pay an income tax of ten percent (10%) which is withheld from the dividends they receive. Without dividends, or if the total distribution is less than forty percent (40%) of the net taxable income, the Company should issue a tax payment over dividends equal to four percent (4%) until these dividends are finally declared. This rate of four percent (4%) is called "Deemed Tax" and is considered an advance dividend tax. For the six months periods ended June 30, 2016 and 2015, the Company do not has paid deemed tax.

Transfer Pricing Law

During 2013, the tax authorities established transfer pricing regulations. Such regulations apply to any transaction that the taxpayer had with related parties that are tax residents of other jurisdictions, provided that such operations take effect as revenues, costs or deductions in determining taxable income for purposes of income tax in the fiscal period the operation occurs.

Thus, taxpayers must meet annually and as of fiscal year 2013, with the obligation to prepare a transfer pricing report (Report 930) six months after the end of the fiscal period, and must have, at the same date, a study that covers that year and contains information and analysis to assess and document their transactions with related parties in accordance with the provisions of the Tax Code. The Company determined that these obligations did not have significant impact on the income tax provision in 2016.

Tax contingencies

According to *Accounting Standard Codification (ASC)* 740, the Company must recognize the effect of tax positions in the financial statements if they meet the criterion that it is "more likely than not." While assessing the items related to this criterion, the Company has to determine if each tax position can be maintained based solely on its technical merit in the event of an inspection by the tax authorities.

AES Panamá, S.R.L.**Notes to Unaudited Interim Financial Statements****June 30, 2016***(Amounts stated in thousands of US dollars)***18. Income Tax (continued)**

The interpretation requires that the Company establish liabilities to reflect the portion of those positions that cannot be concluded as “more likely than not” to be realized before the last instance of final liquidation. They are referred to as liabilities for tax benefits not recognized under ASC 740. By adopting this interpretation, the Company identified and assessed any potential uncertain tax positions and concluded that there are no uncertain tax positions that require a liability to be recorded in the financial statements. Management expects that the tax authorities will accept these positions upon examination, and has a high degree of confidence in the technical merit of the positions. Consequently, Management expects that the total amount of the tax positions will finally be realized and recognized in the financial statements.

19. Fair Value of Financial Instruments

The Company established a process to determine fair value of its financial statements. The determination of fair value considers market quoted prices. Nevertheless, in many occasions no quoted market prices exist for several of the Company’s financial instruments. In cases in which market quoted prices are not available, the fair value is based on estimates using current value or other valuation techniques. These techniques are affected significantly by the assumptions employed, including the discount rate and future cash flows.

Financial instruments at book value which approximates fair value

Due to their short-term nature, the book value of certain financial assets, including cash, accounts receivable and related party accounts receivable, as well as certain financial liabilities including accounts payable and related party accounts payable, are considered to be their fair value.

Bonds Payable

The estimated fair value as of June 30, 2016 and December 31, 2015 is based on information available as of the date of the balance sheets. The Company does not have knowledge of any factor that might significantly affect the estimates of fair value as of those dates. For bonds payable with a fixed rate, the Company established a process to determine fair value.

2016 Bonds

The determination of fair value considers the quoted price in the Panamanian market (Level 1), as detailed below:

	2016		2015	
	Book value	Fair value	Book value	Fair value
Financial Liabilities:				
Bonds payable, short term 2016	\$ 82,496	\$ 84,763	\$ 82,618	\$ 85,599
Total	\$ 82,496	\$ 84,763	\$ 82,618	\$ 85,599

AES Panamá, S.R.L.**Notes to Unaudited Interim Financial Statements****June 30, 2016***(Amounts stated in thousands of US dollars)***19. Fair Value of Financial Instruments (continued)****2022 Bonds**

The determination of fair value considers the quoted price in the Panamanian market (Level1), as detailed below:

	2016		2015	
	Book value	Fair value	Book value	Fair value
Financial Liabilities:				
Bonds payable, long term 2022	\$ 300,000	\$ 306,750	\$ 300,000	\$ 297,750
Total	\$ 300,000	\$ 306,750	\$ 300,000	\$ 297,750

20. Credit Risk

The Company has exposure to credit risk on financial assets.

Credit risk is the risk that the borrower or issuer of a financial asset, owned by the Company, does not comply fully and on time, with any payment to be made in accordance with the terms and conditions agreed to when we acquired or originated the respective financial asset.

The Company management has financial instruments with minimal risk of loss because electricity market rules provide for the collection and payment within 30 days of delivery of the invoice.

At balance sheet dates, there are no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the balance of accounts receivable included in the balance sheets.

21. Subsequent Events

During July 2016, the Company declared and paid dividends by \$35,293.

Subsequent events were evaluated by the Administration until September 26, 2016, the date on which financial statements were authorized by the Administration for its issuance.

Financial Statements

AES Panamá, S.R.L.

*For the years ended December 31, 2015 and 2014
with Report of Independent Auditors*

CONTENTS

Report of Independent Auditors.....	1
Balance Sheets	2
Statements of Comprehensive Income.....	4
Statements of Changes in Stockholders' Equity	5
Statements of Cash Flows	6 - 7
Notes to the Financial Statements	8 - 45



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Report of Independent Auditors

The Partners
AES Panama, S.R.L

We have audited the accompanying financial statements of AES Panama, S.R.L, which comprise the balance sheets as of December 31, 2015 and 2014, and the related statements of comprehensive income, changes in stockholders' equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of AES Panama, S.R.L at December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Emphasis of matter

The accompanying financial statements have been retrospectively adjusted for the matters discussed in Note 3.a.

March 30, 2016 (except for note 3.a., as to which the date is September 26, 2016)
Panama, Republic of Panama

AES Panamá, S.R.L.**Balance Sheets****December 31, 2015 and 2014***(Amounts stated in thousands of US dollars)*

Notes		2015	2014
	ASSETS		
	Current assets		
	Cash and cash equivalents	\$ 33,089	\$ 56,469
	Accounts receivable:		
	Trade	4,859	6,485
4	Related parties	57,790	54,521
4	Affiliates	6,818	3,643
	Other	79	150
	Inventories, net	6,297	5,993
6	Prepaid expenses	806	1,274
18	Deferred income tax	—	5,187
	Total current assets	109,738	133,722
	Long term assets		
	Property, plant and equipment, net	432,212	426,603
5	Total property, plant and equipment, net	432,212	426,603
	Non current assets		
7 & 12	Restricted cash	2,635	9,841
4 & 6	Prepaid expenses	10,489	5,245
8	Intangible assets, net	18,000	—
	Advances to suppliers	1,020	3,180
9	Investment in affiliate	45,166	43,753
	Others	1,123	835
	Total non current assets	78,433	62,854
	TOTAL ASSETS	\$ 620,383	\$ 623,179

Annual Financial Statements

Notes		2015	2014
	LIABILITIES AND STOCKHOLDERS' EQUITY		
	Current liabilities		
11	Loans payable	\$ —	\$ 53,186
12	Bonds payable, net	82,296	—
	Accounts payable:		
	Suppliers	23,478	21,323
4	Related parties	4,656	3,808
4	Affiliates	34,519	42,486
	Interest payable	438	592
	Income tax payable	7,818	2,437
	Accrued expenses and other liabilities	6,330	6,022
	Total current liabilities	<u>159,535</u>	<u>129,854</u>
	Non current liabilities		
	Employee benefits	749	672
11	Loans payable	—	47,562
	Accounts payable	267	267
12 & 19	Bonds payable, net	294,688	298,226
18	Deferred income tax, net	42,863	40,172
5	Asset retirement obligation	1,266	1,213
	Total non current liabilities	<u>339,833</u>	<u>388,112</u>
	STOCKHOLDERS' EQUITY		
	Participating stock	141,139	141,139
	Additional paid-in-capital	14,252	14,191
	Accumulated deficit	(30,127)	(48,642)
	Deemed tax	(1,475)	(1,475)
	Other comprehensive income of affiliate	(2,774)	—
	Total stockholders' equity	<u>121,015</u>	<u>105,213</u>
	TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 620,383</u>	<u>\$ 623,179</u>

The accompanying notes are an integral part of these financial statements.

AES Panamá, S.R.L.
Statements of Comprehensive Income
For the years ended December 31, 2015 and 2014
(Amounts stated in thousands of US dollars)

<i>Notes</i>	2015	2014
4 Electricity sales	\$ 299,106	\$ 261,849
Operating costs and expenses		
4 Electricity purchases	123,044	207,716
15 Other costs of electricity sales	29,745	3,022
4 Transmission costs	3,553	4,202
4, 6, 10 Operating lease expense	7,385	7,385
16 Operating and maintenance expenses	29,583	21,686
5 Depreciation and amortization	30,323	24,074
4 Management fee	6,092	5,829
Total operating costs and expenses	229,725	273,914
Operating income (loss)	69,381	(12,065)
Other (expenses) income		
4 Interest income	135	955
Interest expense	(23,061)	(21,526)
5 Accretion expense	(53)	—
4 & 17 Other income (expenses), net	5,077	(6,030)
9 Equity earnings in investment in affiliate	5,242	5,387
Total of other expenses, net	(12,660)	(21,214)
Income (loss) before income tax expense	56,721	(33,279)
18 Income tax expense (benefit)	13,772	(5,127)
Net income (loss)	\$ 42,949	\$ (28,152)
Other comprehensive income of affiliate	1,292	—
Total comprehensive income of the year	\$ 44,241	\$ (28,152)

The accompanying notes are an integral part of these financial statements.

AES Panamá, S.R.L.
Statements of Changes in Stockholders' Equity
For the years ended December 31, 2015 and 2014

(Amounts stated in thousands of US dollars)

	Participating Stock	Treasury Stock	Additional Paid-in- Capital	Accumulated Deficit	Deemed Tax	Other Comprehensive Income of Affiliate	Total Stockholders' Equity
Balances as of January 1, 2013	\$ 141,402	\$ (263)	\$ 14,150	\$ (20,490)	\$ (1,468)	\$ —	\$ 133,331
Net loss	—	—	—	(28,152)	—	—	(28,152)
Deemed tax	—	—	—	—	(7)	—	(7)
Share based compensation	—	—	41	—	—	—	41
Treasury stock cancelled	(263)	263	—	—	—	—	—
Common shares cancelled	(141,402)	—	—	—	—	—	(141,402)
Participating stock issued	141,402	—	—	—	—	—	141,402
Balances as of December 31, 2014	<u>\$ 141,139</u>	<u>\$ —</u>	<u>\$ 14,191</u>	<u>\$ (48,642)</u>	<u>\$ (1,475)</u>	<u>\$ —</u>	<u>\$ 105,213</u>
Balances as of January 1, 2015	\$ 141,139	\$ —	\$ 14,191	\$ (48,642)	\$ (1,475)	\$ —	\$ 105,213
Net income	—	—	—	42,949	—	—	42,949
Dividends paid (Note 4)	—	—	—	(28,500)	—	—	(28,500)
Other comprehensive income of affiliate	—	—	—	4,066	—	(2,774)	1,292
Share based compensation	—	—	61	—	—	—	61
Balances as of December 31, 2015	<u>\$ 141,139</u>	<u>\$ —</u>	<u>\$ 14,252</u>	<u>\$ (30,127)</u>	<u>\$ (1,475)</u>	<u>\$ (2,774)</u>	<u>\$ 121,015</u>

The accompanying notes are an integral part of these financial statements.

AES Panamá, S.R.L.**Statements of Cash Flows****For years ended December 31, 2015 and 2014***(Amounts stated in thousands of US dollars)*

	2015	2014
Cash flows from operating activities		
Net income (loss)	\$ 42,949	\$ (28,152)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	28,127	24,061
Amortization	2,196	13
Loss (gain) on sale of fixed assets	748	(87)
Loss on debt extinguishment	14,645	—
Inventory obsolescence	496	—
Accretion expense	53	—
Deferred income tax	7,878	(9,301)
Amortization of deferred financing cost	1,030	644
Equity earnings in investment in affiliate	(5,242)	(5,387)
Amortization of bond discount	194	285
Share based compensation	61	41
Cash flows before changes in operating assets and liabilities	93,135	(17,883)
Changes in operating assets and liabilities:		
Increase in accounts receivable	(4,685)	(15,171)
Increase in inventories	(800)	(3,593)
Decrease in prepaid income tax	—	1,736
Increase in prepaid expenses	(4,776)	(4,364)
Dividends received	5,122	—
(Decrease) increase in accounts payable	(10,588)	9,385
Increase in income tax payable	5,381	2,437
(Decrease) increase in interest payable	(154)	63
Increase (decrease) in accrued expenses and other liabilities	308	(531)
Increase in employee benefits	77	106
Net cash provided by (used in) operating activities	83,020	(27,815)
Cash flows from investing activities		
Decrease (increase) in advances for the acquisition of property, plant and equipment	2,160	(3,180)
Acquisition of property, plant and equipment	(574)	(811)
Construction in progress	(28,527)	(39,346)
Acquisition of intangible assets	(13,500)	—
Proceeds from the sale of property, plant and equipment	64	94
Restricted cash	7,206	(1)
Other non current assets	(288)	(73)
Net cash used in investing activities	(33,459)	(43,317)
Carried forward...	\$ 49,561	\$ (71,132)

AES Panamá, S.R.L.
Statements of Cash Flows (continued)
For years ended December 31, 2015 and 2014
(Amounts stated in thousands of US dollars)

	2015	2014
Brought forward...	\$ 49,561	\$ (71,132)
Cash flows from financing activities		
Loan payments	(122,300)	(35,000)
Proceeds from new loans	20,000	137,300
Bonds payments	(217,296)	—
Proceeds from new bonds	300,000	—
Payment for financing costs	(5,865)	(1,552)
Make-whole premiums payment	(12,480)	—
Dividends paid	(28,500)	—
Acquisition of intangible assets	(6,500)	—
Net cash (used in) provided by financing activities	(72,941)	100,748
Net (decrease) increase in cash and cash equivalents	(23,380)	29,616
Cash and cash equivalents at the beginning of the year	56,469	26,853
Cash and cash equivalents at the end of the year	\$ 33,089	\$ 56,469
Supplementary disclosure		
Interest paid	\$ 23,490	\$ 20,929
Acquisition of property, plant and equipment in accounts payable	\$ 5,629	\$ 4,375
Supplementary disclosure of non-cash activities		
Settlement of commercial accounts with AES Changuinola, S.R.L.	\$ —	\$ 6,979
Asset retirement obligation capitalized	\$ 53	\$ 1,213
Common stock cancelled	\$ —	\$ (141,402)
Participating stock issued	\$ —	\$ 141,402

The accompanying notes are an integral part of these financial statements.

AES Panamá, S.R.L.

Notes to the financial statements

December 31, 2015 and 2014

(Amounts stated in thousands of US dollars)

1. Corporate Information

AES Panamá, S.R.L. (the Company) was incorporated on October 26, 1999 as a result of the merger of Empresa de Generación Eléctrica Chiriquí, S. A. (Chiriquí) and Empresa de Generación Eléctrica Bayano, S. A. (Bayano) and being Empresa de Generación Eléctrica S.A. (Chiriquí) the surviving company. Chiriquí and Bayano were incorporated as companies on January 19, 1998 in connection with the privatization and restructuring of the Panamanian energy industry. At the time of its incorporation, the Company operated a hydroelectric power plant with an installed capacity of 150 megawatts in Bayano, a thermal power plant with a capacity of 42.8 megawatts located in Panama City (which was shut down in 2005 and transferred to Empresa de Generación, S. A. (EGESA) who assumed all the obligations and responsibilities of the plant on October 18, 2006 as established in the transfer agreement), and the hydroelectric power plants of La Estrella and Los Valles with installed capacities of 42 and 48 megawatts, respectively, located in the Province of Chiriquí. The Bayano plant completed the expansion of two existing units increasing its total capacity from 75 to 87 megawatts for both units and also the construction of a third unit of 86 megawatts was finished in February 2004, for a total of 260 megawatts of installed capacity for the Bayano plant. The Company built the Estí hydroelectric plant with an installed capacity of 120 megawatts, which is located in the Province of Chiriquí and initiated its commercial operation on November 20, 2003. Additionally, in March 2006, the Company began a project to increase capacity of generating units at La Estrella and Los Valles power plants to 45 and 51 megawatts, respectively. In 2007, their capacity was increased again to 48 and 54 megawatts, respectively.

The Company began in the last quarter of 2014, the installation of a thermal power plant barge called "Thermal Power Barge Project Estrella del Mar I" with an installed capacity of 72 MW using Bunker C (Fuel Oil No. 6) as its main fuel. Estrella del Mar I is located in Cativá, province of Colón and began operating on March 25, 2015. With the installation of this new thermal power plant the company has a total capacity of 554 megawatts.

On September 25, 2013, the Company converted into equity ownership the accounts receivables with its affiliate AES Changuinola, S.R.L. Through this transaction, the Company became the owner of 20% of AES Changuinola, S.R.L. On November 25, 2013, the transaction was completed upon the transfer and issuance of the corresponding shares.

On October 16, 2014, the Company structure was changed to a limited liability company ("S.R.L." or "Sociedad de Responsabilidad Limitada" in Spanish). The change was approved by the Company's Board of Directors and Stockholders. As a result of this change, the Company canceled its outstanding common stock and issued participating stock to its members representing the same percentage of ownership. In addition, treasury stock was canceled.

On June 25, 2015, "The Partners" approved the transfer of participating stock owned by AES Panamá Energy, S.A. in favor of AES Elsta, B.V., 100% subsidiary of The AES Corporation, as result of a corporate restructuring of the Parent Company. The transfer was duly registered in the Public Registry of Panama and was effective on September 30, 2015.

AES Panamá, S.R.L.

Notes to the financial statements

December 31, 2015 and 2014

(Amounts stated in thousands of US dollars)

1. Corporate Information (continued)

As of December 31, 2015, AES Elsta, B.V., 100% subsidiary of The AES Corporation (the Corporation), owns 105,353,687 (49.07%) of the Company's participating stock, the Republic of Panama owns 108,347,536 (50.46%) of the Company's participating stock, and employees and former employees own 1,016,205 (0.47%) of the Company's participating stock.

The Company generates and sells electricity in the Panamanian electric market and the Regional Electric Market (MER), where the Panamanian electric market is regulated by the National Authority of Public Services (ASEP by its initials in Spanish) (formerly Regulator of Public Services).

As of December 31, 2015, 91% of the energy capacity of the plants in operation of the Company are contracted to date under several energy purchases agreements to purchase-sell electrical power and energy or only electrical power to distribution companies, "large customers" which are defined by Law 6 of February 3, 1991, as those users with peak demand over 100 KW per site, who have the option to purchase energy directly from other agents of the electricity market and the generation company AES Changuinola, S.R.L. These agreements have average terms of one to ten years. Excess energy is sold in part under contract to distribution companies and the rest in the spot market at the prevailing rates (spot prices).

2. Basis for the Preparation of Financial Statements

These financial statements are prepared based on generally accepted accounting principles in the United States of America (US GAAP).

The accounting records are maintained in Balboas, the official currency of the Republic of Panama, which is the country in which the Company operates. The Balboa is on a par and is freely exchangeable with the US Dollar. The Republic of Panama does not issue paper currency; instead it uses the US dollar as the legal currency.

The financial statements and notes are presented in thousands of US dollars (\$), except otherwise indicated.

3. Summary of Significant Accounting Policies

The Company's significant accounting policies are summarized as follows:

Cash and cash equivalents

The Company considers as cash and cash equivalents its cash on hand, deposits in current and savings accounts, and time deposits with initial maturity dates that are less than three (3) months.

AES Panamá, S.R.L.

Notes to the financial statements

December 31, 2015 and 2014

(Amounts stated in thousands of US dollars)

3. Summary of Significant Accounting Policies (continued)

Restricted cash

Restricted cash includes cash and cash equivalents, which have restricted availability, due to restrictions imposed by financing arrangements, which are used as collateral for the payment of interest on the 2016 bond described in Notes 7 and 12.

Accounts receivable

Accounts receivable are shown at their nominal value less an allowance for uncollectible accounts, if any. The estimated allowance considers the customer and related parties billing records, the age of the balances due, as well as specific evaluations of individual balances. As of December 31, 2015 and 2014, there are no allowances for uncollectible accounts.

Inventories

Inventories, which consist primarily of fuel, materials and spare parts, are valued at the lower of cost or market value. The cost is determined using the average cost method. The inventories include an allowance for obsolescence of \$496 and \$0 as of December 31, 2015 and 2014, respectively.

Property, plant and equipment

Property, plant and equipment are recorded at their acquisition cost, less accumulated depreciation. Cost includes major expenditures for improvements and replacement, including critical replacement parts for the turbine generator units, which extend useful lives or increases capacity. Maintenance and repair costs are charged to expense accounts as incurred. When assets are sold or retired, the corresponding cost and accumulated depreciation are removed, and the resulting gain or loss is reflected in the statements of comprehensive income.

Depreciation is calculated according to the useful life of the respective assets using the straight-line method.

The depreciation rates used are based on the estimated useful life of the assets and are described below:

	Useful Life
Buildings	30 to 50 years
Generating assets (generation equipment)	15 to 50 years
Generating assets (electricity equipment)	5 to 50 years
Generating assets (transmission equipment)	35 years
Office furniture and equipment	3 to 20 years
Vehicles	3 to 8 years

AES Panamá, S.R.L.

Notes to the financial statements

December 31, 2015 and 2014

(Amounts stated in thousands of US dollars)

3. Summary of Significant Accounting Policies (continued)

Asset retirement obligation

The Company records the fair value of the liability for a contractual obligation to retire an asset in the period in which the obligation is incurred. When a new liability is recognized, the Company capitalizes the costs of the liability by increasing the carrying amount of the related long-lived asset. The liability is accreted to its present value each period and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the obligation, the Company eliminates the liability and, based on the actual cost to retire, may incur a gain or loss.

Impairment valuation of long-lived assets

The Company assesses impairment of long-lived assets based on projected undiscounted cash flows whenever events or changes indicate that the value of an asset may not be recoverable. The carrying amount is not recoverable when the discounted future cash flows expected to result from the use of the asset are less than the carrying value of assets. The Company recognizes an impairment loss as the difference between the asset's carrying value and fair value determined based on non discounted future cash flows.

Investment in affiliate

Investments in entities over which the Company has the ability to exercise significant influence, but not control, are accounted for using the equity method of accounting and reported in "Investment in affiliate" on the Balance Sheets. The Company periodically assesses if there is an indication that the fair value of an equity method investment is less than its carrying amount. When an indicator exists, any excess of the carrying amount over its estimated fair value is recognized as impairment when the loss in value is deemed other-than-temporary.

