

Santa Rosa Hydropower Plant Project

Compañía Boliviana de Energía Eléctrica S.A.

Clarifications as a result of Validation Due Diligence on April 17, 2008

Issues raised for Validation	Clarification by Project Owner
1. Minutes of Board of Directors Meeting evidencing project approval (17 August 2004)	Agenda item N° 4 of the Minutes of the Meeting of the Board of Directors held on August 17, 2004, authorized the Company to enter into an EPC Contract and assigned special powers of attorney to execute the EPC Contract for an amount up to US\$17.6 million. <i>See Annex A – Board Minutes of Meeting 17-Aug-2004</i>
2. Investment analysis data (evidences/justifications): escalation factor (2.5%)	In order to obtain real values from nominal ones, COBEE used an escalation factor of 2.5% over the 20 year forecast. An escalator of 2.5% is considered reasonable taking into account that values are expressed in US\$.
3. Investment analysis data (evidences/justifications): investment	The original investment figure of US\$ 16.45 million is supported by the content of Agenda item N° 4 of the Minutes of the Meeting of the Board of Directors held on June 15, 2004, where reimbursable costs from insurance are considered at US\$14 million plus a US\$2.5 million outlay by the Company, resulting in a total of US\$16.5 million. <i>See Annex B - Board Minutes of Meeting 15-Jun-2004</i>
4. Investment analysis data (evidences/justifications): depreciation information	The depreciation structure is based on the Annex to the DINE Resolution N° 002/91. This Resolution assigns the following depreciation rates: <ul style="list-style-type: none"> • Buildings, structures and improvements 2.0% • Dams and water conduits 2% • Turbines and generators 2.5% • Electrical equipment & accessories 3.0% • Miscellaneous equipment 3.8% • Pelton Runners 12.5% The first two items correspond to civil works and support the 2% depreciation rate used in the financial analysis. The last four items cover electromechanical equipment and in order to obtain a single representative depreciation rate COBEE estimated a budget structure of 57%, 20%, 10%, 13% respectively. The corresponding weighed depreciation rate is 4.0%. <i>See Annex C – Annex to DINE Resolution N° 002/91.</i>
5. Investment analysis data (evidences/justifications):	After the power station destruction and when different components were still under an accounting and condition

depreciation of asset before destruction	<p>evaluation, the following figures were collected and incorporated in the project financial analysis:</p> <ul style="list-style-type: none"> • Original value of assets US\$ 12.65 million • Depreciation amount US\$ 5.37 million • Assets book value prior to event US\$ 7.28 million <p>Project accounting closure provides the following figures, after a thorough review was carried out on the assets assignment and value:</p> <ul style="list-style-type: none"> • Original value of assets US\$ 12.47 million • Depreciation amount US\$ 5.21 million • Assets book value prior to event US\$ 7.26 million <p><i>See Annex D1 – Project Accounting Closure for surviving assets</i> <i>See Annex D2 – Project Accounting Closure for destroyed assets</i></p>
6. Investment analysis data (evidences/justifications): regulated energy / capacity prices	<p>COBEE used internal projections based on the regulated capacity and energy tariffs of the time. <i>See Annex J1 – Regulator approval for 2002-2005 Tariffs: SSDE 07/2002 (January 31 2202), SSDE 165/2003 (November 7, 2003), SSDE 245/2004 (September 6, 2004), prices include VAT (13%)</i> <i>See Annex J2 – Summary of monthly regulated tariffs 2003-2004.</i></p>
7. Investment analysis data (evidences/justifications): spot energy price	<p>COBEE used internal projections for spot energy prices. Annex includes reference prices. <i>See Annex J3 – CNDC Mid Term Study May 2003</i></p>
8. Investment analysis data (evidences/justifications): capital gain	<p>Supreme Decree N° 24051, Article 23°, Second Paragraph, directed to the Income Tax, reads: “When the insurance proceeds do not cover the loss or exceed the book value of the loss, those differences are registered in the Income Statement of the year in order to establish the net income subject to taxation”. For the purpose of the project financial analysis, such difference (insurance proceeds less book value of loss) is referred as “capital gain”.</p> <p>The capital gain in the project financial model has been calculated as follows:</p> <ul style="list-style-type: none"> • Total investment (I): US\$ 16.45 million • Equity portion (E): US\$ 2.50 million • Insurance proceeds (I-E): US\$ 13.95 million • Book value of loss (B): US\$ 3.65 million • Capital gain ((I-E)-B): US\$ 10.31 million <p>Those figures were based on the initial amount approved by underwriters (US\$ 12.85 million), an additional amount of insurance proceeds estimated by COBEE</p>