The Company discontinues the application of the equity method when an investment is reduced to zero and the Company is not otherwise committed to provide further financial support to the investee. The Company resumes the application of the equity method if the investee subsequently reports net income to the extent that the Company's share of such net income equals the share of net losses not recognized during the period in which the equity method of accounting was suspended.

Operating lease

Operating leases are leases where the lessor retains substantially all the risks and rewards of ownership of the asset. The minimum lease payments, according to the rates established in the respective contracts, are recognized as expense on a straight-line basis over the lease term. The excess of minimum lease payments over lease expense is recognized as a prepaid asset or as a liability, whichever applicable.

AES Panamá, S.R.L.

Notes to the financial statements

December 31, 2015 and 2014

(Amounts stated in thousands of US dollars)

3. Summary of Significant Accounting Policies (continued)

Major and minor maintenance

Disbursements for major maintenance represent the reconditioning of the plant or other assets. These expenses are capitalized and amortized based on the useful life of each asset. Minor maintenance expenses are charged directly to operating and maintenance expenses in the statements of comprehensive income.

Construction in progress

Construction progress payments, engineering costs, insurance costs, salaries, interest and other costs directly relating to construction in progress are capitalized during the construction period, provided the completion of the project is deemed probable, or expensed at the time the Company determines that development of a particular project is no longer probable. The continued capitalization of such costs is subject to ongoing risks related to successful completion, including those related to government approvals, site identification, financing, construction permitting and contract compliance. Construction in progress balances are transferred to electricity generation facilities when an asset group is ready for its intended use. Government subsidies, liquidated damages recovered for construction delays and income tax credits are recorded as a reduction to property, plant and equipment and reflected in cash flows from investing activities. The construction in progress consists primarily of costs associated with the barge, which was under construction at December 31, 2014. For the year ended December 31, 2015, the Company capitalized \$49,316 included in electricity generation facilities and \$15,520 included in construction in process related to some components still in process. During the construction period, interest is capitalized and included as part the cost of construction in process. For the years ended December 31, 2015 and 2014, the Company capitalized interest and financing costs of \$1,555 and \$987, respectively, which is transferred to fixed assets together with all construction costs upon the project completion.

Share based compensation

Certain Company employees were granted stock options under an option plan created by The Corporation. This plan allows for the issuance of options to purchase common stock of The Corporation at a price equal to 100% of the market price on the date on which the option is granted. Generally, the stock options issued under this plan become exercisable by employees one year after the grant date and vest over three years from the date of the grant (33% per year). The exercise prices of the options were \$11.89 and \$14.63 per share for 2015 and 2014, respectively.

AES Panamá, S.R.L.**Notes to the financial statements****December 31, 2015 and 2014**

*(Amounts stated in thousands of US dollars)***3. Summary of Significant Accounting Policies (continued)**

The weighted average fair value of the options granted under The Corporation plans was estimated as of the grant dates using the Black-Scholes option-pricing model with the following assumptions:

Assumptions	<u>2015</u>	<u>2014</u>
Expected life of the option	6.5 years	6 years
Risk-free interest rate	1.86%	1.86%
Expected volatility	25%	24%
Dividend yield	3%	1%
Fair value	\$2.07	\$3.26

The cost is measured at the date of the grant of the option based on the fair value of the option estimated by the Corporation and is expensed on a straight line basis for the required period of service to earn the right to exercise the option (vesting period) against a capital contribution (additional paid-in capital).

For the years ended December 31, 2015 and 2014, the compensation cost recognized of the options amounted to \$61 and \$41, respectively.

Deferred financing costs

Financing costs on long-term loans obtained for the construction of assets are capitalized and amortized during the financing period using the effective interest rate method over the life of the loan. For the years ended December 31, 2015, and 2014, the deferred financing costs amounted to \$5,634 and \$2,710, respectively.

Revenue recognition and concentration

Revenues produced by the sale of electricity are recognized based on output delivered to clients according to the monthly reports prepared by the National Dispatch Center of the Republic of Panama, considering rates and kilowatts specified under contract terms; the Company also recognizes revenues from the sale of energy in the spot market. For the years ended December 31, 2015 and 2014, 90% and 86% of contract revenues, respectively, were derived from sales to distribution companies (EDEMET, EDECHI and ENSA), and the "Empresa de Generación Eléctrica S.A. (EGESA), eleven large customers, (Importadora Ricamar, Cemento Panamá, Oficina de Electrificación Rural (old BOFCO), Contraloría General de la República, Caja de Seguro Social, Sunstar Hotel, Gold Mills, Avipac, Inc, Cemento Interoceanico, United States Embassy and Varela Hermanos) and reserve contracts with the Company's affiliate AES Changuinola, S.R.L. In June 2014, the Company signed a mutual consent with Business Park I for the early termination of the Contracts to supply Firm Power and Energy to large customers.

AES Panamá, S.R.L.

Notes to the financial statements

December 31, 2015 and 2014

(Amounts stated in thousands of US dollars)

3. Summary of Significant Accounting Policies (continued)

Interest income

Interest income corresponds to interest earned on time deposits and commercial interests that are determined by customer contracts.

Income tax

The income tax for the year comprises current tax and deferred tax. The income tax is recognized in the statements of comprehensive income for the current year, except for taxes relating to items directly linked to equity, in which case they are recognized in shareholders' equity.

The current income tax relates to the expected tax payable on taxable income, using the current tax rate and any other adjustment to tax payable for previous years.

The deferred income tax is calculated based on the liability method, considering the temporary differences between the carrying amounts of assets and liabilities reported for financial purposes and the amounts used for taxation purposes. The resulting value of these differences will be recognized as an asset or liability in the balance sheets and valued at the tax rate that management considers these differences will be realized.

The amount of deferred income tax recognized in the statements of comprehensive income is based on the embodiment of timing differences in the respective fiscal year, using the income tax rate at the date of the relevant tax year. The Company establishes a valuation allowance when it is more likely than all or a portion of a deferred tax asset will not be used.

Use of estimates

The presentation of the financial statements in accordance with generally accepted accounting principles in the United States requires management to make estimates and assumptions affecting the reported amounts of assets, liabilities, gain and losses, as well as the disclosure of contingent assets and liabilities. Actual results might differ from these estimates. The most important estimates are the useful lives of long-lived assets, the assessments of the asset retirement obligation and obsolescence reserve for inventory.

Seniority premiums and termination severance provision

According to the Panamanian Labor Code, upon termination of any employee with an open ended contract, regardless the causes, the employee is entitled to a seniority premium at the rate of one week's salary for every year of work, since they were first employed. Seniority premiums represent 1.92% of total salaries paid and are reported in the balance sheets under employee benefits.

AES Panamá, S.R.L.

Notes to the financial statements

December 31, 2015 and 2014

(Amounts stated in thousands of US dollars)

3. Summary of Significant Accounting Policies (continued)

Law N° 44 dated August 12, 1995, introduced reforms to the Panamanian Labor Code by requiring all employers to make a cash contribution to a severance fund that would cover the payment of a seniority premium to the employee and severance in case of unjustified dismissal or resignation. This fund is based on the contribution on the seniority premiums and 5% quote of the monthly severance.

New accounting pronouncement adopted

The following accounting pronouncement has been adopted by the Company in 2015:

ASU No. 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes

Effective December 31, 2015, the Company prospectively adopted ASU No. 2015-17, which requires that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as noncurrent on the balance sheet. As a result, each jurisdiction will now only have one net noncurrent deferred tax asset or liability. The guidance does not change the existing requirement that only permits offsetting within a jurisdiction; that is, companies will remain prohibited from offsetting deferred tax liabilities from one jurisdiction against deferred tax assets of another jurisdiction. Additionally, the current requirement that deferred tax liabilities and assets of a tax-paying component of an entity be offset and presented as a single amount is not affected by the update. As December 31, 2015, the Company elected to apply this ASU 2015-17 prospectively; and the prior periods were not adjusted.

Accounting Pronouncement issued but not yet effective

ASU No. 2014-09/2016-08/2016-10/2016-12 Revenue from Contracts with Customers (Topic 606)

The Revenue from Contracts with Customers standard provides a single and comprehensive revenue recognition model for all contracts with customers to improve comparability. The standard contains principles to determine the measurement and timing of revenue recognition. The standard requires an entity to recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The amendments to the standard provide further clarification on contract revenue recognition specifically related to the implementation of the principal versus agent evaluation, the identification of performance obligations, clarification on accounting for licenses of intellectual property, and allows for the election to account for shipping and handling activities performed after control of a good has been transferred to the customer as a fulfillment cost. The implementation will be a full retrospective or modified retrospective approach and the date of adoption is January 1, 2018 (deferred by ASU No. 2015-14). Earlier application is permitted only as of January 1, 2017. The Company is currently evaluating the impact of adopting the standard on its financial statements

AES Panamá, S.R.L.

Notes to the financial statements

December 31, 2015 and 2014

(Amounts stated in thousands of US dollars)

3. Summary of Significant Accounting Policies (continued)

ASU No. 2014-12, Compensation — Stock Compensation (Topic 718)

In June 2014, the FASB issued ASU No. 2014-12, which is intended to resolve the diverse accounting treatment in practice with compensation awards. The objective of the new standard is to clarify the treatment of accounting for performance targets that affect award vesting. The standard is effective for annual reporting periods beginning after December 15, 2015 and interim periods therein. Early adoption is permitted. The standard permits the use of either a prospective or modified retrospective approach. The Company has not yet selected a transition method and is currently evaluating the impact of adopting the standard on its financial position and results of operations, but does not expect such impact to be material.

ASU No. 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory

In July 2015, the FASB issued ASU No. 2015-11, which simplifies the subsequent measurement of inventory. It replaces the current lower of cost or market test with a lower of cost or net realizable value test. The standard is effective for annual reporting periods beginning after December 15, 2016, and interim periods therein. Early adoption is permitted. The new guidance must be applied prospectively. The Company is currently evaluating the impact of adopting the standard on its financial position and results of operations.

ASU No. 2015-03, Interest — Imputation of Interest (Subtopic 835-30)

In April 2015, the FASB issued ASU No. 2015-03, which simplifies the presentation of debt issuance costs by requiring that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this update. The standard is effective for annual reporting periods beginning after December 15, 2015 and interim periods therein, and requires the use of the full retrospective approach. Early adoption is permitted for financial statements that have not been previously issued. As of December 31, 2015, the Company had approximately \$5,634 in deferred financing costs classified in other current and noncurrent assets that would be reclassified to reduce the financial debt upon adoption of ASU No. 2015-03. See Retrospective adjustments to Financial Statements in this section which describes how this new standard was implemented in these financial statement.

ASU No. 2016-02 Leases (Topic 842)

On February 25, 2016, FASB issued ASU 2016-02, which requires all lessees to report a right-of-an asset and a liability for the obligation to make payments for all leases with the exception of those leases with a term of 12 months or less. All other leases will fall into one of two categories, i) Financing leases or operating leases. The standard is effective for annual periods beginning after December 15, 2018 for public entities and for annual periods.

AES Panamá, S.R.L.

Notes to the financial statements

December 31, 2015 and 2014

(Amounts stated in thousands of US dollars)

3. Summary of Significant Accounting Policies (continued)

a. Retrospective Adjustments to Financial Statements

The accompanying financial statements are being presented in connection with a contemplated debt re-financing transaction. Such financial statements have been retrospectively adjusted from those previously distributed by the Company for the reasons explained below:

Retrospective adoption of new accounting principles

Certain new US GAAP accounting pronouncements (ASC) became effective on January 1, 2016 with retrospective adoption either required or permitted for prior periods. An explanation of adjustments is below:

- The Company's implementation of the ASU 2015-03 Interest - Imputation of interest (subtopic 835-30) is disclosed in Note 12. ASC 2015-03 required both the prospective and retrospective presentation of the deferred debt issuance costs that were previously presented as an asset, to now be shown as part of the debt liability balance in a Company's balance sheets. As of December 31, 2015 and 2014, for comparability purposes, deferred financing cost reclassified to a reduction of debt balances were \$5,634 and, \$2,710, respectively. This resulted in a reduction in other assets, total assets, total debt and total liabilities for the amounts stated above. Additionally, the amortization of deferred financing cost were reclassified to interest expenses in the statement of comprehensive income by \$1,030 and \$644 for the years ended December 31, 2015 and 2014, respectively.

There was no impact on total equity, the statement of comprehensive income or the statement of cash flows from these adjustments.

Other retrospective adjustments (corrections)

The following other retrospective adjustments were made:

- Dividends received from Changuinola presented in the Statements of Cash Flows was adjusted from investing activities to operating activities in the amounts of \$5,122 during the year ended December 31, 2015.
- In the Company's previously issued financial statements it excluded a statement of comprehensive income as required by ASC 220. That financial statement is now presented with amounts as shown therein.

Giving consideration to the foregoing retrospective adjustments, other note disclosures presented herein have also been retrospectively adjusted so as to conform to this new presentation.

AES Panamá, S.R.L.

Notes to the financial statements

December 31, 2015 and 2014

(Amounts stated in thousands of US dollars)

4. Balances and Transactions with Affiliates of The Corporation and Related Parties

The Panamanian Government has a significant investment in the generation, distribution and transmission companies in the electric power industry in Panama. Consequently, all the transactions between the Company and such companies are considered transactions with related parties.

To reduce the impact of high spot market prices on hydro companies due to the transmission constraints to transport energy from the west of the country, delays in expansion projects and transmission line improvements, in 2013, the Panamanian Government began to negotiate compensation mechanisms. Under the agreement, the Government agreed to reimburse the difference between the cost at which the Company purchase energy in the spot market and the price at which the Company sell that energy under the PPAs with the Distribution Companies for an agreed quantity of 70 MW per hour, but subject to a maximum reimbursement of \$40,000 in 2014 and \$30,000 in each of 2015 and 2016. For the years ended December 31, 2015 and 2014, the Company has recorded \$5,760 and \$39,506, respectively, reducing costs of sales in the statements of comprehensive income. As of December 31, 2015, the Company has received \$36,594, in relation to 2014 grants and the outstanding balance of \$8,672 is recorded in the balance sheet under accounts receivable - related parties.

On April 20, 2015, the Comptroller General of Panama filed a motion before the Supreme Court to determine whether or not the resolution of the Panamanian government that authorizes an agreement with AES Panamá, S.R.L. (Cabinet Resolution No. 42 dated March 31, 2014, or the Cabinet Resolution) contravenes certain articles of the Panamanian Constitution. Pursuant to Panamanian law, the Supreme Court requested the Attorney General of Panama to render an opinion on the motion. On May 7, 2015, the Attorney General opined that the Cabinet Resolution should be declared unconstitutional. The Supreme Court ordered that a summons be published in a local newspaper for 3 consecutive days, so that within 10 business days of the last publication date, the Comptroller General and any other person may submit written arguments on the merits of the case. In July 2015, AES Panamá, S.R.L. lawyers submitted its closing arguments and at this moment, is pending of final decision. According to Company lawyers the probability of risks or implications by AES Panama S.R.L. is remote, based on the legal merits cited by the Attorney General of Panama.

AES Panamá, S.R.L.**Notes to the financial statements****December 31, 2015 and 2014***(Amounts stated in thousands of US dollars)***4. Balances and Transactions with Affiliates of The Corporation and Related Parties (continued)**

The balances and transactions with related parties as of December 31, 2015 and 2014, are as follow:

<u>In the balance sheets:</u>	<u>2015</u>	<u>2014</u>
Accounts receivable:		
Empresa de Distribución Eléctrica Metro Oeste, S. A. (EDEMET)	\$ 31,609	\$ 24,543
Elektra Noreste, S. A. (ENSA)	9,145	4,061
Ministerio de Economía y Finanzas	8,672	16,314
Empresa de Distribución Eléctrica Chiriquí, S. A. (EDECHI)	6,030	4,970
Empresa de Transmisión Eléctrica, S. A. (ETESA)	967	945
Caja de Seguro Social	678	518
Enel Fortuna, S.A.	332	697
Empresa de Generación Eléctrica Bahía Las Minas, S. A.	262	1,235
Contraloría General de la República	70	134
Oficina de Electrificación Rural (OER)	23	1,019
Autoridad del Canal de Panamá	2	85
	<u>\$ 57,790</u>	<u>\$ 54,521</u>
Accounts payable:		
Autoridad del Canal de Panamá	\$ 1,843	\$ 1,396
Empresa de Distribución Eléctrica Metro Oeste, S. A. (EDEMET)	830	82
Elektra Noreste, S. A. (ENSA)	809	18
Empresa de Transmisión Eléctrica, S. A. (ETESA)	572	1,015
Enel Fortuna, S. A.	355	1,237
Empresa de Generación Eléctrica Bahía Las Minas, S. A.	98	48
Empresa de Generación Eléctrica, S.A. (EGESA)	90	—
Empresa de Distribución Eléctrica Chiriquí, S. A. (EDECHI)	59	12
	<u>\$ 4,656</u>	<u>\$ 3,808</u>

AES Panamá, S.R.L.**Notes to the financial statements****December 31, 2015 and 2014***(Amounts stated in thousands of US dollars)***4. Balances and Transactions with Affiliates of The Corporation and Related Parties (continued)**

In the statements of comprehensive income, for the years ended December 31, 2015 and 2014:

<u>In the statement of comprehensive income:</u>	<u>2015</u>	<u>2014</u>
Electricity sales:		
Empresa de Distribución Eléctrica Metro Oeste, S. A. (EDEMET)	\$ 170,557	\$ 150,154
Elektra Noreste, S. A. (ENSA)	40,809	26,390
Empresa de Distribución Eléctrica Chiriquí, S. A. (EDECHI)	32,373	30,191
Empresa de Generación Eléctrica, S.A. (EGESA)	18,945	—
Empresa de Transmisión Eléctrica, S. A. (ETESA)	6,192	1,576
Caja de Seguro Social	3,191	2,852
Oficina de Electrificación Rural (OER)	2,164	19,696
Enel Fortuna, S.A.	2,123	7,182
Empresa de Generación Eléctrica Bahía Las Minas, S. A.	989	2,536
Contraloría General de la República	662	494
Autoridad del Canal de Panamá	81	101
	<u>\$ 278,086</u>	<u>\$ 241,172</u>
Transmission costs:		
Empresa de Transmisión Eléctrica, S. A. (ETESA)	\$ 3,362	\$ 3,006
Empresa de Distribución Eléctrica Metro Oeste, S. A. (EDEMET)	120	865
Elektra Noreste, S. A. (ENSA)	—	331
Empresa de Generación Eléctrica Bahía Las Minas, S. A.	\$ 71	\$ —
	<u>\$ 3,553</u>	<u>\$ 4,202</u>
Electricity purchases:		
Enel Fortuna, S. A.	\$ 8,010	\$ 17,512
Autoridad del Canal de Panamá	7,838	44,338
Empresa de Generación Eléctrica, S.A. (EGESA)	1,481	—
Elektra Noreste, S. A. (ENSA)	1,346	29
Empresa de Generación Eléctrica Bahía Las Minas, S. A.	1,185	9,718
Empresa de Distribución Eléctrica Metro Oeste, S. A. (EDEMET)	936	29
Empresa de Distribución Eléctrica Chiriquí, S. A. (EDECHI)	63	13
Empresa de Transmisión Eléctrica, S. A. (ETESA)	54	3,214
	<u>\$ 20,913</u>	<u>\$ 74,853</u>
Electricity purchases (reimbursement):		
Ministerio de Economía y Finanzas	\$ 5,760	\$ 39,506
	<u>\$ 5,760</u>	<u>\$ 39,506</u>

AES Panamá, S.R.L.**Notes to the financial statements****December 31, 2015 and 2014***(Amounts stated in thousands of US dollars)***4. Balances and Transactions with Affiliates of The Corporation and Related Parties (continued)**

<u>In the statement of comprehensive income:</u>	<u>2,015</u>	<u>2,014</u>
Other costs of electricity sales: (penalties and transmission charges)		
Empresa de Generación Eléctrica, S.A. (EGESA) - Penalty	\$ 3,016	\$ —
Empresa de Transmisión Eléctrica, S. A. (ETESA)	3,385	3,022
Empresa de Distribución Eléctrica Metro Oeste, S. A. (EDEMET)	1,126	—
Elektra Noreste, S. A. (ENSA)	221	—
	<u>\$ 7,748</u>	<u>\$ 3,022</u>
Other income (expenses), net:		
Empresa de Generación Eléctrica, S.A. (EGESA)	\$ 20,000	\$ —
	<u>\$ 20,000</u>	<u>\$ —</u>

Account receivable sale without recourse

On December 19, 2014, the Company sold receivables from "Oficina de Electrificación Rural (OER)" to Banco Panamá, S.A., who assumed and paid \$14,614 for the accounts, assuming from that time the credit risk.

The balances with affiliates as of December 31, 2015 and 2014, are as follow:

<u>In the balance sheets:</u>	<u>2015</u>	<u>2014</u>
Accounts receivable:		
AES Changuinola, S.R.L.	\$ 3,935	\$ 705
AES Bocas del Toro Hydro, S.A.	—	1,031
Other Affiliates	638	646
AES Panama Energy, S.A.	—	479
AES Latin America S.R.L.	401	38
AES Corporation	207	207
AES Elsta B.V.	1,448	—
Global Energy Holding	189	189
Empresa Electrica de Oriente, S.A. de C.V.	—	348
	<u>\$ 6,818</u>	<u>\$ 3,643</u>
Accounts payable:		
AES Changuinola, S.R.L.	\$ 24,792	\$ 33,912
AES Solution LLC	9,329	6,030
AES Corporation	176	2,173
Other Affiliates	222	371
	<u>\$ 34,519</u>	<u>\$ 42,486</u>

AES Panamá, S.R.L.

Notes to the financial statements

December 31, 2015 and 2014

(Amounts stated in thousands of US dollars)

4. Balances and Transactions with Affiliates of The Corporation and Related Parties (continued)

Sales-purchases energy

On March 9, 2007, the Company signed with its affiliate AES Changuinola, S.R.L., a contract for the purchase - sale of firm capacity and energy for a period of ten years (from 2011 to 2020) then extended until December 31, 2030. On May 14, 2010, the Company signed the first amendment to its Contract of Reserve 01-07 and two new items of purchase and sale of firm capacity and energy were added for a period of 10 years, from 2012 and 2013. On June 25, 2012, the Company signed the second amendment to the contract which modifies its duration, extending its term until December 31, 2030. Through a communication dated May 30, 2013, AES Changuinola, S.R.L. has exercised its rights to be relieved from fulfilling the commitments under the contract, declaring "fortuitous event" due to the extreme dry hydrological conditions experienced in the Republic of Panama. As a result, starting May 1, 2013, AES Changuinola, S.R.L. billings only include the energy generated by the units of the Changuinola I hydroelectric plant at the contract price. AES Changuinola, S.R.L. terminated the fortuitous event on October 2, 2013.

On August 29, 2013, the third amendment of this contract was signed converting the contract into a physical delivery contract and a new line was added to complete the sale of firm capacity of Changuinola I up to the year 2030.

As a result of the 2013 amendment, the Company recognizes the PPA as an operating lease for \$615.4 per month until December 31, 2030. For the years ended December 31, 2015 and 2014, \$7,385 and \$7,385, respectively, have been recorded as operating lease costs in the statements of comprehensive income. As of December 31, 2015 and 2014, respectively, \$10,489 and \$5,245 related to the excess of expense are recorded in prepaid expenses in the balance sheets (Notes 6 and 10).

On December 7, 2015, amendment No. 4 was signed. This amendment sets the power and energy prices contracted until 2030, resulting from the act of tender ETESA 01-12.

For the years ended December 31, 2015 and 2014, the Company has recorded sales for this contract of \$2,567 and \$1,635, respectively, and purchases of \$87,435 and \$74,453, respectively.

On June 30, 2015, the Company signed with AES Changuinola, S.R.L.; a capacity reserve contract for a period of 5 years, beginning July 1, 2015.

Additionally, for the year ended December 31, 2014, the Company made energy purchases of \$7,388 from its affiliate AES CLESA Y CIA, S. en C. de CV and of \$1,710 from its affiliate company, Electrica de Oriente, SA de C.V. No transactions occurred during 2015.

AES Panamá, S.R.L.

Notes to the financial statements

December 31, 2015 and 2014

(Amounts stated in thousands of US dollars)

4. Balances and Transactions with Affiliates of The Corporation and Related Parties (continued)

Management fee

The Company has a management contract with AES Changuinola, S.R.L. which establishes a fee equivalent to 1% of the Changuinola's income before depreciation, interest and income tax. The expenses related to this management fee is recorded in other (expenses) income, net for \$671 and \$555 for the years ended December 31, 2015 and 2014, respectively.

In November 2010, the Company entered into a new management contract with AES Solutions LLC, a subsidiary of The AES Corporation, effective January 1, 2010 through December 31, 2018. The contract provides that the annual management fee will be for the minimum amount of \$4,000; and shall be adjusted annually due to changes in inflation. The Administrative Council approves the charges every six months which, annually, should be at least the minimum amount agreed. The total fee recorded as management fee expense amounted to \$6,015 and \$5,752 for the years ended December 31, 2015 and 2014, respectively.

Rental income

During the years ended December 31, 2015 and 2014, the Company invoiced for rentals to affiliated companies the amount of \$270 and \$270, respectively. The corresponding lease agreement is currently effective from February 2014, and has a term of one year with an automatic renewal option and it is recorded as other income, in the statements of comprehensive income.

Insurance

The Company maintains an "all risk" insurance policy with the insurance company ASSA Compañía de Seguros, S. A. This insurance company, in turn, diversifies the risk by reinsuring with a group of insurance companies among which includes a related party of the Company, AES Global Insurance Corporation. The policy taken with ASSA Insurance Company S.A. covers all operational risks including machinery breakdown and income losses. For this contract, the Company has recorded insurance expense of \$4,012 and \$3,598 for the years ended December 31, 2015 and 2014, respectively. These amounts are classified as operating and maintenance expenses in the statements of comprehensive income.

Dividends

The Company received dividends from its affiliate AES Changuinola, S.R.L. for the total amount of \$5,122 for the year ended December 31, 2015 and paid dividends to AES Elsta, B.V. for \$13,984 and \$14,516 to other partners.

AES Panamá, S.R.L.**Notes to the financial statements****December 31, 2015 and 2014***(Amounts stated in thousands of US dollars)***4. Balances and Transactions with Affiliates of The Corporation and Related Parties (continued)***Others*

The Company maintains accounts receivable of \$3,935 and \$705 as of December 31, 2015 and 2014, respectively, which corresponds to the sales of energy related to the power purchase agreement with its affiliate AES Changuinola, S.R.L. Accounts payable for purchases of energy related to this contract are netted against the accounts receivable by agreement between the parties which was due on December 31, 2014 and the net balance receivable or payable is presented in the balance sheets. The total netted amount was \$6,979, as of December 31, 2014. The agreement between the parties also stipulated that there will be a 7% interest on overdue balances, which has no effect after the capitalization of the debt with AES Panamá, S.R.L.

5. Property, Plant and Equipment, Net

	December 31, 2015						
	Land	Buildings	Electricity generation facilities	Office furniture and equipment	Transportation equipment	Construction in progress	Total
Cost:							
Beginning balance	\$ 5,702	\$ 252,239	\$ 427,531	\$ 7,392	\$ 1,735	\$ 43,626	\$ 738,225
Additions	—	—	37	340	197	34,156	34,730
Reclassifications and adjustments	—	1,191	53,484	281	92	(55,048)	—
Sales and disposals	—	—	(2,196)	—	(66)	—	(2,262)
Ending balance	<u>5,702</u>	<u>253,430</u>	<u>478,856</u>	<u>8,013</u>	<u>1,958</u>	<u>22,734</u>	<u>770,693</u>
Accumulated depreciation:							
Beginning balance	—	74,230	231,111	5,300	981	—	311,622
Depreciation	—	8,485	18,998	611	216	—	28,310
Reclassifications and adjustments	—	—	—	—	—	—	—
Sales and disposals	—	—	(1,385)	—	(66)	—	(1,451)
Ending balance	<u>—</u>	<u>82,715</u>	<u>248,724</u>	<u>5,911</u>	<u>1,131</u>	<u>—</u>	<u>338,481</u>
Net balance	<u>\$ 5,702</u>	<u>\$ 170,715</u>	<u>\$ 230,132</u>	<u>\$ 2,102</u>	<u>\$ 827</u>	<u>\$ 22,734</u>	<u>\$ 432,212</u>

AES Panamá, S.R.L.

Notes to the financial statements

December 31, 2015 and 2014

(Amounts stated in thousands of US dollars)

5. Property, Plant and Equipment, Net (continued)

	December 31, 2014						
	Land	Buildings	Electricity generation facilities	Office furniture and equipment	Transportation equipment	Construction in progress	Total
Cost:							
Beginning balance	\$ 5,702	\$ 248,510	\$ 424,654	\$ 6,931	\$ 1,744	\$ 5,326	\$ 692,867
Additions	—	—	263	328	220	44,934	45,745
Reclassifications and adjustments	—	3,729	2,614	291	—	(6,634)	—
Sales and disposals	—	—	—	(158)	(229)	—	(387)
Ending balance	<u>5,702</u>	<u>252,239</u>	<u>427,531</u>	<u>7,392</u>	<u>1,735</u>	<u>43,626</u>	<u>738,225</u>
Accumulated depreciation:							
Beginning balance	—	65,956	216,061	4,888	1,036	—	287,941
Depreciation	—	8,274	15,050	563	174	—	24,061
Sales and disposals	—	—	—	(151)	(229)	—	(380)
Ending balance	<u>—</u>	<u>74,230</u>	<u>231,111</u>	<u>5,300</u>	<u>981</u>	<u>—</u>	<u>311,622</u>
Net balance	<u>\$ 5,702</u>	<u>\$ 178,009</u>	<u>\$ 196,420</u>	<u>\$ 2,092</u>	<u>\$ 754</u>	<u>\$ 43,626</u>	<u>\$ 426,603</u>

As of December 31, 2015 and 2014, capitalized interest and financing costs included in property, plant and equipment were \$1,637 and \$1,046, respectively.

As of December 31, 2014, construction in process includes the cost of acquisition and commissioning of the barge Estrella del Mar I made up of seven bunker engines with an approximate capacity of 10.3 MW each engine, its installation and its connection to the interconnection network (Note 13).

For the year ended December 31, 2015, the Company capitalized part of the project, \$49,316 included in electricity generation facilities and \$15,520 included in construction in process related to some components still in process. The remaining \$7,214 in construction in progress correspond to other projects.

In 2014, the Company recognized an asset retirement obligation related to the required future retirement and dismantlement of equipment and facilities located on the land leased from Refinería Panamá, S.R.L. for the operation of the barge "Estrella del Mar I" (Note 13). The present value for this concept is \$1,031 and \$1,213 as of December 31, 2015 and 2014, respectively, and is presented in the balance sheets under electricity generation facilities and is detailed below:

	<u>2015</u>	<u>2014</u>
Cost	\$ 1,213	\$ 1,213
Accumulated depreciation	(182)	—
Balance at the end of the year	<u><u>\$ 1,031</u></u>	<u><u>\$ 1,213</u></u>

AES Panamá, S.R.L.**Notes to the financial statements****December 31, 2015 and 2014***(Amounts stated in thousands of US dollars)***5. Property, Plant and Equipment, Net (continued)**

The following table summarizes the amounts recognized related to asset retirement obligations for the periods indicated:

	<u>2015</u>	<u>2014</u>
Balance at beginning of the year	\$ 1,213	\$ —
Liability incurred	—	1,213
Accretion expense	53	—
Balance at the end of the year	<u>\$ 1,266</u>	<u>\$ 1,213</u>

6. Prepaid Expenses

Prepaid expenses as of December 31, 2015 and 2014, are shown below:

	<u>2015</u>	<u>2014</u>
Advance payments to suppliers	\$ 567	\$ 122
Guaranty	102	168
Insurance	68	798
Others	38	46
ANAM - Water concessions	31	140
Total prepaid expenses, current	<u>\$ 806</u>	<u>\$ 1,274</u>
Prepaid expenses - affiliate (note 4)	<u>\$ 10,489</u>	<u>\$ 5,245</u>
Total prepaid expenses, non current	<u>\$ 10,489</u>	<u>\$ 5,245</u>

7. Restricted Cash

In December 2006, the Company issued senior notes, issued under Rule 144A/Regulation S of the New York Stock Exchange (Securities and Exchange Commission) in the national and international markets in the amount of \$300,000 for the main purpose of refinancing the balance of capital, interest, and other charges owed by the Company due to the issuance of a \$320,000 in bonds in 2003. The agreement for obtaining the new debt of \$300,000 required the creation of a trust fund with the account "Debt Service Reserve Account". This trust fund was set up by the Company as Trustor, and HSBC Bank USA and National Association as Trustee and Collateral Agent, and its general purpose is to maintain a cash fund to secure the payment of interest of one semester.

In June 2015, the Company issued senior notes in the local and international markets for the amount of \$300,000 with the main purpose of refinancing the balance of capital, interest, and other charges owed by the Company related to the bonds issued in 2006, and pay the syndicated loan obtained in 2014 for the construction of the barge. With this refinancing, the Company canceled \$217,296 of the \$300,000, bonds with maturity on 2016. Due to the anticipated cancellation of the 2016 bonds, the restricted cash required to pay interest of this financing was reduced. The restricted cash balance is \$2,635 and \$9,841, as of December 31, 2015 and 2014, respectively.

AES Panamá, S.R.L.**Notes to the financial statements****December 31, 2015 and 2014***(Amounts stated in thousands of US dollars)***8. Intangible Assets**

In June 2015, AES Panamá, S.R.L. signed an agreement with Erryl Capital Inc. and International Electric Power, LLC, to acquire three power purchase agreements in the amount of \$20,000, for a period of 5 years from July 2015. The yearly amortization is \$4,000, ending in July 2020.

The amount paid for power purchase contracts was recognized as an intangible asset amortized over the term of these contracts, under the straight line method.

The intangible asset is detailed below:

	<u>2015</u>
Intangible assets	\$ 20,000
Amortization	(2,000)
Intangible assets, net	<u>\$ 18,000</u>

9. Investment in Affiliate

On September 25, 2013, the Company converted into equity ownership the accounts receivables with its affiliate AES Changuinola, S.R.L. Through this transaction, the Company became the owner of 20% of AES Changuinola, S.R.L. On November 25, 2013, the transaction was completed upon the transfer and issuance of the corresponding shares.

As the affiliate AES Changuinola, S.R.L. is under common control with the same entity as the Company the initial recognition of the investment was made at the carrying value of the assets of the affiliate which, at the date of the transaction, totaled \$208,535. The amount equivalent to the 20% of the share amounted to \$41,707. The difference between the value of the share of investment and the capitalized debt (\$63,227) had been recorded in equity and applied to retained earnings (accumulated deficit) since no profit or loss for the transfer of assets between entities under common control should be recognized; the amount in equity is \$21,520. The presentation of this amount as retained earnings has been retrospectively adjusted from additional paid in capital in the accompanying financial statements.

As of December 31, 2015 and 2014, investment in affiliate is shown below:

<u>Affiliate</u>	<u>Commercial activity</u>	<u>% of equity participation</u>		<u>December 31,</u>	
		<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
AES Changuinola,S.R.L.	Electricity generation (Hydroelectric)	20%	20%	<u>\$ 45,166</u>	<u>\$ 43,753</u>

AES Panamá, S.R.L.**Notes to the financial statements****December 31, 2015 and 2014***(Amounts stated in thousands of US dollars)***9. Investment in Affiliate (continued)**

<u>2015</u>						Net	Equity	Other
<u>Affiliate</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Equity</u>	<u>Revenues</u>	<u>Expenses</u>	<u>Income</u>	<u>Share</u>	<u>Comprehensive Income</u>
AES Changuinola, S.R.L.	\$ 654,698	\$ 426,278	\$ 228,420	\$ 95,668	\$ 69,457	\$ 26,211	\$ 5,242	\$ 1,292

<u>2014</u>						Net	Equity
<u>Affiliate</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Equity</u>	<u>Revenues</u>	<u>Expenses</u>	<u>Income</u>	<u>Share</u>
AES Changuinola, S.R.L.	\$ 658,724	\$ 433,885	\$ 224,839	\$ 77,865	\$ 50,930	\$ 26,935	\$ 5,387

For the year ended December 31, 2015 and 2014, the Company recorded, in relation to its 20% share in earnings of AES Changuinola, S.R.L., an income of \$5,242 and \$5,387, respectively. This amount is recorded in the balance sheets under the investment in affiliate and in the statements of comprehensive income under equity earnings in investments in affiliate.

In addition, within investment in affiliate in the balance sheets, \$5,122 of dividends were collected in 2015 resulting from dividends distribution of AES Changuinola, S.R.L.

10. Operating Lease

In August 2013, the Power Purchase Agreement (PPA) with AES Changuinola S.R.L. was amended with the purpose that the Company buys from AES Changuinola S.R.L. all its generated energy, its firm capacity and the construction prime factor for both energy and capacity. Through the terms of the PPA, AES Changuinola S.R.L. could only supply it with its own generation assets. Under commercial terms, the PPA as amended is classified as a physical delivery agreement.

As it is remote that a party other than the Company would take energy from the AES Changuinola S.R.L. generation assets, the Company is required to pay for the capacity and the capacity construction prime factor even when no energy is generated. In accordance with how the PPA is structured, Management determined that it shall be accounted as an operating lease in accordance with Accounting Standard Codification 840 (Leases). The minimum lease payments of the PPA are determined based on the capacity and its construction prime factor; energy payments and its related construction prime factor are not considered as part of the minimum lease payments since there is no minimum amount established for them. Minimum lease payments determined throughout the term of the PPA are accounted for on a straight-line basis and the difference between such amount and the amounts invoiced is presented as an asset in the Company's balance sheets as prepaid expenses.

AES Panamá, S.R.L.

Notes to the financial statements

December 31, 2015 and 2014

(Amounts stated in thousands of US dollars)

10. Operating Lease (continued)

The total of future minimum payments from the non-cancellable operating lease contract as of December 31, 2015 will be paid during the following periods:

	<u>2015</u>
Within one year	\$ 7,385
After one year and up to five years	29,541
After five years	73,853
Total operating lease payments, net	<u><u>\$ 110,779</u></u>

11. Loans Payable

The short term loans are originated by the use of credit lines with a maturity of six months. As of December 31, 2015, the Company does not maintain outstanding balances related to these credit lines. As of December 31, 2014, the Company had a balance of \$45,000.

As of December 31, 2015, the Company has credit lines authorized (unused) with different banking institutions for a total of \$78,332.

Additionally, on October 28, 2014, the Company entered into a syndicated loan totaling \$57,300 with a group of banks and with The Bank of Nova Scotia (Panama) S.A. (Scotiabank) acting as administrative agent, for a period of 5 years.

This loan was acquired to finance one hundred percent (100%) of the cost of acquisition and commissioning of the barge Estrella del Mar I, its installation and its connection to the interconnection network. This loan was repaid in June 2015, after the partial refinancing of the 2016 bonds (Note 12) made in that month.

As of December 31, 2014, the deferred financing cost includes \$1,552, corresponding to to issuance of this syndicated loan. As of December 31, 2015, there is no deferred financing costs related to this loan, after cancellation.

AES Panamá, S.R.L.**Notes to the financial statements****December 31, 2015 and 2014***(Amounts stated in thousands of US dollars)***11. Loans Payable (continued)**

The loans payable are detailed as follows:

	<u>2015</u>	<u>2014</u>	<u>Annual interest</u>
Scotiabank	\$ —	\$ 20,000	3.08%
Banco General, S.A.	—	10,000	3.75%
Banco Panamá, S.A.	—	5,000	5.00%
Banistmo, S.A.	—	5,000	4.73%
BAC International Bank, S.A.	—	5,000	3.50%
Syndicated loan Scotiabank - current	—	8,186	5.50%
Total short-term loans	<u>\$ —</u>	<u>\$ 53,186</u>	
Syndicated loan Scotiabank - non current	\$ —	\$ 49,114	5.50%
Deferred Financing cost	—	(1,552)	
Total long-term loans	<u>\$ —</u>	<u>\$ 47,562</u>	

In order to guarantee repayment of the syndicated loan, a mortgage contract regarding the barge Estrella del Mar I was agreed, between the Company and The Bank of Nova Scotia (Panamá) S.A. On October 28, 2014, the Company also signed the trust agreement Guarantee, with the same objective of ensuring the obligations undertaken by the loan agreement for the Barge and other financing documents related to that loan. Both documents were cancelled with the payment of this loan.

12. Bond Payable, Net**2016 Bonds**

On December 21, 2006, the Company refinanced the \$320,000 debt with new credit for \$300,000. The credit was subscribed and distributed by Credit Suisse and UBS Investment Bank and was instrumented throughout new bonds amounting \$300,000 issued under rule 144A/Regulation S of the New York Stock Exchange in the local and international market with a due date of December 21, 2016 and an annual interest rate of 6.35% with a single payment upon maturity, and semiannual interest payments. Net deferred financing costs for this bond amounted to \$322 and \$1,158 as of December 31, 2015 and 2014, respectively.

The bonds were issued in accordance with the provisions of the Note Issuance Facility signed by AES Panamá, S.R.L. and HSBC Bank USA, National Association, as trustee.

AES Panamá, S.R.L.

Notes to the financial statements

December 31, 2015 and 2014

(Amounts stated in thousands of US dollars)

12. Bond Payable, Net (continued)

The relevant commitments and restrictions of the bonds, which were modified after the execution of partial refinancing of 2016 bonds, are as follows:

- The Company has to maintain a “Debt Service Reserve Account” with funds deposited and available to secure the semiannual interest payments.

As of December 31, 2015 and 2014, the Company is in compliance with all of its commitments and restrictions.

2022 Bonds

On June 18, 2015, the Company issued new bonds for \$300,000 and used the proceeds to pay \$217,046 of the 2016 bonds and the outstanding balance of the syndicated loan for \$55,491. This new debt was subscribed and distributed by Banco General, S.A. and Deutsche Bank Securities Inc. and was instrumented throughout new bonds amounting \$300,000 issued under rule 144A/ Regulation S of the New York Stock Exchange in the local and international market with a due date of June 25, 2022 and an annual interest rate of 6.00% with a single payment upon maturity, and semiannual interests payments. The Company is obliged to secure the next interest payment, during the term of the agreement, though a letter of credit or cash. The Company decided to secure it thought a letter of credit. Net deferred financing costs for this bond amounted to \$5,312 as of December 31, 2015.

The 2022 bonds were issued in accordance with the provisions of the Note Issuance Facility signed by AES Panamá, S.R.L. and Deutsche Bank Trust Company Americas, as trustee.

Relevant commitments and restrictions of the bonds payable are detailed below:

- The Company has to maintain a “Debt Service Reserve Account” with the funds deposited and available to secure the semiannual interest payments.
- Limitation at the time for contracting certain debt:
 - a. The Company may incur debt as long as the interest coverage ratio is no less than 2.5;
 - b. The Debt Service Reserve Account is fully funded.
 - c. The Company may take additional debt up to \$50,000 without having to meet the ratio.
 - d. The ratio may be greater than zero and less than 4.25 if debt is incurred at any time from the date of issuance until June 30, 2016, inclusive; less than 3.75 if debt is incurred after June 30, 2016 until June 30, 2017, inclusive; and less than 3.5 if debt is incurred at any later date.
- Limitations on the sale of generation assets.
- Audited financial statements must be presented no later than 120 days after the close of the fiscal period.

AES Panamá, S.R.L.**Notes to the financial statements****December 31, 2015 and 2014***(Amounts stated in thousands of US dollars)***12. Bond Payable, Net (continued)**

As of December 31, 2015 and 2014, the Company is in compliance with all of its commitments and restrictions.

As of December 31, 2015 and 2014, bonds payable, net of discount, was as follows:

	<u>2015</u>	<u>2014</u>
Bonds 2022	\$ 300,000	\$ —
Bonds 2016	82,704	300,000
Unamortized discount	(86)	(616)
Deferred financing cost	(5,634)	(1,158)
Total bonds payable, net	<u><u>\$ 376,984</u></u>	<u><u>\$ 298,226</u></u>

Amortization of the discount is included in interest expense in the accompanying statements of comprehensive income.

13. Commitments and Contingencies**Commitments****Purchase – sale energy contracts**

The Company has contracted certain obligation in connection with the concession contracts and purchase of energy. The Company maintains contract performance guarantees of \$76,769 to guarantee the obligations according to the contracts signed with the distribution companies. The Company also maintains contract performance guarantees of \$28,000 in favor of the Autoridad Nacional de los Servicios Públicos / Contraloría General de la República de Panamá for the concession of the hydroelectric exploitation, which guarantee the generation of electric energy.

The Company also maintains a stand-by letter of credit for \$7,140 to guarantee the payments for purchases in the spot market and \$91 for purchases in the regional electricity market. In addition, the Company maintains guarantees in favor of ETESA for \$724, \$10 and \$22 to guarantee the payments for transmission services. The last amount corresponds to the guarantee of payment for the services of transmission of the Rural Electrification Office (OER) that was in effect until June 30, 2015. In addition, the Company acquired a performance bond contract of \$15,141 to ensure obligations to EGESA / Contraloría General de la República de Panamá for the service of thermal electricity generation using a barge to generate electricity. This performance bond contract was in force until June 30, 2015. The Company also maintains a stand-by letter of credit for an amount of \$6,000 to ensure the payments for the purchase of fuel required for the barge operation.

As a result of the bid of EDEMET-EDECHI 01-05, on December 7, 2005, the Company signed the contracts EDEMET 05-12 and EDECHI 013-05 for the supply of power and energy in the long term, both for a period of 10 years that goes from 2009 to 2018.

AES Panamá, S.R.L.

Notes to the financial statements

December 31, 2015 and 2014

(Amounts stated in thousands of US dollars)

13. Commitments and Contingencies (continued)

On October 26, 2006, for the bid of EDEMET-EDECHI 02-05, the Company signed the contracts EDEMET 15-06 and EDECHI 19-06 for the supply of power and energy in the long term. The first contract 15-06 with EDEMET for a total of 15MW and contract 19-06 with EDECHI for a total of 35MW were both effective from January 1, 2011 to December 31, 2020.

On March 9, 2007, the Company signed with its affiliate AES Changuinola S.R.L., a contract for the purchase - sale of firm capacity and energy for a period of ten years (from 2011 to 2020). On May 14, 2010, the Company signed the first amendment to Reserve Contract 01-07 where two new items of purchase and sale of firm capacity and energy were added for a period of 10 years, from 2012 and 2013. On June 25, 2012, the second amendment to the contract was signed, extending its term until December 31, 2030. By note dated May 30, 2013, AES Changuinola S.R.L. has exercised its rights under the ninth clause of the Reserve Contract 01-07, and its amendments, to be relieved from fulfilling the commitments under the contract, considering a fortuitous event due to the extreme hydrological conditions experienced in the Republic of Panama in that year. As a result, starting May 1, 2013, AES Changuinola S.R.L. billings only include the energy generated by the units of the Chan I Hydroelectric plant at the price established on the above mentioned contract. AES Changuinola S.R.L. terminated the fortuitous event on October 2, 2013. On August 29, 2013, the third amendment of this contract was signed where, from January 1, 2014, the reserve contract will be managed as a physical delivery and a new line was added to complete the sale of firm capacity of Chan I up to the year 2030. On December 7, 2015, amendment No. 4 was signed, through which power prices and energy contracted is established until 2030, resulting from the act of tender ETESA 01-12.

In October 13, 2008, as consequence of the bid EDEMET 01-08, the Company signed contracts EDEMET 04-08 and ELEKTRA 07-08 to supply firm capacity and energy for a 10-year period that runs from the year 2012 to 2022. Further in the same tender EDEMET 01-08, the Company signed contracts EDEMET 08-08 and ELEKTRA 09-08 to supply firm capacity and energy in the long term, for a period of ten years from 2013 to 2022 year. Later, on July 16, 2009, amendment No. 1 to these contracts was signed. As of December 31, 2015, the Company has letters of credit of \$ 4,437, related to these contracts.

On November 28, 2008, the Company signed the Contract GC. 01-09 (Large Customer) with Cemento Panamá for supply firm capacity and energy for a period of 10 years beginning in 2009.

In December 2010, the Company signed the supply contract GC No.02-11 with Desarrollo Inmobiliario del Este effective until December 31, 2016. On June 24, 2014, the Company signed with Desarrollo Inmobiliario del Este, S.A. (DIESA) an agreement by mutual consent for the early termination of the supply contracts firm power and energy of great customer GC No. 02-11 and GC No. 02-12 (formerly signed by Costa del Este Office Properties, Inc. which was absorbed by DIESA by merger agreement). Because of this agreement, the Company paid a penalty of \$1,150 for early termination of the contract, including in the area of operations and maintenance in the statement of comprehensive income.

AES Panamá, S.R.L.

Notes to the financial statements

December 31, 2015 and 2014

(Amounts stated in thousands of US dollars)

13. Commitments and Contingencies (continued)

In addition, in April 2011, the Company signed the second amendment to the contract GC 02-09 and the first amendment to the contract GC 02-10, both of them with Importadora Ricamar for the “Supply of firm capacity and energy to large customers” and effective until December 31, 2015.

In August 2012, the Company participated in the act of long-term tender ETESA 01-12 and on September 17, 2012, ETESA notified the Company of the award of the principal bid of power in the amount of 159 MW from 2019-2020, 209 MW in 2021, 309 MW in 2022 and 350 MW from 2023 to 2030. In October 2012, the corresponding contracts to this adjudication were signed with the three distribution companies.

On November 7, 2012, the Company signed the contract No. 254-2012-ADM with the Comptroller General of the Republic for the supply of firm power and energy to a large customer. This contract will be in force until November 2015. However, the Comptroller General of the Republic approved the signing of Amendment No. 1 to Contract No. 254-2012-ADM for continued supply firm power and energy.

On December 28, 2012, the Company signed a contract with Gold Mills in Panama for the supply of firm power and energy, effective through December 31, 2018. The start date of delivery was in April 27, 2013.

In December 2012, the Company signed a surplus power and energy contract with large customer Caja de Seguro Social, effective until December 2016. The supply started in December 7, 2013.

As a result of the award of the International Competitive Bidding ETESA 03-12, the Company signed contract DME-016-12 with Elektra Noreste (ENSA), Contract No. 24-12 with EDEMET and Contract 45-12 with EDECHI, to supply surplus energy from July 2012 to December 31, 2015.

On February 28, 2013, the contract GC No.01-12 kept with the OER ended. This contract was replaced by the contract GC No. 01-13 signed on March 1, 2013, starting on the same day, for self-generating power with the OER effective until October 31, 2013. In October 2013, addendum No. 1 was signed to extend the supply agreement until December 31, 2013. On August 1, 2013, Addendum No. 2 was signed to extend this agreement until February 28, 2014. On December 17, 2014, addendum No. 3 was signed to extend the supply agreement until March 31, 2015. This contract expired on March 31, 2015.

In June 2013, the Company signed the following contracts for the supply of firm capacity and energy to large customers:

- Cement Interoceanico, contract No. 02-13, from July 1, 2013 to December 31, 2015. The client began supplying on August 20, 2013. In December 2015, the Company entered into Amendment No. 2 to contract No. 02-13, which it extended the contract of supply of power and energy until December 31, 2020.

AES Panamá, S.R.L.

Notes to the financial statements

December 31, 2015 and 2014

(Amounts stated in thousands of US dollars)

13. Commitments and Contingencies (continued)

- United States Embassy, contract No. 05-13, from September 15, 2013 to December 31, 2015. The client began supplying on November 2, 2013. In December 2015, the Company entered into Amendment No. 1 to contract No. 05-13, which extended the contract of supply of power and energy until December 31, 2020.
- Avipac Inc, contract No. 06-13, from August 1, 2013 to December 31, 2015. The client began supplying on August 10, 2013. In December 2015, the Company entered into Amendment No. 1 to contract No. 06-13, which extended the contract term supply of power and energy until December 31, 2020.
- Varela Hermanos, Contract No. 07-13, from September 1, 2013 to December 31, 2015. The client began supplying on February 8, 2014. In December 2015, the Company entered into Amendment No. 1 to contract No. 07-13, which extended the contract term supply of power and energy until December 31, 2020.

On May 20, 2014, the Company signed with Empresa de Generación Eléctrica, S.A. (EGESA) the contract N° 2014-05 for the service of thermal power generation using the recently acquired Estrella del Mar I barge with an installed capacity of 72MW, using Bunker C (Fuel Oil No. 6) as main fuel and acquired by AES Panamá, S.R.L. The barge began testing on March 21, 2015, ending the test on March 25, 2015, on which date the Company received the National Dispatch Center to operate within the National Electricity System.

On June 23, 2015 by the Cabinet Resolution No. 62, the Cabinet Council issued a favorable opinion to the unilateral termination of Contract No. 2014-05 for the provision of thermal generation signed between AES Panama, S.R.L. and EGESA, the contract ended on June 30, 2015. As a result of the unilateral termination, the Government of Panama paid an indemnity to AES Panama of \$20,000, which is included in the Other income (expenses), net in the statement of comprehensive income.

On June 30, 2015, the Company signed the contracts EDEMET No. 29-14, EDECHI No. 33-14 and ENSA No. DME 012-14 for the supply of capacity and energy for a period of 5 years from July 1, 2015. These contracts will be mainly supplied by the barge Estrella del Mar I.

On June 30, 2015, the Company signed with AES Changuinola, S.R.L. a capacity reserve contract for a period of 5 years, beginning July 1, 2015.

Fuel Purchase Contract

On October 29, 2014, the Company entered into a contract with Refinería Panamá, S.R.L. for the purchase of fuel oil (Fuel Oil No. 6) needed for the operation of the barge Estrella del Mar I. The contract term is for a period of five years and began March 2015. Additionally, the Company signed an addendum #1 to purchase Fuel Oil #2 (diesel) required for the ancillary services of the barge Estrella del Mar I. In April 2016 the company signed the amendment No.2, modifying clauses that established the Premium Price for the purchase of Fuel Oil # 6 (bunker).

AES Panamá, S.R.L.**Notes to the financial statements****December 31, 2015 and 2014***(Amounts stated in thousands of US dollars)***13. Commitments and Contingencies (continued)**

The table below represent the total contract amounts for the term of the contract with Refinería Panama, S.R.L.:

<u>Year</u>	<u>Commitment</u> <u>(in thousand US\$)</u>
2016	\$ 21,083
2017	19,952
2018	10,386
2019	895
2020	325
Total:	\$ 52,641

Operating lease contract

The Company has commitments under operating leases with Refinería Panamá, S.R.L. for the land located in Bahía Las Minas, Province of Colón in Panamá which is used by the Company for the ground based equipment needed for installation and connection of the electric power generation barge Estrella del Mar I. The Company built support structures in the leased property including, an electrical substation and transmission equipment, pipeline to supply fuel docks, storage tanks for equipment, among others. This lease is effective for five years after March 2015, the date of commercial operation of the barge Estrella del Mar I.

The amounts set out in the following table represent the total contractual amount for the term of the operating lease agreement with Panama Refinery, S.R.L.:

	<u>2015</u>
One year	\$ 960
After one year to five years	2,960
Total future payments	<u>\$ 3,920</u>

Concession contracts

The Company has acquired fifty-year water concession contracts which give certain rights, including the generation and sale of electricity generated by the hydroelectric plants and water rights for the use of the Bayano, Chiriquí, Los Valles and Caldera rivers. The Company is required to manage, operate, and provide maintenance to the plants throughout the contract's term.

AES Panamá, S.R.L.

Notes to the financial statements

December 31, 2015 and 2014

(Amounts stated in thousands of US dollars)

13. Commitments and Contingencies (continued)

The most important terms of the concession contracts signed between the Company and the National Authority of Public Services (ASEP) are described below:

- The ASEP grants the Company a concession for the generation of hydroelectric energy by means of the exploitation of hydroelectric resources located on the Bayano, Chiriquí, Los Valles and Caldera rivers.
- The Company is authorized to render the generation of electricity as a public service, which entails the operation and maintenance of power plants with their respective transmission lines to connect to the public network, and transformation equipment for producing and selling power on the national electrical system as well as selling energy on the international market.
- The duration of each of the concessions granted is 50 years, and they can be extended for a period of up to 50 years by means of a request to the ASEP.
- The Company will have the right to own, operate and maintain the property on the facilities and to make improvements to them. Previous authorization is required in those cases in which the Company increases the capacity of any of the plants by 15% or more at the same site.
- The Company will have full access to its own property and to the property of the facilities.
- The Company will have rights over the real estate as well as the right of way or easement within the hydroelectric facilities so that it can accomplish all of the activities required for the generation and sale of hydroelectric energy. Likewise, the Company will also have the right of way and access to the areas of the hydroelectric facilities that are currently in working condition and in use.
- The Company has the right to request the forcible acquisition of real estate and the establishment of easements in its favor in accordance with the provisions of Law No.6 and its regulation.

Contingencies

The Company is involved in certain legal processes as part of the ordinary course of business. It is the opinion of the lawyers and the Company that none of the outstanding claims will have an adverse effect on the results of its operations, financial position, or cash flows.

The Company may be exposed to environmental costs as part of the ordinary course of business. The liabilities are recognized when the environmental impact studies indicate that corrective measures are probable and the costs can be reasonably estimated.

The estimates of the liabilities are based on currently available facts, existing technology, and current laws and regulations. They also take into consideration the probable effects of inflation and other social and economic factors, and include an estimate of associated legal costs. As of December 31, 2015 and 2014, there are no known environmental liabilities.

AES Panamá, S.R.L.

Notes to the financial statements

December 31, 2015 and 2014

(Amounts stated in thousands of US dollars)

13. Commitments and Contingencies (continued)

The ASEP issued on October 22, 2010, Resolution AN No.3932-Elec related to dam safety in the electric sector. This legislation provides very sensitive and important issues concerning safety and the environment. The resolution took effect on November 9, 2011. As of December 31, 2012, the Company was preparing its draft amendments to the Plan of Action for Emergencies (PADE) of the Bayano plant to present it to the ASEP, which was approved on 2013; the PADE of Esti, La Estrella and Los Valles are still under review by the ASEP. As for the rules related to dam safety, the Company contracted a consulting firm to review the adequacy of all documents of the Central Bayano, who is currently in the process of reviewing the documents to be delivered to ASEP. For Chiriquí, efforts are being made to hire a consultant.

In October 2015, Ganadera Guerra, S.A. and Constructora Tyma, S.A. filed separate lawsuits against AES Panama in the local courts of Panama. The claimants allege that AES Panama profited from a hydropower facility (La Estrella) being partially located on land owned first by Ganadera Guerra, S.A. and later by Constructora Tyma, S.A., and that AES Panama must pay compensation for its use of the land. The damages sought from AES Panama are approximately \$680,000 to Ganadera Guerra, S.A. and \$100,000 to Constructora Tyma, S.A.

14. Retirement Plans and Seniority Premiums

According to Panamanian labor laws, the Company is required to contribute to a severance fund to cover payments and seniority premium of employees upon retirement or termination. The contributions are based on 1.92% for the seniority premiums and 0.32% for severance pay of the remuneration paid to employees.

The severance pay fund must be deposited with and administered by an authorized private institution.

Additionally, the Company offers a defined contribution plan available to all employees. The Company makes contributions of up to 9% of their annual salary (2014: 8%), in addition to the possibility of discretionary contributions by the employees. The contributions to the plan are restricted for a period of 10 years. The Company had contributed \$233 and \$184 to the plan for the years ended December 31, 2015 and 2014, respectively.

The Company also offers its employees a bonus in the form of shares of The Corporation. These shares are deposited in a Trust Fund known as the “Non Contributive Pension Plan” which is managed by an authorized third party that maintains individual accounts for each employee. The contributions to this plan are subject to the decisions of the Board of Directors and the calculations are based on a percentage of the salary of each permanent employee. The provision for this contribution amounted to \$235 and \$222 for the years ended December 31, 2015 and 2014, respectively.

AES Panamá, S.R.L.**Notes to the financial statements****December 31, 2015 and 2014***(Amounts stated in thousands of US dollars)***15. Other Cost of Electricity Sales**

The other costs of electricity sales for the years ended December 31, 2015 and 2014, are as follows:

	<u>2015</u>	<u>2014</u>
Penalty	\$ 3,016	\$ —
Transmission charges	4,732	3,022
Fuel and generation related costs	21,997	—
	<u>\$ 29,745</u>	<u>\$ 3,022</u>

16. Operating and Maintenance Expenses

The operating and maintenance expenses for the years ended December 31, 2015 and 2014, are as follows:

	<u>2015</u>	<u>2014</u>
Salaries, wages and benefits	\$ 12,500	\$ 7,756
Service and maintenance contracts	4,578	3,102
Insurance	4,454	3,810
Leasing expenses	2,837	764
Others	1,743	2,835
Advisory and professional fees	1,445	1,243
Basic services	1,030	970
Other market related fee	996	1,206
	<u>\$ 29,583</u>	<u>\$ 21,686</u>

17. Other Income (Expenses), Net

For the years ended December 31, 2015 and 2014, other income (expenses) is as follows:

	<u>2015</u>	<u>2014</u>
Loss on debt extinguishment	\$ (14,645)	\$ —
(Loss) gain on sale of fixed assets	(748)	87
Inventory discard	(496)	(50)
Settlement agreement	—	(7,500)
Rental income	270	270
Administrative services income	671	555
Other income	25	608
EGESA Compensation (see note 13)	20,000	—
Total other income (expenses), net	<u>\$ 5,077</u>	<u>\$ (6,030)</u>

AES Panamá, S.R.L.

Notes to the financial statements

December 31, 2015 and 2014

(Amounts stated in thousands of US dollars)

17. Other Income (Expenses), Net (continued)

The loss on debt extinguishment, net includes (1) payment of premium for early debt extinction by the amount of \$12,480 (2) expense recognition of deferred financing costs by paying off previous debt (Bonds 2016) for the sum of \$1,816 (3) debt discount from previous bonds (bonds 2016) of \$349.

The line Settlement agreement corresponds to a settlement with BONTEX, S.A. for \$7,500. In 2012, Bontex claimed compensation for losses caused by the impacts of the Esti tunel collapse alleging impacts to the downstream water flow to its plants. The Company reached a settlement agreement on November 27, 2014 and agreed to pay \$ 7,500 over four quarterly payments during 2015.

18. Income Tax

For the years ended December 31, 2015 and 2014, the income tax expense (benefit) consists of the following:

	<u>2015</u>	<u>2014</u>
Current	\$ 5,894	\$ 4,174
Deferred	7,878	(9,301)
Income tax expense (benefit)	<u>\$ 13,772</u>	<u>\$ (5,127)</u>

In Panama, as established under the Tax Code, the income tax for individuals legal entities in which the state has a stockholding of more than 40%, is calculated using a rate of income tax of 30%.

Additionally, entities whose taxable income exceeds \$1,500 calculate the annual income tax by applying the tax rate to the greater of:

- a) The net taxable income calculated by the established method (Traditional)
- b) The net taxable income resulting from applying the total taxable revenues by 4.67%, (Alternate Method of calculating income tax - CAIR).

As of December 31, 2015, the Company generated a taxable income. As a result, the estimate of current income tax has been determined under the traditional method, applied the 30% rate to taxable income for determining the tax year.

During the years ended December 31, 2015 and 2014, the Company's statutory income tax rate was 30%. During those same years, its effective income tax rate for financial reporting purposes was 24.28% and 15.41% respectively. The primary differences between the expected statutory income tax rates relate to: (1) in 2015, the reversion of CAIR's accrual which decrease the statutory tax rate, and (2) in 2014, the income tax was determined under the CAIR rules which state to apply an estimated taxable income rate of 4.9% over the revenues. Other less significant differences also existed in both years.

AES Panamá, S.R.L.**Notes to the financial statements****December 31, 2015 and 2014***(Amounts stated in thousands of US dollars)***18. Income Tax (continued)**

The current tax code establishes that taxpayers must submit a statement of estimated income that will be realized in the next year which follows the presented tax return. This estimated income as declared shall not be less than the income specified in the tax return. Taxpayers must make advance payments based on the determination of the estimated statement divided into three installments to be paid quarterly in the months of June, September and December. During 2015, no estimated payments were made as the Company generated a tax loss in 2014 for \$52,984. For the year 2014, no estimated payments were made as the Company generated a tax loss in 2013 by \$21,937. Tax returns of the Company are subject to review by the tax authorities for the last three fiscal years including the year ended December 31, 2015, according to the tax regulations.

As of December 31, 2015 and 2014, the deferred income tax assets and liabilities is as follow

	<u>2015</u>	<u>2014</u>
Current deferred tax assets:		
Provision for obsolescence	\$ 149	\$ —
Expense provisions	1,315	2,648
Net operating loss carry forward (NOL)	—	4,112
Total current deferred tax assets	<u>1,464</u>	<u>6,760</u>
Current deferred tax liability:		
Prepaid expenses affiliate	<u>(3,148)</u>	<u>(1,573)</u>
Total current deferred tax liability	<u>(3,148)</u>	<u>(1,573)</u>
Current deferred tax (liabilities) asset, net	<u>\$ (1,684)</u>	<u>\$ 5,187</u>
Non current deferred tax assets:		
Net operating loss carry forward (NOL)	\$ 16,652	\$ 15,054
Difference in tax base for generation-related assets	1,211	1,288
Expense provision	380	522
Total non current deferred tax assets	<u>18,243</u>	<u>16,864</u>
Non current deferred tax liabilities:		
Insurance compensation capitalized	(16,737)	(17,666)
Accumulated depreciation on investment-related assets	(5,491)	(5,948)
Accelerated depreciation	(35,273)	(32,211)
Capitalized interest	(1,369)	(954)
Asset retirement liability	(309)	—
Donations to Government	(243)	(257)
Total non current deferred tax liabilities	<u>(59,422)</u>	<u>(57,036)</u>
Total non current deferred tax liabilities, net	<u>\$ (41,179)</u>	<u>\$ (40,172)</u>
Deferred tax, net	<u>\$ (42,863)</u>	<u>\$ (34,985)</u>

AES Panamá, S.R.L.

Notes to the financial statements

December 31, 2015 and 2014

(Amounts stated in thousands of US dollars)

18. Income Tax (continued)

The deferred tax asset is composed mainly by the difference in the tax basis of assets, tax loss carryforward provisions and expenses according to current tax legislation will be deductible when they are actually paid or used.

Net operating loss carry forward

According to the tax law in force, the net operating losses can be deducted ratable over the next 5 years; this deduction can not reduce by more than 50% the taxable income for those years. As of December 31, 2015, the Company has a net operating loss carry forward that can be applied to future taxable income which expire as follows:

<u>Year</u>		<u>Total</u>
2016	\$	14,984
2017		14,984
2018		14,984
2019		10,597
Loss carry forward	\$	<u>55,549</u>

Based on current and projected results of the Company, the administration believes there will be enough taxable income to realize the deferred tax assets recognized.

Law No. 28 of June 20, 1995, which was in force until the year 2000, allowed companies to invest in technology in order to obtain an investment tax credit. The investment had to be validated by a qualified technical institution in order to apply for this fiscal incentive that consists of the application of a tax credit of 25% on income tax payable in the fiscal period. The tax credit is applicable until the Company has fully utilized the total cost of the investments.

The tax credit would apply until the Company consummates the total investment cost. As of December 31, 2015 and 2014, the liability for deferred income tax comprises the depreciation of the assets that gave rise to the investment tax credit, which has been used by the Company to reduce the current 25% tax each year. For tax purposes, the depreciation of these assets is not considered deductible while for financial purposes it is depreciated over the asset's useful life.

Since 2009, the Company applies the tax benefit of accelerated depreciation (sum of digits) one of the methods allowed under income tax rules. The application of this method was calculated for a group of Company assets, but such assets for financial reporting purposes, are depreciated by the straight-line method.

AES Panamá, S.R.L.

Notes to the financial statements

December 31, 2015 and 2014

(Amounts stated in thousands of US dollars)

18. Income Tax (continued)

Dividend tax

Stockholders pay an income tax of ten percent (10%) which is withheld from the dividends they receive. Without dividends, or if the total distribution is less than forty percent (40%) of the net taxable income, the Company should issue a tax payment over dividends equal to four percent (4%) until these dividends are finally declared. This rate of four percent (4%) is called "Deemed Tax" and is considered an advance dividend tax. For the years ended December 31, 2015 and 2014, the Company paid deemed tax of \$0 and \$7, respectively.

Transfer Pricing Law

During 2013, the tax authorities established transfer pricing regulations. Such regulations apply to any transaction that the taxpayer had with related parties that are tax residents of other jurisdictions, provided that such operations take effect as revenues, costs or deductions in determining taxable income for purposes of income tax in the fiscal period the operation occurs.

Thus, taxpayers must meet annually and as of fiscal year 2013, with the obligation to prepare a pricing report (Report 930) six months after the end of the fiscal period, and must have, at the same date, a study that covers that year and contains information and analysis to assess and document their transactions with related parties in accordance with the provisions of the Tax Code. The Company determine that these obligations did not have significant impact on the income tax provision in 2015 and 2014.

Tax contingencies

According to *Accounting Standard Codification (ASC)* 740, the Company must recognize the effect of tax positions in the financial statements if they meet the criterion that it is "more likely than not." While assessing the items related to this criterion, the Company has to determine if each tax position can be maintained based solely on its technical merit in the event of an inspection by the tax authorities. The interpretation requires that the Company establish liabilities to reflect the portion of those positions that cannot be concluded as "more likely than not" to be realized before the last instance of final liquidation. They are referred to as liabilities for tax benefits not recognized under ASC 740. By adopting this interpretation, the Company identified and assessed any potential uncertain tax positions and concluded that there are no uncertain tax positions that require a liability to be recorded in the financial statements. Management expects that the tax authorities will accept these positions upon examination, and has a high degree of confidence in the technical merit of the positions. Consequently, Management expects that the total amount of the tax positions will finally be realized and recognized in the financial statements.

AES Panamá, S.R.L.**Notes to the financial statements****December 31, 2015 and 2014***(Amounts stated in thousands of US dollars)***19. Fair Value of Financial Instruments**

The Company established a process to determine fair value of its financial statements. The determination of fair value considers market quoted prices. Nevertheless, in many occasions no quoted market prices exist for several of the Company's financial instruments.

In cases in which market quoted prices are not available, the fair value is based on estimates using current value or other valuation techniques. These techniques are affected significantly by the assumptions employed, including the discount rate and future cash flows.

Financial instruments at book value which approximates fair value

Due to their short-term nature, the book value of certain financial assets, including cash, accounts receivable and related party accounts receivable, as well as certain financial liabilities including accounts payable and related party accounts payable, are considered to be their fair value.

Bonds Payable

The estimated fair value as of December 31, 2015 and 2014 is based on information available as of the date of the balance sheets. The Company does not have knowledge of any factor that might significantly affect the estimates of fair value as of those dates. For bonds payable with a fixed rate, the Company established a process to determine fair value.

2016 Bonds

The determination of fair value considers the quoted price in the Panamanian market (Level 1), as detailed below:

	2015		2014	
	Book value	Fair value	Book value	Fair value
Financial Liabilities:				
Bonds payable, short term 2016	\$ 82,618	\$ 85,599	\$ —	\$ —
Bonds payable, long term 2016	—	—	299,384	310,200
Total	<u>\$ 82,618</u>	<u>\$ 85,599</u>	<u>\$ 299,384</u>	<u>\$ 310,200</u>

2022 Bonds

The determination of fair value considers the quoted price in the Panamanian market (Level1), as detailed below:

	2015		2014	
	Book value	Fair value	Book value	Fair value
Financial Liabilities:				
Bonds payable, long term 2022	\$ 300,000	\$ 297,750	\$ —	\$ —
Total	<u>\$ 300,000</u>	<u>\$ 297,750</u>	<u>\$ —</u>	<u>\$ —</u>

AES Panamá, S.R.L.
Notes to the financial statements
December 31, 2015 and 2014

(Amounts stated in thousands of US dollars)

19. Fair Value of Financial Instruments (continued)

Loans Payable

The estimated fair value as of December 31, 2014 is based on information available as of that date. The Company does not have knowledge of any factor that might significantly affect the estimates of fair value as of those dates. This loan was contracted at a variable rate and therefore the Company management considers fair value is equal to book value.

The loan payable was paid in June 2015, after the 2022 bonds issuance (Notes 11 and 12). The fair value is as follows:

	<u>2014</u>	
	Book value	Fair value
Financial Liabilities:		
Loans payable	<u>\$ 57,300</u>	<u>\$ 57,300</u>

20. Credit Risk

The Company has exposure to credit risk on financial assets.

Credit risk is the risk that the borrower or issuer of a financial asset, owned by the Company, does not comply fully and on time, with any payment to be made in accordance with the terms and conditions agreed to when we acquired or originated the respective financial asset.

The Company management has financial instruments with minimal risk of loss because electricity market rules provide for the collection and payment within 30 days of delivery of the invoice. At balance sheet dates, there are no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the balance of accounts receivable included in the balance sheets.

21. Subsequent Events

Subsequent events were evaluated by the Administration until September 26, 2016, the date on which financial statements were authorized by the Administration for its issuance.

Financial Statements

AES Panamá, S.R.L.

*For the Years ended December 31, 2014 and 2013
with Report of Independent Auditor's*

CONTENTS

Report of Independent Auditors.....	1
Balance Sheets	2
Statements of Comprehensive Income.....	4
Statements of Changes in Stockholders' Equity.....	5
Statements of Cash Flows	6 - 7
Notes to the Financial Statements	8 - 43



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Report of Independent Auditors

To the Assembly of Partners of AES Panamá, S.R.L.

We have audited the accompanying financial statements of AES Panamá, S.R.L. (the Company), which comprise the balance sheets as of December 31, 2014 and 2013, and the related statements of comprehensive income, changes in stockholders' equity and cash flows for the year then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of AES Panamá, S.R.L. at December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Emphasis of matter

The accompanying financial statements have been retrospectively adjusted for the matters discussed in Note 3.a.

March 31, 2015 (except for note 3.a., as to which the date is September 26, 2016)
Panama, Republic of Panama

AES Panamá, S.R.L.**Balance Sheets****December 31, 2014 and 2013***(Amounts stated in thousands of US dollars)*

<i>Notes</i>		2014	2013
	ASSETS		
	Current assets		
	Cash and cash equivalents	\$ 56,469	\$ 26,853
	Accounts receivable:		
	Trade	6,485	3,373
4	Related parties	54,521	34,479
4	Affiliates	3,643	11,556
	Other	150	220
	Inventories, net	5,993	2,400
17	Prepaid income tax	—	1,736
6	Prepaid expenses	1,274	2,148
17	Deferred income tax	5,187	2,054
	Total current assets	133,722	84,819
	Long term assets		
	Property, plant and equipment, net	426,603	404,926
5	Total property, plant and equipment, net	426,603	404,926
	Non current assets		
7 & 11	Restricted cash	9,841	9,840
4 & 6	Prepaid expenses	5,245	—
	Advances to suppliers	3,180	—
8	Investment in affiliate	43,753	38,366
	Other	835	762
	Total non current assets	62,854	48,968
	TOTAL ASSETS	\$ 623,179	\$ 538,713

Annual Financial Statements

<i>Notes</i>	2014	2013
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
10 Loans payable	\$ 53,186	\$ —
Accounts payable:		
Suppliers	21,323	13,941
4 Related parties	3,808	8,744
4 Affiliates	42,486	31,172
Interest payable	592	529
16 Income tax payable	2,437	—
Accrued expenses and other liabilities	6,022	6,553
Total current liabilities	<u>129,854</u>	<u>60,939</u>
Non current liabilities		
Employee benefits	672	577
10 Loans payable	47,562	—
Accounts payable	267	267
11 & 18 Bonds payable, net	298,226	297,259
17 Deferred income tax	40,172	46,340
5 Asset retirement obligation	1,213	—
Total non current liabilities	<u>388,112</u>	<u>344,443</u>
STOCKHOLDERS' EQUITY		
Participating stock	141,139	141,402
Treasury stock	—	(263)
Additional paid-in-capital	14,191	14,150
Accumulated deficit	(48,642)	(20,490)
Deemed tax	(1,475)	(1,468)
Total stockholders' equity	<u>105,213</u>	<u>133,331</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u><u>\$ 623,179</u></u>	<u><u>\$ 538,713</u></u>

The accompanying notes are an integral part of these financial statements.

AES Panamá, S.R.L.
Statements of Comprehensive Income
For the years ended December 31, 2014 and 2013

(Amounts stated in thousands of US dollars)

<i>Notes</i>	2014	2013
4 Electricity sales	\$ 261,849	\$ 301,579
Operating costs and expenses		
4 Electricity purchases	207,716	196,151
4 & 14 Other cost of electricity sales	3,022	—
4 Transmission costs	4,202	11,207
4, 6 & 9 Operating lease expense	7,385	—
15 Operating and maintenance expenses	21,686	31,868
5 Depreciation	24,074	23,567
4 Management fee	5,829	5,642
Total operating costs and expenses	273,914	268,435
Operating (loss) income	(12,065)	33,144
Other (expenses) income		
4 Interest income	955	2,268
Interest expense	(21,526)	(19,681)
4 & 16 Other (expenses) income, net	(6,030)	68
8 Equity earnings (loss) in investment in affiliate	5,387	(3,341)
	(21,214)	(20,686)
(Loss) income before income tax (benefit) expense	(33,279)	12,458
17 Income tax (benefit) expense	(5,127)	8,573
Net (loss) income	\$ (28,152)	\$ 3,885
Other comprehensive income of affiliate	—	—
Total comprehensive income of the year	\$ (28,152)	\$ 3,885

The accompanying notes are an integral part of these financial statements.

AES Panamá, S.R.L.

Statements of Changes in Stockholders' Equity

For the years ended December 31, 2014 and 2013

(Amounts stated in thousands of US dollars)

	Participating <u>Stock</u>	Treasury <u>Stock</u>	Additional Paid-in- <u>Capital</u>	Accumulated <u>deficit</u>	Deemed <u>Tax</u>	Total Stockholders' <u>Equity</u>
Balances as of January 1, 2013	\$ 141,402	\$ (263)	\$ 14,124	\$ 25,645	\$ (3,557)	\$ 177,351
Net income	—	—	—	3,885	—	3,885
Deemed tax	—	—	—	—	2,089	2,089
Dividends paid (Note 4)	—	—	—	(28,500)	—	(28,500)
Investment in affiliate (Note 8)	—	—	—	(21,520)	—	(21,520)
Share based compensation	—	—	26	—	—	26
Balances as of December 31, 2013	<u>\$ 141,402</u>	<u>\$ (263)</u>	<u>\$ 14,150</u>	<u>\$ (20,490)</u>	<u>\$ (1,468)</u>	<u>\$ 133,331</u>
Balances as of January 1, 2014	\$ 141,402	\$ (263)	\$ 14,150	\$ (20,490)	\$ (1,468)	\$ 133,331
Net loss	—	—	—	(28,152)	—	(28,152)
Deemed tax	—	—	—	—	(7)	(7)
Share based compensation	—	—	41	—	—	41
Treasury stock cancelled	(263)	263	—	—	—	—
Common stock cancelled	(141,402)	—	—	—	—	(141,402)
Participating stock issued	141,402	—	—	—	—	141,402
Balances as of December 31, 2014	<u>\$ 141,139</u>	<u>\$ —</u>	<u>\$ 14,191</u>	<u>\$ (48,642)</u>	<u>\$ (1,475)</u>	<u>\$ 105,213</u>

The accompanying notes are an integral part of these financial statements.

AES Panamá, S.R.L.
Statements of Cash Flows
For the years ended December 31, 2014 and 2013

(Amounts stated in thousands of US dollars)

	2014	2013
Cash flows from operating activities		
Net (loss) income	\$ (28,152)	\$ 3,885
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Depreciation	24,074	23,567
(Gain) loss on sale of fixed assets	(87)	554
Deferred income tax	(9,301)	5,047
Amortization of deferred financing cost	644	544
Equity earnings (loss) in investment in affiliate	(5,387)	3,341
Amortization of bond discount	285	267
Share based compensation	41	26
Cash flows before changes in operating assets and liabilities:	<u>(17,883)</u>	<u>37,231</u>
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(15,171)	(20,302)
Increase in inventories	(3,593)	(97)
Decrease (increase) in prepaid income tax	1,736	(205)
(Increase) decrease in prepaid expenses	(4,364)	2,167
Increase (decrease) in accounts payable	9,385	13,063
Increase (decrease) in income tax payable	2,437	—
Increase (decrease) in interest payable	63	(4)
(Decrease) increase in accrued expenses and other liabilities	(531)	(8,039)
Increase (decrease) in employee benefits	106	(31)
Net cash (used in) provided by operating activities	<u>(27,815)</u>	<u>23,783</u>
Cash flows from investing activities		
Advances for the acquisition of property, plant and equipment	(3,180)	—
Acquisition of property, plant and equipment	(811)	(260)
Construction in progress	(39,346)	(3,673)
Proceeds from the sale of property, plant and equipment	94	3,592
Restricted cash	(1)	(2)
Other non current assets	(73)	(1)
Net cash used in investing activities	<u>(43,317)</u>	<u>(344)</u>
Carried forward...	\$ (71,132)	\$ 23,439

AES Panamá, S.R.L.
Statements of Cash Flows (continued)
For the years ended December, 2014 and 2013
(Amounts stated in thousands of US dollars)

	2014	2013
Brought forward...	\$ (71,132)	\$ 23,439
Cash flows from financing activities		
Loan payments	(35,000)	(1,483)
Proceeds from new loans	137,300	—
Payments for financed capital expenditure	—	(6,795)
Payments for financing costs	(1,552)	—
Lease obligation payments	—	(10)
Dividends paid	—	(28,500)
Net cash provided by (used in) financing activities	<u>100,748</u>	<u>(36,788)</u>
Net increase (decrease) in cash and cash equivalents	29,616	(13,349)
Cash and cash equivalents at the beginning of the year	<u>26,853</u>	<u>40,202</u>
Cash and cash equivalents at the end of the year	<u>\$ 56,469</u>	<u>\$ 26,853</u>
Supplementary disclosure		
Interest paid	<u>\$ 20,929</u>	<u>\$ 19,050</u>
Income tax paid	<u>\$ —</u>	<u>\$ 3,626</u>
Supplementary disclosure of non-cash activities		
Settlement of commercial accounts with AES Changuinola, S.R.L.	<u>\$ 6,979</u>	<u>\$ 2,492</u>
Acquisition of equity interest through debt capitalization	<u>\$ —</u>	<u>\$ 63,227</u>
Acquisition of property, plant and equipment in accounts payable	<u>\$ 4,375</u>	<u>\$ —</u>
Asset retirement obligation capitalized	<u>\$ 1,213</u>	<u>\$ —</u>
Common stock canceled	<u>\$ (141,402)</u>	<u>\$ —</u>
Participating stock issued	<u>\$ 141,402</u>	<u>\$ —</u>

The accompanying notes are an integral part of these financial statements.

AES Panamá, S.R.L.
Notes to the Financial Statements
December 31, 2014 and 2013

(Amounts stated in thousands of US dollars)

1. Corporate Information

AES Panamá, S.R.L. (the Company) was incorporated on October 26, 1999 as a result of the merger of Empresa de Generación Eléctrica Chiriquí, S. A. (Chiriquí) and Empresa de Generación Eléctrica Bayano, S. A. (Bayano) and being Empresa de Generación Eléctrica S.A. (Chiriquí) the surviving company. Chiriquí and Bayano were incorporated as companies on January 19, 1998 in connection with the privatization and restructuring of the Panamanian energy industry. At the time of its incorporation, the Company operated a hydroelectric power plant with an installed capacity of 150 megawatts in Bayano, a thermal power plant with a capacity of 42.8 megawatts located in Panama City (which was shut down in 2005 and transferred to Empresa de Generación, S. A. (EGESA) who assumed all the obligations and responsibilities of the plant on October 18, 2006 as established in the transfer agreement), and the hydroelectric power plants of La Estrella and Los Valles with installed capacities of 42 and 48 megawatts, respectively, located in the Province of Chiriquí. The Bayano plant completed the expansion of two existing units increasing its total capacity from 75 to 87 megawatts for both units and also the construction of a third unit of 86 megawatts was finished in February 2004, for a total of 260 megawatts of installed capacity for the Bayano plant. The Company built the Estí hydroelectric plant with an installed capacity of 120 megawatts, which is located in the Province of Chiriquí and initiated its commercial operation on November 20, 2003. Additionally, in March 2006, the Company began a project to increase capacity of generating units at La Estrella and Los Valles power plants to 45 and 51 megawatts, respectively. In 2007, their capacity was increased again to 48 and 54 megawatts, respectively. Since that date, the total capacity of the plants is 482 megawatts.

On September 25, 2013, the Company converted into equity ownership the accounts receivables with its affiliate AES Changuinola, S.R.L. of \$63,227 which was generated from electricity sales. Through this transaction, the Company became the owner of 20% of AES Changuinola, S.R.L. On November 25, 2013, the transaction was completed upon the transfer and issuance of the corresponding shares.

On October 16, 2014, the Company structure was changed to a limited liability company ("S.R.L" or "Sociedad de Responsabilidad Limitada" in Spanish). The change was approved by the Company's Board of Directors and Stockholders. As a result of this change, the Company canceled its outstanding common stock and issued participating stock to its members representing the same percentage of ownership. In addition, treasury stock was canceled.

As of December 31, 2014, AES Panamá Energy, S. A., a wholly owned subsidiary of The AES Corporation (The Corporation), owns 105,353,687 (49.0%) of the Company's participating stock, the Republic of Panama owns 108,347,536 (50.39%) of the Company's participating stock, and employees and former employees own 1,016,205 (0.61%) of the Company's participating stock.

The Company generates and sells electricity in the Panamanian electric market and the Regional Electric Market (MER), where the Panamanian electric market is regulated by the National Authority of Public Services (ASEP by its initials in Spanish) (formerly Regulator of Public Services).

AES Panamá, S.R.L.
Notes to the Financial Statements
December 31, 2014 and 2013

(Amounts stated in thousands of US dollars)

1. Corporate Information (continued)

As of December 31, 2014, 92% of the energy capacity of the plants in operation of the Company are contracted to date under several energy purchases agreements to purchase-sell electrical power and energy or only electrical power to distribution companies, "large customers" which are defined by Law 6 of February 3, 1991, as those customers with peak demand over 100 KW per site, who have the option to purchase energy directly from other agents of the electricity market and AES Changuinola, S.R.L.. These agreements have average terms of one to ten years. Excess energy is sold in part under contract to distribution companies and the rest in the spot market at the prevailing rates (spot prices).

2. Basis for the Preparation of Financial Statements

These financial statements are prepared based on generally accepted accounting principles in the United States of America (US GAAP).

The accounting records are maintained in Balboas, the official currency of the Republic of Panama, which is the country in which the Company operates. The Balboa is on a par and is freely exchangeable with the US Dollar. The Republic of Panama does not issue paper currency; instead it uses the US dollar as the legal currency.

The financial statements and notes are presented in thousands of US dollars (\$), except otherwise indicated.

3. Summary of Significant Accounting Policies

The Company's significant accounting policies are summarized as follows:

Cash and cash equivalents

The Company considers as cash and cash equivalents its cash on hand, deposits in current and savings accounts, and time deposits with initial maturity dates that are less than three (3) months.

Restricted cash

Restricted cash includes cash and cash equivalents, which have restricted availability, due to restrictions imposed by financing arrangements, which are used as collateral for the payment of interest on the bond described in Notes 7 and 11.

AES Panamá, S.R.L.
Notes to the Financial Statements
December 31, 2014 and 2013

(Amounts stated in thousands of US dollars)

3. Summary of Significant Accounting Policies (continued)

Accounts receivable

Accounts receivable are shown at their nominal value less an allowance for uncollectible accounts, if any. The estimated allowance considers the customer and related parties billing records, the age of the balances due, as well as specific evaluations of individual balances. As of December 31, 2014 and 2013, there are no allowances for uncollectible accounts.

Inventories

Inventories, which consist primarily of materials and spare parts, are valued at the lower of cost or market value. The cost is determined using the average cost method. The inventories include an allowance for obsolescence of \$0 and \$38 as of December 31, 2014 and 2013, respectively.

Property, plant and equipment

Property, plant and equipment are recorded at their acquisition cost, less the accumulated depreciation. Cost includes major expenditures for improvements and replacement, including critical replacement parts for the turbine generator units, which extend useful lives or increases capacity. Maintenance and repair costs are charged to expense accounts as incurred. When assets are sold or retired, the corresponding cost and accumulated depreciation are removed, and the resulting gain or loss is reflected in the statements of comprehensive income.

Depreciation is calculated according to the useful life of the respective assets using the straight-line method.

The depreciation rates used are based on the estimated useful life of the assets and are described below:

	<u>Useful Life</u>
Buildings	30 to 50 years
Generating assets (generation equipment)	15 to 50 years
Generating assets (electricity equipment)	5 to 50 years
Generating assets (transmission equipment)	35 years
Office furniture and equipment	3 to 20 years
Vehicles	3 to 8 years

AES Panamá, S.R.L.
Notes to the Financial Statements
December 31, 2014 and 2013

(Amounts stated in thousands of US dollars)

3. Summary of Significant Accounting Policies (continued)

Asset retirement obligation

The Company records the fair value of the liability for a contractual obligation to retire an asset in the period in which the obligation is incurred. When a new liability is recognized, the Company capitalizes the costs of the liability by increasing the carrying amount of the related long-lived asset. The liability is accreted to its present value each period and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the obligation, the Company eliminates the liability and, based on the actual cost to retire, may incur a gain or loss.

Impairment valuation of long-lived assets

The Company assesses impairment of long-lived assets based on projected undiscounted cash flows whenever events or changes indicate that the value of an asset may not be recoverable. The carrying amount is not recoverable when the discounted future cash flows expected to result from the use of the asset are less than the carrying value of assets. The Company recognizes an impairment loss as the difference between the asset's carrying value and fair value determined based on discounted future cash flows.

Investment in affiliate

Investments in entities over which the Company has the ability to exercise significant influence, but not control, are accounted for using the equity method of accounting and reported in "Investment in affiliate" on the Balance Sheets. The Company periodically assesses if there is an indication that the fair value of an equity method investment is less than its carrying amount. When an indicator exists, any excess of the carrying amount over its estimated fair value is recognized as impairment when the loss in value is deemed other-than-temporary.

The Company discontinues the application of the equity method when an investment is reduced to zero and the Company is not otherwise committed to provide further financial support to the investee. The Company resumes the application of the equity method if the investee subsequently reports net income to the extent that the Company's share of such net income equals the share of net losses not recognized during the period in which the equity method of accounting was suspended.

Operating lease

Operating leases are leases where the lessor retains substantially all the risks and rewards of ownership of the asset. The Minimum lease payments, according to the rates established in the respective contracts, are recognized as expense on a straight-line basis over the lease term. The excess of minimum lease payments over lease expense is recognized as a prepaid asset or as a liability, whichever applicable.

AES Panamá, S.R.L.
Notes to the Financial Statements
December 31, 2014 and 2013

(Amounts stated in thousands of US dollars)

3. Summary of Significant Accounting Policies (continued)

Major and minor maintenance

Disbursements for major maintenance represent the reconditioning of the plant or other assets. These expenses are capitalized and amortized based on the useful life of each asset. Minor maintenance expenses are charged directly to operating and maintenance expenses in the statements of comprehensive income.

Construction in progress

Construction progress payments, engineering costs, insurance costs, salaries, interest and other costs directly relating to construction in progress are capitalized during the construction period, provided the completion of the project is deemed probable, or expensed at the time the Company determines that development of a particular project is no longer probable. The continued capitalization of such costs is subject to ongoing risks related to successful completion, including those related to government approvals, site identification, financing, construction permitting and contract compliance. Construction in progress balances are transferred to electricity generation facilities when an asset group is ready for its intended use. Government subsidies, liquidated damages recovered for construction delays and income tax credits are recorded as a reduction to property, plant and equipment and reflected in cash flows from investing activities. The construction in progress consists primarily of costs associated with the barge, which is under construction at December 31, 2014. During the construction period, interest is capitalized and included as part of the costs of construction in process. For the years ended December 31, 2014 and 2013, the Company capitalized interest and financing costs of \$368 and \$386, respectively, which is transferred to fixed assets together with all construction costs upon the project completion.

Share based compensation

Certain Company employees were granted stock options under an option plan created by The Corporation. This plan allows for the issuance of options to purchase common stock of The Corporation at a price equal to 100% of the market price on the date on which the option is granted. Generally, the stock options issued under this plan become exercisable by employees one year after the grant date and vest over three years from the date of the grant (33% per year). The exercise prices of the options were \$14.63 and \$11.17 per share for 2014 and 2013, respectively.

The weighted average fair value of the options granted under The Corporation plans was estimated as of the grant dates using the Black-Scholes option-pricing model with the following assumptions:

Assumptions	<u>2014</u>	<u>2013</u>
Expected life of the option	6 years	6 years
Risk-free interest rate	1.86%	1.13%
Expected volatility	24%	23%
Dividend yield	1%	1%
Fair value	\$3.26	\$2.23

AES Panamá, S.R.L.
Notes to the Financial Statements
December 31, 2014 and 2013

(Amounts stated in thousands of US dollars)

3. Summary of Significant Accounting Policies (continued)

The cost is measured at the date of the grant of the option based on the fair value of the option estimated by The Corporation and is expensed on a straight line basis for the required period of service to earn the right to exercise the option (vesting period) against a capital contribution (additional paid-in capital).

For the years ended December 31, 2014 and 2013 , the compensation cost recognized of the options amounted to \$41 and \$26, respectively.

Deferred financing costs

Financing costs on long-term loans obtained for the construction of assets are capitalized and amortized during the financing period using the effective interest rate method over the life of the loan. For the year ended December 31, 2014, the deferred financing costs amounted to \$2,710. No financing costs were incurred in 2013.

Revenue recognition and concentration

Revenues produced by the sale of electricity are recognized based on output delivered to clients according to the monthly reports prepared by the National Dispatch Center of the Republic of Panama, considering rates and kilowatts specified under contract terms; the Company also recognizes revenues from the sale of energy in the spot market. For the years ended December 31, 2014 and 2013, 86% and 92% of contract revenues, respectively, were derived from sales to distribution companies (EDEMET, EDECHI and ENSA), eleven large customers in 2014 (Importadora Ricamar, Business Park I, Cemento Panamá, Oficina de Electrificación Rural (old BOFCO), Contraloría General de la República, Sunstar Hotel, Gold Mills, Avipac, Inc, Cemento Interoceanico, United States Embassy and Varela Hermanos), and twelve large customers in 2013 including "Desarrollo Inmobiliario del Este, S.A. (DIESA) whose was terminated in 2014; and reserve contracts with the Company's affiliate AES Changuinola S.R.L.

Interest income

Interest income corresponds to interest earned on time deposits and commercial interests that are determined by customer contracts.

AES Panamá, S.R.L.
Notes to the Financial Statements
December 31, 2014 and 2013

(Amounts stated in thousands of US dollars)

3. Summary of Significant Accounting Policies (continued)

Income taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statements carrying amounts of the existing assets and liabilities, and their respective income tax bases. The Company establishes a valuation allowance when it is more likely than not that all or a portion of a deferred tax asset will not be realized. The Company's tax positions are evaluated under a more likely than not recognition threshold and measurement analysis before they are recognized for financial statements reporting.

The Company's policy for interest and penalties related to income tax exposures is to recognize interest and penalties as a component of the provision for income taxes in the statements of comprehensive income.

Use of estimates

The presentation of the financial statements in accordance with generally accepted accounting principles in the United States requires management to make estimates and assumptions affecting the reported amounts of assets, liabilities, gain and losses, as well as the disclosure of contingent assets and liabilities. Actual results might differ from these estimates. The most important estimates are the useful lives of long-lived assets and the obsolescence reserve for inventory.

Seniority premiums and termination severance provision

According to the Panamanian Labor Code, upon termination of any employee with an open ended contract, regardless the causes; the employee is entitled to a seniority premium at the rate of one week's salary for every year of work, since they were first employed. Seniority premiums represent 1.92% of total salaries paid and are reported in the balance sheets under employee benefits.

Law N° 44 dated August 12, 1995, introduced reforms to the Panamanian Labor Code by requiring all employers to make a cash contribution to a severance fund that would cover the payment of a seniority premium to the employee and severance in case of unjustified dismissal or resignation. The Company keeps a trust fund through an authorized private entity, Progreso, S. A., which acts as trustee to secure the severance fund liability. This trust fund is reported on the balance sheets under accrued expenses and other liabilities.

AES Panamá, S.R.L.
Notes to the Financial Statements
December 31, 2014 and 2013

(Amounts stated in thousands of US dollars)

3. Summary of Significant Accounting Policies (continued)

Accounting Pronouncement issued but not yet effective

ASU No. 2014-05, Service Concession Arrangements (Topic 853)

In January 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-5 which states that certain service concession arrangements with public-sector entity grantors are not in scope of ASC 840, Leases ("ASC 840"). A service concession arrangement is described as an arrangement between a public-sector entity grantor and an operating entity. Operating entities with these types of arrangements with public-sector entities will no longer account for these arrangements as a lease in accordance with ASC 840 and will not recognize the related infrastructure as property, plant and equipment. Entities will apply other GAAP to the arrangement. The standard is effective for annual reporting periods beginning after December 15, 2014 and interim periods therein. The guidance will be applied on a modified retrospective basis to service concession arrangements in existence at January 1, 2015. The Company has not identified any impact in relation to this standard.

ASU No. 2014-09/2016-08/2016-10/2016-12 Revenue from Contracts with Customers (Topic 606)

The Revenue from Contracts with Customers standard provides a single and comprehensive revenue recognition model for all contracts with customers to improve comparability. The standard contains principles to determine the measurement and timing of revenue recognition. The standard requires an entity to recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The amendments to the standard provide further clarification on contract revenue recognition specifically related to the implementation of the principal versus agent evaluation, the identification of performance obligations, clarification on accounting for licenses of intellectual property, and allows for the election to account for shipping and handling activities performed after control of a good has been transferred to the customer as a fulfillment cost. The implementation will be a full retrospective or modified retrospective approach and the date of adoption is January 1, 2018 (deferred by ASU No. 2015-14). Earlier application is permitted only as of January 1, 2017. The Company is currently evaluating the impact of adopting the standard on its financial statements

ASU No. 2014-12, Compensation — Stock Compensation (Topic 718)

In June 2014, the FASB issued ASU No. 2014-12 which is intended to resolve the diverse accounting treatment in practice with compensation awards. The objective of the new standard is to clarify the treatment of accounting for performance targets which affect award vesting. The standard is effective for annual reporting periods beginning after December 15, 2015 and interim periods therein. Early adoption is permitted. The standard permits the use of either a prospective or modified retrospective approach. The Company has not yet selected a transition method and is currently evaluating the impact of the standard on its financial position and results of operations, but does not expect such impact to be material.

AES Panamá, S.R.L.
Notes to the Financial Statements
December 31, 2014 and 2013

(Amounts stated in thousands of US dollars)

3. Summary of Significant Accounting Policies (continued)

a. Retrospective Adjustments to Financial Statements

The accompanying financial statements are being presented in connection with a contemplated debt re-financing transaction. Such financial statements have been retrospectively adjusted from those previously distributed by the Company for the reason explained below:

Certain new US GAAP accounting pronouncements (ASC) became effective on January 1, 2016 with retrospective adoption either required or permitted for prior periods:

- The Company's implementation of the ASU 2015-03 Interest - Imputation of interest (subtopic 835-30) is disclosed in Note 11. ASC 2015-03 required both the prospective and retrospective presentation of the deferred debt issuance costs that were previously presented as an asset, to now be shown as part of the debt liability balance in a Company's balance sheets. As of December 31, 2014 and 2013, for comparability purposes, deferred financing cost reclassified to a reduction of debt balances were \$2,710 and, \$1,840, respectively. This resulted in a reduction in other assets, total assets, total debt and total liabilities for the amounts stated above. Additionally, the amortization of deferred financing cost were reclassified to interest expenses by \$644 and \$544 in the statement of comprehensive income.

There was no impact on total equity, the statement of comprehensive income or the statement of cash flows from these adjustments.

4. Balances and Transactions with Affiliates of The Corporation and Related Parties

The Panamanian Government has a significant investment in the generation, distribution and transmission companies in the electric power industry in Panama. Consequently, all the transactions between the Company and such companies are considered transactions with related parties.

To reduce the impact of high spot market prices on hydro companies due to the transmission constraints to transport energy from the west of the country, delays in expansion projects and transmission line improvements, in 2013, the Panamanian Government began to negotiate compensation mechanisms. Under the agreement, the Government agreed to reimburse the difference between the cost at which the Company purchase energy in the spot market and the price at which the Company sell that energy under the PPAs with the Distribution Companies for an agreed quantity of 70 MW per hour, but subject to a maximum reimbursement of \$40,000 in 2014 and \$30,000 in each of 2015 and 2016.

As of December 31, 2014, the Company has recorded \$39,506 reducing cost of sales in the statements of comprehensive income, for which \$23,192 have been collected as of December 31, 2014 and the outstanding balance of \$16,314 is recorded in the balance sheet under accounts receivable - related parties.

AES Panamá, S.R.L.
Notes to the Financial Statements
December 31, 2014 and 2013

(Amounts stated in thousands of US dollars)

4. Balances and Transactions with Affiliates of The Corporation and Related Parties
(continued)

The balances with related parties as of December 31, 2014 and 2013 are as follows:

<u>In the balance sheets:</u>	<u>2014</u>	<u>2013</u>
Accounts receivable:		
Empresa de Distribución Eléctrica Metro Oeste, S. A. (EDEMET)	\$ 24,543	\$ 20,927
Ministerio de Economía y Finanzas	16,314	—
Empresa de Distribución Eléctrica Chiriquí, S. A. (EDECHI)	4,970	4,311
Elektra Noreste, S. A. (ENSA)	4,061	5,670
Empresa de Generación Eléctrica Bahía Las Minas, S. A.	1,235	562
Oficina de Electrificación Rural (OER)	1,019	1,931
Empresa de Transmisión Eléctrica, S. A. (ETESA)	945	382
Enel Fortuna, S.A.	697	692
Caja de Seguro Social	518	—
Contraloría General de la República	134	—
Autoridad del Canal de Panamá	85	4
	<u>\$ 54,521</u>	<u>\$ 34,479</u>
Accounts payable:		
Autoridad del Canal de Panamá	\$ 1,396	\$ 3,171
Enel Fortuna, S. A.	1,237	2,136
Empresa de Transmisión Eléctrica, S. A. (ETESA)	1,015	1,850
Empresa de Distribución Eléctrica Metro Oeste, S. A. (EDEMET)	82	118
Empresa de Generación Eléctrica Bahía Las Minas, S. A.	48	1,383
Elektra Noreste, S. A. (ENSA)	18	82
Empresa de Distribución Eléctrica Chiriquí, S. A. (EDECHI)	12	4
	<u>\$ 3,808</u>	<u>\$ 8,744</u>

AES Panamá, S.R.L.
Notes to the Financial Statements
December 31, 2014 and 2013

(Amounts stated in thousands of US dollars)

4. Balances and Transactions with Affiliates of The Corporation and Related Parties
(continued)

For the years ended December 31, 2014 and 2013, the following represents related party transactions:

<u>In the statements of comprehensive income</u>	<u>2014</u>	<u>2013</u>
Electricity sales:		
Empresa de Distribución Eléctrica Metro Oeste, S. A. (EDEMET)	\$150,154	\$ 135,762
Empresa de Distribución Eléctrica Chiriquí, S. A. (EDECHI)	30,191	29,516
Elektra Noreste, S. A. (ENSA)	26,390	39,521
Oficina de Electrificación Rural (OER)	19,696	10,071
Enel Fortuna, S.A.	7,182	6,099
Caja de Seguro Social	2,852	—
Empresa de Generación Eléctrica Bahía Las Minas, S. A.	2,536	3,716
Empresa de Transmisión Eléctrica, S. A. (ETESA)	1,576	2,252
Contraloría General de la República	494	—
Autoridad del Canal de Panamá	101	40
	<u>\$241,172</u>	<u>\$226,977</u>
Transmission costs:		
Empresa de Distribución Eléctrica Metro Oeste, S. A. (EDEMET)	\$ 865	\$ —
Elektra Noreste, S. A. (ENSA)	331	—
Empresa de Transmisión Eléctrica, S. A. (ETESA)	3,006	11,207
	<u>\$ 4,202</u>	<u>\$ 11,207</u>
Electricity purchases:		
Autoridad del Canal de Panamá	\$ 44,338	\$ 24,314
Enel Fortuna, S. A.	17,512	17,606
Empresa de Generación Eléctrica Bahía Las Minas, S. A.	9,718	14,578
Empresa de Transmisión Eléctrica, S. A. (ETESA)	192	790
Empresa de Distribución Eléctrica Metro Oeste, S. A. (EDEMET)	29	1,218
Elektra Noreste, S. A. (ENSA)	29	57
Empresa de Distribución Eléctrica Chiriquí, S. A. (EDECHI)	13	57
	<u>\$ 71,831</u>	<u>\$ 58,620</u>
Electricity purchases (invoiced related to reimbursement agreement):		
Ministerio de Economía y Finanzas	<u>\$ 39,506</u>	<u>\$ —</u>
Other costs of electricity sales: (transmission charges)		
Empresa de Transmisión Eléctrica, S. A. (ETESA)	<u>\$ 3,022</u>	<u>\$ —</u>

AES Panamá, S.R.L.
Notes to the Financial Statements
December 31, 2014 and 2013

(Amounts stated in thousands of US dollars)

4. Balances and Transactions with Affiliates of The Corporation and Related Parties
(continued)

Account receivable sale without recourse

On December 19, 2014, the Company sold receivables from "Oficina de Electrificación Rural (OER)" to Banco Panamá, S.A., who assumed and paid \$14,614 for the accounts, assuming from that time the credit risk.

Balances and transactions with affiliates of The Corporation:

The balances with affiliates of The Corporation as of December 31, 2014 and 2013, are as follows:

<u>In the balance sheets</u>	<u>2014</u>	<u>2013</u>
Accounts receivable:		
AES Bocas del Toro Hydro, S.A.	\$ 1,031	\$ 987
AES Changuinola, S.R.L.	705	4,996
AES Panama Energy, S.A.	479	—
Empresa Electrica de Oriente, S.A. de C.V.	348	—
AES Corporation	207	225
AES Latin America S.R.L.	38	3,817
Other affiliates	835	1,531
	<u>\$ 3,643</u>	<u>\$ 11,556</u>
Accounts payable:		
AES Changuinola, S.R.L.	\$ 33,912	\$ 22,405
AES Solution LLC	6,030	6,439
AES Corporation	2,173	2,138
Other affiliates	371	190
	<u>\$ 42,486</u>	<u>\$ 31,172</u>

Sales-purchases energy

On March 9, 2007, the Company signed with its affiliate AES Changuinola, S.R.L., a contract for the purchase - sale of firm capacity and energy for a period of ten years (from 2011 to 2020) then extended until December 31, 2030. On May 14, 2010, the Company signed the first amendment to its Contract of Reserve 01-07 and two new items of purchase and sale of firm capacity and energy were added for a period of 10 years, from 2012 and 2013. On June 25, 2012, the Company signed the second amendment to the contract which modifies its duration, extending its term until December 31, 2030. Through a communication dated May 30, 2013, AES Changuinola, S.R.L. has exercised its rights to be relieved from fulfilling the commitments under the contract, declaring "fortuitous event" due to the extreme dry hydrological conditions experienced in the Republic of Panama.

AES Panamá, S.R.L.
Notes to the Financial Statements
December 31, 2014 and 2013

(Amounts stated in thousands of US dollars)

4. Balances and Transactions with Affiliates of The Corporation and Related Parties
(continued)

As a result, starting May 1, 2013, AES Changuinola, S.R.L. billings only include the energy generated by the units of the Changuinola I hydroelectric plant at the contract price. AES Changuinola, S.R.L. terminated the fortuitous event on October 2, 2013. On August 29, 2013, the third amendment of this contract was signed converting the contract into a physical delivery contract and a new line was added to complete the sale of firm capacity of Changuinola I up to the year 2030.

As a result of the 2013 amendment, the Company recognizes the PPA as an operating lease for \$615.4 per month until December 31, 2030. As of December 31, 2014, \$7,385 has been recorded net from energy purchases and \$5,245 related to the excess of expense is recorded in prepaid expenses in the balance sheets (notes 6 and 9).

For the years ended December 31, 2014 and 2013, the Company has recorded electricity sales for this contract of \$1,635 and \$56,411, respectively, and purchases of \$74,453 and \$93,851, respectively.

Additionally, for the year ended December 31, 2014, the Company has made energy purchases of \$7,388 from its affiliate AES CLESAY CIA, S. en C. de CV and of \$1,710 from its affiliate company Electrica de Oriente, SA de C.V. (\$0 for the year ended December 31, 2013).

Management fee

The Company has a management contract with AES Changuinola, S.R.L. which establishes a fee equivalent to 1% of the Changuinola's income before depreciation, interest and income tax. The expenses related to this management fee is recorded in other (expenses) income, net for \$555 and \$58 for the years ended December 31, 2014 and 2013, respectively.

In November 2010, the Company entered into a new management contract with AES Solutions LLC, a subsidiary of The AES Corporation, effective January 1, 2010 through December 31, 2018. The contract provides that the annual management fee will be for the minimum amount of \$4,000; and shall be adjusted annually due to changes in inflation. The Administrative Council approves the charges every six months which, annually, should be at least the minimum amount agreed. The total fee recorded as management fee expense amounted to \$5,752 and \$5,642 for the years ended December 31, 2014 and 2013, respectively.

AES Panamá, S.R.L.
Notes to the Financial Statements
December 31, 2014 and 2013

(Amounts stated in thousands of US dollars)

4. Balances and Transactions with Affiliates of The Corporation and Related Parties
(continued)

Rental income

During the years ended December 31, 2014 and 2013, the Company invoiced for rentals to affiliated companies \$270 and \$248, respectively. The corresponding lease agreement is currently effective from February 2014, and has a term of one year with an automatic renewal option and it is recorded as other (expenses) income, net in the statements of comprehensive income.

Dividends

The Company distributed dividends of \$28,500 in 2013. No dividends were distributed in 2014.

Insurance

The Company maintains an "all risks" insurance policy with the insurance company ASSA Compañía de Seguros S. A. This insurance company, in turn, diversifies the risk by reinsuring with a group of insurance companies among which includes a related party of the Company, AES Global Insurance Corporation. The policy taken with ASSA Insurance Company S.A. covers all operational risks including machinery breakdown and income losses. For this contract, the Company has recorded insurance expense of \$3,598 and \$4,627 for the years ended December 31, 2014 and 2013, respectively. These amounts are classified as operating and maintenance expenses in the statements of comprehensive income.

Others

The Company maintains accounts receivable of \$705 and \$4,996 as of December 31, 2014 and 2013, respectively, which corresponds to the sales of energy related to the power purchase agreement with its affiliate AES Changuinola, S.R.L. Accounts payable for purchases of energy related to this contract are netted against the accounts receivable by agreement between the parties and the net balance receivable or payable is presented in the balance sheets. As of December 31, 2014 and 2013, the total compensated amount was \$6,979 and \$2,492, respectively. The agreement between the parties also stipulated that there will be a 7% interest on overdue balances. For the year ended December 31, 2013, the Company registered \$2,197 for this concept and it is included in interest income in the statements of comprehensive income. There was no interest during 2014.

On September 25, 2013, the Board approved the conversion of the accounts receivable balance of \$63,227 into a 20% equity ownership in AES Changuinola, S.R.L. (note 8).

AES Panamá, S.R.L.
Notes to the Financial Statements
December 31, 2014 and 2013
(Amounts stated in thousands of US dollars)

5. Property, Plant and Equipment, net

As of December 31, 2014							
	Land	Buildings	Electricity generation facilities	Office furniture and equipment	Transportation equipment	Construction in progress	Total
Cost:							
Beginning balance	\$ 5,702	\$ 248,510	\$ 424,654	\$ 6,931	\$ 1,744	\$ 5,326	\$ 692,867
Additions	—	—	263	328	220	44,934	45,745
Reclassifications and adjustments	—	3,729	2,614	291	—	(6,634)	—
Sales and disposals	—	—	—	(158)	(229)	—	(387)
Ending balance	<u>5,702</u>	<u>252,239</u>	<u>427,531</u>	<u>7,392</u>	<u>1,735</u>	<u>43,626</u>	<u>738,225</u>
Accumulated depreciation:							
Beginning balance	—	65,956	216,061	4,888	1,036	—	287,941
Depreciation	—	8,274	15,050	563	174	—	24,061
Sales and disposals	—	—	—	(151)	(229)	—	(380)
Ending balance	<u>—</u>	<u>74,230</u>	<u>231,111</u>	<u>5,300</u>	<u>981</u>	<u>—</u>	<u>311,622</u>
Net balance	<u>\$ 5,702</u>	<u>\$ 178,009</u>	<u>\$ 196,420</u>	<u>\$ 2,092</u>	<u>\$ 754</u>	<u>\$ 43,626</u>	<u>\$ 426,603</u>

As of December 31, 2013							
	Land	Buildings	Electricity generation facilities	Office furniture and equipment	Transportation equipment	Construction in progress	Total
Cost:							
Beginning balance	\$ 5,702	\$ 231,569	\$ 443,744	\$ 6,719	\$ 1,723	\$ 6,129	\$ 695,586
Additions	—	—	76	126	59	3,673	3,934
Reclassifications and adjustments	—	21,691	(18,559)	1,382	(38)	(4,476)	—
Sales and disposals	—	(4,750)	(607)	(1,296)	—	—	(6,653)
Ending balance	<u>5,702</u>	<u>248,510</u>	<u>424,654</u>	<u>6,931</u>	<u>1,744</u>	<u>5,326</u>	<u>692,867</u>
Accumulated depreciation:							
Beginning balance	—	74,385	186,045	5,647	817	—	266,894
Depreciation	—	74,385	186,045	5,647	817	—	266,894
Reclassifications and adjustments	—	(15,472)	15,579	(176)	69	—	—
Sales and disposals	—	(1,060)	(359)	(1,101)	—	—	(2,520)
Ending balance	<u>—</u>	<u>65,956</u>	<u>216,061</u>	<u>4,888</u>	<u>1,036</u>	<u>—</u>	<u>287,941</u>
Net balance	<u>\$ 5,702</u>	<u>\$ 182,554</u>	<u>\$ 208,593</u>	<u>\$ 2,043</u>	<u>\$ 708</u>	<u>\$ 5,326</u>	<u>\$ 404,926</u>

AES Panamá, S.R.L.
Notes to the Financial Statements
December 31, 2014 and 2013

(Amounts stated in thousands of US dollars)

5. Property, Plant and Equipment, net (continued)

For the years ended December 31, 2014 and 2013, capitalized interest and financing costs were \$368 and \$386, respectively.

During 2013, the Company sold its old offices for the total amount of \$3,592. At the date of the transaction, their carrying value was \$3,688, generating a loss on sale of assets of \$96. Additionally, the Company sold generating equipment, furniture and software resulting on a loss on disposal of these assets for a total of \$458.

As of December 31, 2014, construction in process includes the cost of acquisition and commissioning of the barge Estrella del Mar I made up of seven bunker engines with an approximate capacity of 10.3 MW each engine, its installation and its connection to the interconnection network (note 12).

In 2014, the Company recognized an asset retirement obligation related to the required future retirement and dismantlement of equipment and facilities located on the land leased from Refinería Panamá, S.R.L. for the operation of the barge "Estrella del Mar I" (note 12). The present value of this obligation is \$1,213 as of December 31, 2014, and is presented in the balance sheets under electricity generation facilities.

6. Prepaid Expenses

Prepaid expenses as of December 31, 2014 and 2013, are shown below:

	<u>2014</u>	<u>2013</u>
Guaranty	\$ 168	\$ 314
Insurance	798	1,214
Advance payment to suppliers	122	490
ANAM - Water concessions	140	69
Others	46	61
Total prepaid expenses, current	<u>\$ 1,274</u>	<u>\$ 2,148</u>
Prepaid expenses - affiliate (note 4)	<u>\$ 5,245</u>	<u>\$ —</u>
Total prepaid expenses, non current	<u>\$ 5,245</u>	<u>\$ —</u>

AES Panamá, S.R.L.
Notes to the Financial Statements
December 31, 2014 and 2013

(Amounts stated in thousands of US dollars)

7. Restricted Cash

In December 2006, the Company issued senior notes, issued under Rule 144A/Regulation S of the New York Stock Exchange (Securities and Exchange Commission) in the national and international markets in the amount of \$300,000 for the main purpose of refinancing the balance of capital, interest, and other charges owed by the Company due to the issuance of a \$320,000 in bonds in 2003. The agreement for obtaining the new debt of \$300,000 required the creation of a trust fund with the account "Debt Service Reserve Account". This trust fund was set up by the Company as Trustor, and HSBC Bank USA and National Association as Trustee and Collateral Agent, and its general purpose is to maintain a cash fund to secure the payment of interest of one quarter. The amount held in this account is \$9,841 and \$9,840 as of December 31, 2014 and 2013, respectively.

8. Investment in Affiliate

On September 25, 2013, the Board approved the conversion of the debt that AES Changuinola, S.R.L. maintained with the Company of \$63,227 into equity ownership in this affiliate. The Board, after reviewing independent evaluations to determine the fair value of AES Changuinola, S.R.L., determined that the amount represented 20% of the value of AES Changuinola, S.R.L. On November 25, 2013, the transaction was completed when the transfer and issuance of the corresponding shares occurred.

As the affiliate AES Changuinola, S.R.L. is under common control with the same entity as the Company, the initial recognition of the investment was made at the carrying value of the assets of the affiliate which, at the date of the transaction, totaled \$208,535. The amount equivalent to the 20% of the share amounted to \$41,707. The difference of \$21,520 between the value of the share of investment and capitalized debt had been recorded in equity and applied to retained earnings (accumulated deficit) since no profit or loss for the transfer of assets between entities under common control should be recognized. The presentation of this amount as retained earnings has been retrospectively adjusted from additional paid in capital in the accompanying financial statements.

As of December 31, 2014 and 2013, investment in affiliate is shown below:

<u>Affiliate</u>	<u>Commercial activity</u>	<u>% of equity participation</u>		<u>December 31</u>	
		<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
AES Changuinola, S.R.L.	Electricity generation (Hydroelectric)	20%	20%	<u>\$ 43,753</u>	<u>\$ 38,366</u>

<u>Affiliate</u>	<u>Date</u>	<u>Finance Information</u>					<u>Net Equity</u>	
		<u>Assets</u>	<u>Liabilities</u>	<u>Equity</u>	<u>Revenues</u>	<u>Expenses</u>	<u>Income</u>	<u>Share</u>
AES Changuinola, S.R.L.	31-dec-14	\$658,724	\$ 433,885	\$224,839	\$ 77,865	\$ 50,930	\$26,935	\$ 5,387

AES Panamá, S.R.L.
Notes to the Financial Statements
December 31, 2014 and 2013

(Amounts stated in thousands of US dollars)

8. Investment in Affiliate (continued)

<u>Affiliate</u>	<u>Date</u>	<u>Finance Information</u>					<u>Net Equity</u>	
		<u>Assets</u>	<u>Liabilities</u>	<u>Equity</u>	<u>Revenues</u>	<u>Expenses</u>	<u>Loss</u>	<u>Share</u>
AES Changuinola, S.R.L.	31-dec-13	\$675,004	\$ 479,800	\$195,204	\$ 95,096	\$ 133,704	\$(38,608)	\$(3,341)

For the years ended December 31, 2014 and 2013, the Company recorded, in relation to its 20% share in earnings of AES Changuinola, S.R.L., an income of \$5,387 and a loss of (\$3,341), increasing the value of the investment in the year 2014 and decreasing it in the year 2013. This amount is recorded in the balance sheets under the investment in affiliate and in the statements of comprehensive income under equity loss in investments in affiliate.

9. Operating Lease

In August 2013, the Power Purchase Agreement (PPA) with AES Changuinola, S.R.L. was amended with the purpose that the Company buys from AES Changuinola, S.R.L. all its generated energy, its firm capacity and the construction prime factor for both energy and capacity. Through the terms of the PPA, AES Changuinola, S.R.L. could only supply it with its own generation assets. Under commercial terms, the PPA as amended is classified as a physical delivery agreement.

As it is remote that a party other than the Company would take energy from the AES Changuinola, S.R.L. generation assets, the Company is required to pay for the capacity and the capacity construction prime factor even when no energy is generated. In accordance with how the PPA is structured, Management determined that it shall be accounted as an operating lease in accordance with Accounting Standard Codification 840 (Leases). The minimum lease payments of the PPA are determined based on the capacity and its construction prime factor; energy payments and its related construction prime factor are not considered as part of the minimum lease payments since there is no minimum amount established for them. Minimum lease payments determined throughout the term of the PPA are accounted for on a straight-line basis and the difference between such amount and the amounts invoiced is presented as an asset in the Company's balance sheet as prepaid expenses.

The total of future minimum payments from the non-cancellable operating lease contract as of December 31, 2014 and 2013, will be paid during the following periods:

	<u>2014</u>
Within one year	\$ 7,385
After one year and up to five years	29,541
After five years	<u>81,238</u>
Total operating lease payments, net	<u><u>\$ 118,164</u></u>

AES Panamá, S.R.L.
Notes to the Financial Statements
December 31, 2014 and 2013

(Amounts stated in thousands of US dollars)

10. Loans Payable

The short term loans are originated by the use of credit lines with a maturity of six months for a total of \$45,000 and \$0 as of December 31, 2014 and 2013, respectively.

Additionally, on October 28, 2014, the Company entered into a syndicated loan totaling \$57,300 with a group of banks and with The Bank of Nova Scotia (Panama) S.A. (Scotiabank) acting as administrative agent, for a period of five (5) years. This loan was acquired to finance one hundred percent (100%) of the cost of acquisition and commissioning of the barge Estrella del Mar I, its installation and its connection to the interconnection network. The Company has recorded \$8,186 in short-term loans corresponding to the future payments in the months of March, June, September and December 2015; and \$ 49,114 in long-term loans, for the payments of the years 2016 to 2019. At December 31, 2014, the deferred financing costs includes \$1,552 corresponding to issuance of this syndicated loan.

The interest rate for each loan interest period is the annual percentage rate resulting from adding: (i) LIBOR; plus (ii) the margin of 3.5, provided that in no case the interest rate of the loan may be less than 5.50% annually.

The interest rate on the credit line with BAC International Bank, S.A. is the annual percentage rate resulting from adding: (i) LIBOR; plus (ii) the margin of 2.75, provided that in no case the interest rate may be less than 3.50% annually.

The total of loans payable are as follows:

	<u>2014</u>	<u>Annual interest</u>
Scotiabank	\$ 20,000	LIBOR plus 2.75%
Banco General, S.A.	10,000	3.75%
Banco Panamá, S.A.	5,000	5.00%
Banistmo, S.A.	5,000	LIBOR plus 3.50%
BAC International Bank, S.A.	5,000	3.50%
Syndicated loan Scotiabank - short term	8,186	5.50%
Total short-term loans	<u><u>\$ 53,186</u></u>	
Syndicated loan Scotiabank - long term	\$ 49,114	5.50%
Deferred financing cost	\$ (1,552)	
Total long-term loans	<u><u>\$ 47,562</u></u>	

In order to guarantee repayment of the syndicated loan of \$57,300, a mortgage contract regarding the barge Estrella del Mar I was agreed, between the Company and The Bank of Nova Scotia (Panamá) S.A. On October 28, 2014, the Company also signed the trust agreement Guarantee, with the same objective of ensuring the obligations undertaken by the loan agreement for the Barge and other financing documents related to that loan.

AES Panamá, S.R.L.
Notes to the Financial Statements
December 31, 2014 and 2013

(Amounts stated in thousands of US dollars)

10. Loans Payable (continued)

Below are the most relevant commitments and restrictions of the Syndicated Loan:

- The Company shall submit annual audited financial statements within 120 days after the close of the fiscal year and quarterly financial statements within 60 days after the end of each quarter.
- The Company agrees to comply with all the environmental standards that are applicable to it or property in which it conducts business, whose failure could reasonably be expected to have a material adverse effect or result in any liability to a creditor.
- From December 31, 2015, onwards, the Company shall have, at the end of each fiscal quarter and on a consolidated basis (if applicable), a debt coverage ratio of not less than 1.5.
- The Company shall have, at the end of each fiscal quarter, a ratio of net debt to EBITDA not to exceed the following levels:

Periods	Ratio
As of December 31, 2015	< 5.00 times
As of June 30, 2016	< 4.00 times
From December 31, 2016 and onwards	< 3.50 times

- The Company agrees not to declare or pay dividends or redeem or repurchase its participating stock in 2014. As of January 1, 2015, the Company agrees not to declare or pay dividends or redeem or repurchase its participating stock:
 - while there is a covenant violation; or
 - whether before or after the dividend declared or paid or made the redemption or repurchase of participating stock, the Company is in breach or violation of financial ratios in the two previous points.
- Limitation on the sale of generation assets.
- Limitation on incurring new debt.

At December 31, 2014, the Company was in compliance with all its commitments and restrictions.

On December 21, 2006, the Company refinanced the \$320,000 debt with a new credit of \$300,000. This credit was subscribed and distributed by Credit Suisse and UBS Investment Bank. The Company paid debt issuance costs of \$5,024 for obtaining the new credit; these costs were deferred and will be amortized during the term of debt. Net deferred financing costs for this bond amounted to \$1,158 and \$1,840 as of December 31, 2014 and December 31, 2013, respectively.

AES Panamá, S.R.L.
Notes to the Financial Statements
December 31, 2014 and 2013

(Amounts stated in thousands of US dollars)

11. Bond Payable, net (continued)

The Company issued a bond amounting to \$300,000 (issued under rule 144A/Regulation S of the Securities and Exchange Commission) in the national and international market with a due date of December 21, 2016 and an annual interest rate of 6.35% with a single payment upon maturity, and semiannual interests payments. The account balance of \$299,384 and \$299,099, net of an unamortized discount, which is amortized under the effective interest rate method, is shown as bonds payable, net in the balance sheets as of December 31, 2014 and 2013, respectively.

The bonds payable were issued in accordance with the provisions of the Note Issuance Facility signed by AES Panamá, S.R.L. and HSBC Bank USA, National Association, as trustee.

The following is a list of the relevant commitments and restrictions of the bonds payable:

- The Company has to maintain a “Debt Service Reserve Account” with the funds deposited and available to secure the semiannual interest payment.
- Limitation at the time for contracting certain debt:
 - a. The Company may incur debt as long as the interest coverage ratio is no less than 2.5; and
 - b. The account for debt service is fully funded.
 - c. Enter into working capital line of credit up to a maximum of \$10,000.
 - d. The Company may incur additional debt up to a maximum of \$20,000.
- Limitation on the sale of generation assets.
- The audited financial statements must be presented at the latest 120 days after the close of the fiscal period.

As of December 31, 2014 and 2013, the Company is in compliance with all of its commitments and restrictions.

As of December 31, 2014 and 2013, bonds payable, net of discount, was as follows:

	<u>2014</u>	<u>2013</u>
Bonds	\$ 300,000	\$ 300,000
Discount	(616)	(901)
Deferred financing cost	(1,158)	(1,840)
Bonds payable, net	<u><u>\$ 298,226</u></u>	<u><u>\$ 297,259</u></u>

Amortization of the discount is included in interest expense in the accompanying statements of comprehensive income.

AES Panamá, S.R.L.
Notes to the Financial Statements
December 31, 2014 and 2013

(Amounts stated in thousands of US dollars)

12. Commitments and Contingencies

Commitments

Purchase – sale energy contracts

The Company has contracted certain obligation in connection with the concession contracts and purchase of energy. The Company maintains contract performance guarantees for \$57,188 to guarantee the obligations according to the contracts signed with the distribution companies. The Company also maintains contract performance guarantees of \$28,000 of in favor of the Autoridad Nacional de los Servicios Públicos / Contraloría General de la República de Panamá for the concession of the hydroelectric exploitation, which guarantee the generation of electric energy.

The Company also maintains a stand-by letter of credit for \$7,140 to guarantee the payments for purchases in the spot market and \$91 for purchases in the regional electricity market. In addition, the Company maintains guarantees in favor of ETESA for \$724 and \$11 to guarantee the payments for transmission services. In addition, the Company acquired a performance bond contract of \$15,141 to ensure obligations to EGESA / Contraloría General de la República de Panamá for the service of thermal electricity generation using a barge to generate electricity.

As a result of the bid of EDEMET-EDECHI 01-05, on December 7, 2005, the Company signed the contracts EDEMET 05-12 and EDECHI 013-05 for the supply of power and energy in the long term, both for a period of 10 years that goes from 2009 to 2018.

On October 26, 2006, for the bid of EDEMET-EDECHI 02-05, the Company signed the contracts EDEMET 15-06 and EDECHI 19-06 for the supply of power and energy in the long term. The first contract 15-06 with EDEMET for a total of 15MW and contract 19-06 with EDECHI for a total of 35MW were both effective from January 1, 2011 to December 31, 2020.

On March 9, 2007, the Company signed with its affiliate AES Changuinola S.R.L., a contract for the purchase - sale of firm capacity and energy for a period of ten years (from 2011 to 2020). On May 14, 2010, the Company signed the first amendment to Reserve Contract 01-07 where two new items of purchase and sale of firm capacity and energy were added for a period of 10 years, from 2012 and 2013. On June 25, 2012, the second amendment to the contract was signed, extending its term until December 31, 2030. By note dated May 30, 2013, AES Changuinola S.R.L. has exercised its rights under the ninth clause of the Reserve Contract 01-07, and its amendments, to be relieved from fulfilling the commitments under the contract, considering a fortuitous event due to the extreme hydrological conditions experienced in the Republic of Panama in that year. As a result, starting May 1, 2013, AES Changuinola S.R.L. billings only include the energy generated by the units of the Chan I Hydroelectric plant at the price established on the above mentioned contract. AES Changuinola S.R.L. terminated the fortuitous event on October 2, 2013. On August 29, 2013, the third amendment of this contract was signed where, from January 1, 2014, the reserve contract will be managed as a physical delivery and a new line was added to complete the sale of firm capacity of Chan I up to the year 2030.

AES Panamá, S.R.L.
Notes to the Financial Statements
December 31, 2014 and 2013

(Amounts stated in thousands of US dollars)

12. Commitments and Contingencies (continued)

In October 13, 2008, the Company signed contracts EDEMET 04-08 and 08-08 to supply firm capacity and energy for a 10-year period that runs from the year 2012 to 2022. Further in the same tender EDEMET 01-08, the Company signed contracts EDEMET 08-08 and ELEKTRA 09-08 to supply firm capacity and energy in the long term, for a period of ten years from 2013 to 2022 year. Later, on July 16, 2009, amendment No. 1 to these contracts was signed.

On November 28, 2008, the Company signed the Contract GC. 01-09 (Large Customer) with Cemento Panamá for supply firm capacity and energy for a period of 10 years beginning in 2009.

In December 2010, the Company signed the supply contract GC No.02-11 with Desarrollo Inmobiliario del Este effective until December 31, 2016. On June 24, 2014, the Company signed with Desarrollo Inmobiliario del Este, S.A. (DIESA) an agreement by mutual consent for the early termination of the supply contracts firm power and energy of great customer GC No. 02-11 and GC No. 02-12 (formerly signed by Costa del Este Office Properties, Inc. which was absorbed by DIESA by merger agreement). Because of this agreement, the Company paid a penalty of \$1,150 for early termination of the contract, including in the area of operations and maintenance in the statement of comprehensive income.

In addition, in April 2011, the Company signed the second amendment to the contract GC 02-09 and the first amendment to the contract GC 02-10, both of them with Importadora Ricamar for the “Supply of firm capacity and energy to large customer” and effective until December 31, 2015.

On February 29, 2012, the Company signed a new supply contract GC No. 01-12 with the Ministry of the Presidency on behalf of the Rural Electrification Office (Oficina de Electrificación Rural - OER in Spanish), effective December 31, 2012. On December 28, 2012, the Company signed the first amendment to this contract to extend the expiration date up to February 28, 2013.

In August 2012, the Company participated in the act of long-term tender ETESA 01-12 and on September 17, 2012, ETESA notified the Company of the award of the principal bid of power in the amount of 159 MW from 2019-2020, 209 MW in 2021, 309 MW in 2022 and 350 MW from 2023 to 2030. In October 2012, the corresponding contracts to this adjudication were signed with the three distribution companies.

On November 7, 2012, the Company signed the contract No. 254-2012-ADM with the Comptroller General of the Republic for the supply of firm power and energy to a large customer. This contract will be in force until November 2015.

On December 28, 2012, the Company signed a contract with Gold Mills in Panama for the supply of firm power and energy, effective through December 31, 2018. The start date of delivery will be the following Saturday after Gold Mills has fulfilled the guarantee of payment as stated in the contract in clause 3.1 of Contract No. 04-12.

AES Panamá, S.R.L.
Notes to the Financial Statements
December 31, 2014 and 2013

(Amounts stated in thousands of US dollars)

12. Commitments and Contingencies (continued)

In December 2012, the Company signed a surplus power and energy contract with large customer Caja de Seguro Social, effective until December 2016. The start date of delivery was in April 27, 2013.

As a result of the award of the International Competitive Bidding ETESA 03-12, the Company signed contract DME-016-12 with Elektra Noreste (ENSA), Contract No. 24-12 with EDEMET and Contract 45-12 with EDECHI, to supply surplus energy from July 2012 to December 31, 2015.

On February 28, 2013, the contract GC No.01-12 kept with the OER ended. This contract was replaced by the contract GC No. 01-13 signed on March 1, 2013, starting on the same day, for self-generating power with the OER effective until October 31, 2013. In October 2013, addendum No. 1 was signed to extend the supply agreement until December 31, 2013. On August 1, 2013, Addendum No. 2 was signed to extend this agreement until February 28, 2014. On December 17, 2014, addendum No. 3 was signed to extend the supply agreement until March 31, 2015.

In June 2013, the Company signed the following contracts for the supply of firm capacity and energy to large customers:

- Cemento Interoceánico, Contract 02-13, from July 1, 2013 to December 31, 2015. The client began supplying on August 20, 2013.
- United States Embassy, Contract 05-13, from September 15, 2013 to December 31, 2015. The client began supplying on November 2, 2013.
- Avipac, Inc, Contract 06-13, from August 1, 2013 to December 31, 2015. The client began supplying on August 10, 2013.
- Varela Hermanos, Contract 07-13, from September 01st, 2013 to December 31, 2015. The client has not even started supply. The client started operations on February 8, 2014.

On June 24, 2014, the Company signed with Desarrollo Inmobiliario del Este, S.A. (DIESA) an agreement by mutual consent for the anticipated termination of the Firm Capacity and Energy contracts to large customer No. GC 02-11 & GC 02-12 (previously signed by Costa del Este Office Properties, Inc., which was absorbed by DIESA through a merger agreement). As a result of this agreement, the Company paid a penalty of \$1,150 due to the early termination of the contract, which is included in the operating and maintenance expense in the statements of comprehensive income.

On May 20, 2014, the Company signed with Empresa de Generación Eléctrica, S.A. (EGESA) a the contract N° 2014-05 for the service of thermal power generation using the recently acquired Estrella del Mar I barge with an installed capacity of 72MW, using Bunker C (Fuel Oil No. 6) as main fuel and acquired by AES Panamá, S.R.L. This contract has a operation start date, the day when the barge is enabled for the commercial operation in the National Interconnected System (SIN), which was scheduled for January 1, 2015 and for five years.

AES Panamá, S.R.L.
Notes to the Financial Statements
December 31, 2014 and 2013

(Amounts stated in thousands of US dollars)

12. Commitments and Contingencies (continued)

The Company had a deadline for the start of operation until March 1, 2015. If the date of commercial start delayed goes beyond March 1, 2015, the Company shall pay to EGESA the total amount of \$50 for each calendar day of delay. The Barge became operational in March 25, 2015, and earned nominal revenues from energy dispatch. The capacity revenues commenced on April 24, 2015, when the Company received the provisional commercial operating date. The final commercial operation certificate is expected to be obtained in early June 2015. For this reason, the Company incurred a penalty of \$1,565 and \$1,161 for March and April 2015, respectively.

Fuel Purchase Contract

On October 29, 2014, the Company entered into a contract with Refinería Panamá, S.R.L. for the purchase of fuel oil (Fuel Oil No. 6) needed for the operation of the barge Estrella del Mar I. The contract term is for a period of five years and began March 2015. Additionally, the Company signed an addendum #1 to purchase Fuel Oil #2 (diesel) required for the ancillary services of the barge Estrella del Mar I.

The amounts set out in the table below represent the total contract amounts until 2020 for the term of the contract with Refinería Panama, S.R.L.:

<u>Year</u>	<u>Commitment</u> <u>(in thousand US\$)</u>
2015	\$ 24,079
2016	28,066
2017	26,967
2018	28,161
2019	8,980
2020	1,478
Total:	\$ 117,731

Operating lease contract

The Company has commitments under operating leases with Refinería Panamá, S.R.L. for the land located in Bahía Las Minas Colón in Panamá which is used by the Company for the ground based equipment needed for installation and connection of the electric power generation barge "Estrella del Mar I". The Company is building support structures in the leased property including but not limited to, an electrical substation and transmission equipment, pipeline to supply fuel docks, storage tanks for equipment, among others. This lease is effective from February 2015 until five years after the date of commercial operation date of the barge "Estrella del Mar I", with a monthly rent of \$80.

AES Panamá, S.R.L.
Notes to the Financial Statements
December 31, 2014 and 2013

(Amounts stated in thousands of US dollars)

12. Commitments and Contingencies (continued)

	<u>2014</u>
One year	\$ 880
After one year to five years	<u>3,920</u>
Total future payments	<u><u>\$ 4,800</u></u>

Other guaranties

The Company also maintains a guarantee with Banistmo, S.A. totaling \$1,700 to secure obligations with the sub-contractor dredging company Boskalis Panamá, S.A. for the dredging work of approximately 120,000 m³ of soft material for a mooring basin in Bahia Las Minas in Colón, Panamá.

Concession contracts

The Company has acquired fifty-year water concession contracts which give certain rights, including the generation and sale of electricity generated by the hydroelectric plants and water rights for the use of the Bayano, Chiriquí, Los Valles and Caldera rivers. The Company is required to manage, operate, and provide maintenance to the plants throughout the contract's term.

The most important terms of the concession contracts signed between the Company and the Public Services Regulatory Agency (now the National Public Services Authority – ASEP) are described below:

- The ASEP grants the Company a concession for the generation of hydroelectric energy by means of the exploitation of hydroelectric resources located on the Bayano, Chiriquí, Los Valles and Caldera rivers.
- The Company is authorized to render the generation of electricity as a public service, which entails the operation and maintenance of power plants with their respective transmission lines to connect to the public network, and transformation equipment for producing and selling power on the national electrical system as well as selling energy on the international market.
- The duration of each of the concessions granted is fifty (50) years, and they can be extended for a period of up to fifty (50) years by means of a request to the ASEP.
- The Company will have the right to own, operate and maintain the property on the facilities and to make improvements to them. Previous authorization is required in those cases in which the Company increases the capacity of any of the plants by 15% or more at the same site.
- The Company will have full access to its own property and to the property of the facilities.

AES Panamá, S.R.L.
Notes to the Financial Statements
December 31, 2014 and 2013

(Amounts stated in thousands of US dollars)

12. Commitments and Contingencies (continued)

- The Company will have rights over the real estate as well as the right of way or easement within the hydroelectric facilities so that it can accomplish all of the activities required for the generation and sale of hydroelectric energy. Likewise, the Company will also have the right of way and access to the areas of the hydroelectric facilities that are currently in working condition and in use.
- The Company has the right to request the forcible acquisition of real estate and the establishment of easements in its favor in accordance with the provisions of Law No.6 and its regulation.

Unavailability of the Estí Hydroelectric Plant

On October 30, 2010, Estí hydroelectric plant was temporarily retired from the system to perform an inspection of the water conveyance tunnel, due to the detection of a considerable reduction in their inflows levels. On January 31, 2011, the Company Norconsult, who were the consultants contracted by the Company for the tunnel inspection and analysis, issued a report detailing the extent of damage and estimated repair cost.

On June 15, 2011, the Company entered into a contract with Seli Ossa JV Panama, S. A., SELI Societa Esecuzione Lavori Idraulici SPA and Obras Subterranas, S. A., in order to repair Esti tunnel. This contract included debris removal, temporary reinforcement placement and additional support for non-affected areas in order to avoid similar problems in the future.

On June 8, 2012 Units # 1 and # 2 of the Esti Hydroelectric Plant were declared available and delivered to the National Dispatch Center (CND). Currently these generating units are on line with a maximum capacity of 123.5 MW.

ASSA Compañía de Seguros, S.A. with their reinsurers (among which includes AES Global Insurance Corporation, a related company) paid to the Company \$10,940 in compensation for business interruption during the year ended December 31, 2012.

Additionally, the Company received from the same insurance group, \$37,368 in respect of cost recovery during the year ended December 31, 2012. These amounts are related to the collapse of Estí tunnel which occurred in October 2010 and the loss of the Bayano transformer plant, and are included in other (expense) income, net in the statements of comprehensive income.

The Company recognized in 2012, after confirmation received from the American International Group, an account receivable of \$3,000 as reimbursement of legal expenses denied from the claim related to the Estí Tunnel. This amount was recognized as a decrease of legal expenses within operating and maintenance expenses.

AES Panamá, S.R.L.
Notes to the Financial Statements
December 31, 2014 and 2013

(Amounts stated in thousands of US dollars)

12. Commitments and Contingencies (continued)

As a result of the unavailability of the Esti Hydroelectric plant, the Company has purchased energy in order to meet its contractual PPA obligations.

The Company submitted a conservatory and protective action and subsequently filed an ordinary demand in April 2011 to reduce the obligation of the purchase/sale energy contracts related to the Esti Hydroelectric plant. The order was granted on May 6, 2011, and became effective on May 14, 2011, when the distribution companies were notified.

By Order of the Cabinet Council No. 150, the Panamenian Government approved an additional appropriation to the General State Budget for fiscal year 2011 with an allocation to the Ministry of Economy and Finance (Ministerio de Economía y Finanzas in Spanish) to fund the Rate Stabilization Fund and so mitigate the impact generated by the Company with the collapse of the Estí tunnel. During 2012, the Company recorded costs of \$16,304 from January to May 2012.

In June 2013, the Company recognized an accounts receivable of \$31,333, through the Settlement Agreement between the Company and the general contractor who built the Esti Plant, in compensation for direct losses incurred by the Estí tunnel collapse, that caused disruption to one of its hydroelectric plants, forcing the Company to make purchases in the spot market to meet its contractual commitments. This amount was collected in July 2013 and it is recorded in the statement of comprehensive income netted against electricity purchases expenses.

Contingencies

The Company is involved in certain legal processes as part of the ordinary course of business. It is the opinion of the lawyers and the Company that none of the outstanding claims will have an adverse effect on the results of its operations, financial position, or cash flows.

The Company may be exposed to environmental costs as part of the ordinary course of business. The liabilities are recognized when the environmental impact studies indicate that corrective measures are probable and the costs can be reasonably estimated.

The estimates of the liabilities are based on currently available facts, existing technology, and current laws and regulations. They also take into consideration the probable effects of inflation and other social and economic factors, and include an estimate of associated legal costs. As of December 31, 2014 and 2013, there are no known environmental liabilities.

The ASEP issued on October 22, 2010, Resolution AN No.3932-Elec related to dam safety in the electric sector. This legislation provides very sensitive and important issues concerning safety and the environment. The resolution took effect on November 9, 2011. As of December 31, 2012, the Company was preparing its draft amendments to the Plan of Action for Emergencies (PADE) of the Bayano plant to present it to the ASEP, which was approved on 2013; the PADE of Esti, La Estrella and Los Valles are still under review by the ASEP.

AES Panamá, S.R.L.
Notes to the Financial Statements
December 31, 2014 and 2013

(Amounts stated in thousands of US dollars)

12. Commitments and Contingencies (continued)

As for the rules related to dam safety, the Company contracted a consulting firm to review the adequacy of all documents of the Central Bayano, who is currently in the process of reviewing the documents to be delivered to ASEP. For Chiriquí, efforts are being made to hire a consultant.

13. Retirement Plans and Seniority Premiums

According to Panamanian labor laws, the Company is required to contribute to a severance fund to cover payments and seniority premium of employees upon retirement or termination. The contributions are based on 1.92% for the seniority premiums and 0.32% for severance pay of the remuneration paid to employees.

The severance pay fund must be deposited with and administered by an authorized private institution.

Additionally, the Company offers a defined contribution plan available to all employees. The Company makes contributions of up to 8% of their annual salary (2013: 7%), in addition to the possibility of discretionary contributions by the employees. The contributions to the plan are restricted for a period of 10 years. The Company had contributed \$184 and \$306 to the plan for the years ended December 31, 2014 and 2013, respectively.

The Company also offers its employees a bonus in the form of shares of The Corporation. These shares are deposited in a Trust Fund known as the “Non Contributive Pension Plan” which is managed by an authorized third party that maintains individual accounts for each employee. The contributions to this plan are subject to the decisions of the Board of Directors and the calculations are based on a percentage of the salary of each permanent employee. The provision for this contribution amounted to \$222 and \$242 as of December 31, 2014 and 2013, respectively.

14. Other Cost of Electricity Sales

The other costs of electricity sales for the years ended December 31, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Transmission charges	\$ 3,022	\$ —
	<u>\$ 3,022</u>	<u>\$ —</u>

AES Panamá, S.R.L.
Notes to the Financial Statements
December 31, 2014 and 2013

(Amounts stated in thousands of US dollars)

15. Operating and Maintenance Expenses

The operating and maintenance expenses for the years ended December 31, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Salaries, wages and benefits	\$ 7,756	\$ 11,418
Insurance	3,810	4,843
Others	2,835	4,599
Service and maintenance contracts	3,102	5,016
Advisory and professional fees	1,243	4,363
Basic services	970	818
Leasing expenses	764	810
Other market related fee	1,206	1
	<u>\$ 21,686</u>	<u>\$ 31,868</u>

16. Other (Expenses) Income, net

For the years ending December 31, 2014 and 2013, other (expenses) income, net is as follows:

	<u>2014</u>	<u>2013</u>
Gain (loss) on sale of fixed assets	\$ 87	\$ (554)
Rental income	270	248
Administrative services income	555	58
Inventory discard	(50)	46
Settlement agreement	(7,500)	—
Other income (expense)	608	270
	<u>\$ (6,030)</u>	<u>\$ 68</u>

The line Settlement agreement corresponds to a settlement with BONTEX, S.A. for \$7,500. In 2012, Bontex claimed compensation for losses caused by the impacts of the Esti tunel collapse alleging impacts to the downstream water flow to its plants. The Company reached a settlement agreement on November 27, 2014 and agreed to pay \$ 7,500 over four quarterly payments during 2015.

17. Income Tax

For the years ending December 31, 2014 and 2013, the income tax expense (benefit) consists of the following:

	<u>2014</u>	<u>2013</u>
Current	\$ 4,174	\$ 4,300
Deferred	(9,301)	4,273
Income tax expense (benefit)	<u>\$ (5,127)</u>	<u>\$ 8,573</u>

AES Panamá, S.R.L.
Notes to the Financial Statements
December 31, 2014 and 2013

(Amounts stated in thousands of US dollars)

17. Income Tax (continued)

In Panamá, as established under the Tax Code, the income tax for individuals legal entities in which the state has a stockholding of more than 40%, is calculated using a rate of income tax of 30%.

Additionally, entities whose taxable income exceeds \$1,500 calculate the annual income tax by applying the tax rate to the greater of:

- a) The net taxable income calculated by the established method (Traditional)
- b) The net taxable income resulting from applying the total taxable revenues by 4.67%, (Alternate Method of calculating income tax - CAIR).

As of December 31, 2014, the Company generated a taxable income loss under the traditional method and, as a result, the estimate of current income tax has been determined pursuant to CAIR, at the rate of 4.67% to the total taxable revenues for determining the estimated income to which the 30% rate to taxable income of the year.

For the above, the Company requested approval from the "Dirección General de Ingresos" the "Non Application of Alternative Calculation of Income Tax (CAIR)", for 2013 and the following three years based on the provisions of paragraph 1 of Article 699 of the Tax Code. For 2014, the Company also requested the non-application of CAIR.

During the years ended December 31, 2014 and 2013, the Company's statutory income tax rate was 30%. During those same years, its effective income tax rate for financial reporting purposes was 15.41% and 54.26% respectively. In both years the income tax was determined under the CAIR rules which state to apply an estimated taxable income rate of 4.9% over the revenues. The primary differences between the expected statutory income tax rates relate to: (1) in 2014, the effective tax rate was determined considering the net loss of the period which reduce the effective tax rate, and (2) in 2013, the effective tax rate was determined considering a net income which increase in the effective tax rate. Other less significant differences also existed in both years.

Tax returns of the Company are subject to review by the tax authorities for the last three years including the year ended December 31, 2014, according to the tax regulations.

AES Panamá, S.R.L.
Notes to the Financial Statements
December 31, 2014 and 2013

(Amounts stated in thousands of US dollars)

17. Income Tax (continued)

As of December 31, 2014 and 2013, the deferred income tax assets and liabilities is as follows:

	<u>2014</u>	<u>2013</u>
Current deferred tax assets:		
Provision for obsolescence	\$ —	\$ 12
Expense provisions	2,648	632
Net operating loss carry forward (NOL)	4,112	1,410
Total current deferred tax assets	<u>\$ 6,760</u>	<u>\$ 2,054</u>
Current deferred tax liability:		
Prepaid expenses affiliate	(1,573)	—
Total current deferred tax liability	<u>(1,573)</u>	<u>—</u>
Current deferred tax asset, net	<u><u>\$ 5,187</u></u>	<u><u>\$ 2,054</u></u>
Non current deferred tax assets:		
Net operating loss carry forward (NOL)	\$ 15,054	\$ 5,644
Difference in tax base for generation-related assets	1,288	1,943
Expense provisions	522	—
Total non current deferred tax assets	<u>\$ 16,864</u>	<u>\$ 7,587</u>
Non current deferred tax liabilities:		
Insurance compensation capitalized	\$ (17,666)	\$ (10,546)
Arbitration compensation capitalized	—	(8,037)
Accumulated depreciation on investment-related assets	(5,948)	(4,320)
Accelerated depreciation	(32,211)	(27,963)
Capitalized interests	(954)	(705)
Donations to government	(257)	(2,356)
Total non current deferred tax liabilities	<u>(57,036)</u>	<u>(53,927)</u>
Total non current deferred tax liabilities, net	<u><u>\$ (40,172)</u></u>	<u><u>\$ (46,340)</u></u>

AES Panamá, S.R.L.
Notes to the Financial Statements
December 31, 2014 and 2013

(Amounts stated in thousands of US dollars)

17. Income Tax (continued)

The deferred tax assets consist mainly by the difference in the tax basis of assets for tax loss carryforward provisions and expenses according to current tax legislation will be deductible when they are actually paid or used.

Net operating loss carry forward

According to the tax law in force, the net operating losses can be deducted ratable over the next 5 years; this deduction can not reduce by more than 50% the taxable income for those years.

At December 31, 2014, the Company has a net operating loss carry forward that can be applied to future taxable income which expire as follows:

<u>Year</u>	<u>Total</u>
2015	\$ 13,664
2016	13,664
2017	13,664
2018	13,664
2019	9,276
NOL carry forward	\$ 63,932

Based on current and projected results of the Company, the administration believes there will be enough taxable income to realize the deferred tax assets shown in the financial statements.

Law No. 28 of June 20, 1995, which was in force until the year 2000, allowed companies to invest in technology in order to obtain an investment tax credit. The investment had to be validated by a qualified technical institution in order to apply for this fiscal incentive that consists of the application of a tax credit of 25% on income tax payable in the fiscal period. The tax credit is applicable until the Company has fully utilized the total cost of the investments.

The tax credit would apply until the Company consummates the total investment cost. At December 31, 2014 and 2013, the liability for deferred income tax comprises the depreciation of the assets that gave rise to the investment tax credit, which has been used by the Company to reduce the current 25% tax each year. For tax purposes, the depreciation of these assets is not considered deductible while for financial purposes it is depreciated over the asset's useful life.

Since 2009, the Company applies the tax benefit of accelerated depreciation (sum of digits) one of the methods allowed under income tax rules. The application of this method was calculated for a group of Company assets, but such assets for financial reporting purposes, are depreciated by the straight-line method.

AES Panamá, S.R.L.
Notes to the Financial Statements
December 31, 2014 and 2013

(Amounts stated in thousands of US dollars)

17. Income Tax (continued)

Dividend tax

Stockholders pay an income tax of ten percent (10%) which is withheld from the dividends they receive. Without dividends, or if the total distribution is less than forty percent (40%) of the net taxable income, the Company should issue a tax payment over dividends equal to four percent (4%) until these dividends are finally declared. This rate of four percent (4%) is called "Deemed Tax" and is considered an advance dividend tax. During the years ended December 31, 2014 and 2013, the Company paid deemed tax for the sums of \$7 and \$534, respectively. During 2014, the Company did not withhold tax on dividends because no dividend payments were made in that year. In 2013, the Company withheld \$2,850 for the tax on the dividends paid and applied \$1,140 of deemed tax of profits paid through dividends.

Transfer Pricing Law

During 2013, the tax authorities established transfer pricing regulations. Such regulations apply to any transaction that the taxpayer had with related parties that are tax residents of other jurisdictions, provided that such operations take effect as revenues, costs or deductions in determining taxable income for purposes of income tax in the fiscal period the operation occurs.

Thus, taxpayers must meet annually and as of fiscal year 2013, with the obligation to prepare a transfer pricing report (Report 930) six months after the end of the fiscal period, and must have, at the same date, a study that covers that year and contains information and analysis to assess and document their transactions with related parties in accordance with the provisions of the Tax Code. The Company determined that these obligations did not have significant impact on the income tax provisions in 2014.

Tax contingencies

According to *Accounting Standard Codification (ASC) 740*, the Company must recognize the effect of tax positions in the financial statements if they meet the criterion that it is "more likely than not." While assessing the items related to this criterion, the Company has to determine if each tax position can be maintained based solely on its technical merit in the event of an inspection by the tax authorities. The interpretation requires that the Company establish liabilities to reflect the portion of those positions that cannot be concluded as "more likely than not" to be realized before the last instance of final liquidation. They are referred to as liabilities for tax benefits not recognized under ASC 740. By adopting this interpretation, the Company identified and assessed any potential uncertain tax positions and concluded that there are no uncertain tax positions that require a liability to be recorded in the financial statements. Management expects that the tax authorities will accept these positions upon examination, and has a high degree of confidence in the technical merit of the positions. Consequently, Management expects that the total amount of the tax positions will finally be realized and recognized in the financial statements.

AES Panamá, S.R.L.
Notes to the Financial Statements
December 31, 2014 and 2013

(Amounts stated in thousands of US dollars)

18. Fair Value of Financial Instruments

The Company established a process to determine fair value of its financial statements. The determination of fair value considers market quoted prices. Nevertheless, in many occasions no quoted market prices exist for several of the Company's financial instruments. In cases in which market quoted prices are not available, the fair value is based on estimates using current value or other valuation techniques. These techniques are affected significantly by the assumptions employed, including the discount rate and future cash flows.

Financial instruments at book value which approximates fair value

Due to their short-term nature, the book value of certain financial assets, including cash, accounts receivable and related party accounts receivable, as well as certain financial liabilities including accounts payable and related party accounts payable, are considered to be their fair value.

Bonds Payable

The estimated fair value as of December 31, 2014 and 2013 is based on information available as of the date of the balance sheets. The Company does not have knowledge of any factor that might significantly affect the estimates of fair value as of those dates. For bonds payable with a fixed rate, the Company established a process to determine fair value.

The determination of fair value considers the quoted price of the Panamanian market (Level1), as detailed below:

	December 31, 2014		December 31, 2013	
	Book value	Fair value	Book value	Fair value
Financial Liabilities:				
Long term debt	<u><u>\$ 299,384</u></u>	<u><u>\$ 310,200</u></u>	<u><u>\$ 299,099</u></u>	<u><u>\$ 317,250</u></u>

Loans Payable

The estimated fair value as of December 31, 2014, is based on information available as of that date. The Company does not have knowledge of any factor that might significantly affect the estimates of fair value as of those dates. This loan was contracted at a variable rate and therefore the Company management considers fair value is equal to book value at 2014.

The fair value is detailed below:

	December 31, 2014	
	Book value	Fair value
Financial Liabilities:		
Loans payable	<u><u>\$ 57,300</u></u>	<u><u>\$ 57,300</u></u>

AES Panamá, S.R.L.
Notes to the Financial Statements
December 31, 2014 and 2013

(Amounts stated in thousands of US dollars)

19. Credit Risk

The Company has exposure to credit risk on financial assets.

Credit risk is the risk that the borrower or issuer of a financial asset, owned by the Company, does not comply fully and on time, with any payment to be made in accordance with the terms and conditions agreed to when we acquired or originated the respective financial asset.

The Company management has financial instruments with minimal risk of loss because electricity market rules provide for the collection and payment within 30 days of delivery of the invoice.

At balance sheet dates, there are no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the balance of accounts receivable included in the balance sheets.

20. Subsequent Events

Subsequent events were evaluated by the Administration until September 26, 2016, the date on which financial statements were authorized by the Administration for its issuance.

THE ISSUER

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