	<p>(US\$ 1.10 million) and the best estimate available for the book value of loss.</p> <p><i>See Annex E1 – Income Tax Legal Aspects (page 42)</i></p> <p><i>See Annex E2 – Initial amount of insurance proceeds approved by underwriters</i></p>
9. Investment analysis data (evidences/justifications): CNDC Fee rate / SIRESE Fee rate / Transaction tax rate / Income Tax rate	<ul style="list-style-type: none"> • The application procedure for the CNDC Fee rate is established in Article 84 of the Ruling for the Electricity Market Operation (<i>See Annex F1</i>). Accordingly, in year 2003 COBEE gross revenue reached US\$ 25.51 million, CNDC fee reached US\$ 201k equivalent to 0.79% of the gross revenue (<i>See Annex F2</i>). Consequently, the value of 0.80% was taken as representative for the project financial model. • The SIRESE Fee rate is established on annual basis through a Resolution by the Superintendence of Electricity (<i>See Annex F3</i>). Accordingly, the amount established for year 2004 was used in the project financial model. • The transaction tax rate (IT) of 3% was established through Law N° 843, Title VI, Chapter II, Article 75° (<i>See Annex F4</i>). • The Income Tax rate of 25% (IUE) was established through Law N° 843, Title III, Chapter III, Article 50° (<i>See Annex F4</i>).
10. Investment analysis data (evidences/justifications): O&M Costs	<p>Santa Rosa Power Plant historical O&M costs for the last 3 years of operation, prior to the event, were:</p> <ul style="list-style-type: none"> • Year 2000: US\$ 329k • Year 2001: US\$ 301k • Year 2002: US\$ 334k <p>Average O&M cost for those years was US\$ 321k. Considering that the new power plant would include state-of-the-art technology, COBEE estimated future O&M costs equivalent to 60% of the historical figure; hence US\$ 192k.</p> <p><i>See Annex G – COBEE Financial Report with O&M costs</i></p>
11. Investment analysis data (evidences/justifications): Unit wheeling tool	<p>Wheeling tool is the result of COBEE internal projection. Reference included in Annex with the wheeling toll at Kenko node, page 1 of annex 3, values include VAT (13%).</p> <p><i>See Annex K – CNDC Monthly Transaction Report</i></p>
12. Investment analysis data (evidences/justifications): VAT	<p>The Value Added Tax rate of 13% (IVA) was established through Law N° 843, Title I, Chapter IV, Article 15°.</p> <p><i>See Annex F4</i></p>
13. Investment analysis data	<p>Scenario #2 comprises the SRO HPP Project rebuilt with</p>

(evidences/justifications): Investment for scenario #2 (US\$ 13,953,000)	original characteristics as accepted by the underwriters in order to allow full coverage of the investment by the insurance proceeds, i.e. 12.5 MW. The US\$ 13.95 million figure is based on the initial amount approved by underwriters (US\$ 12.85 million) plus an additional amount of insurance proceeds estimated by COBEE (US\$ 1.10 million). <i>See Annex E2 – Initial amount of insurance proceeds approved by underwriters</i>
14. Investment analysis data (evidences/justifications): Investment book value for scenario #3	Scenario #3 comprises that nor the project activity or other alternatives are undertaken, allowing the project participants to receive the benefit of cashing-in the insurance proceeds. The US\$ 7.28 million figure is the initial amount estimated by COBEE for the book value of all Santa Rosa assets prior to the event (the book value of the assets is required to calculate depreciation under the rate base). Project accounting closure provided that the real book value was US\$ 7.26 million. <i>See Annex D1 – Project Accounting Closure for surviving assets</i> <i>See Annex D2 – Project Accounting Closure for destroyed assets</i>
15. Investment analysis data (evidences/justifications): discount rate (15%)	Value is a minimum Corporate discount rate used to analyze all COBEE projects.
16. Investment analysis data (evidences/justifications): Investment for scenario #4	Scenario #4 comprises a 48 MW natural gas-fired thermal power plant, following the latest investment trend in the SIN. Investment was estimated as follows: <ul style="list-style-type: none"> • GE gas turbine LM6000PC Sprint; 48 MW US\$ 12.90 million (<i>See Annex H1 – 2003 GTW Handbook</i>) • From Operative Rule N° 19, 20% for complementary equipment, sub-total US\$ 15.48 million (<i>See Annex H2 – Operative Rule N° 19, Item 7.b</i>) • From Operative Rule N° 19, 50% for additional costs, sub-total US\$ 21.93 million (<i>See Annex H2 – Operative Rule N° 19, Item 7.c</i>) • COBEE estimate for transmission line cost equivalent to 20% of installed generating unit cost (15-20 km T/L), sub-total US\$ 26.30 million • COBEE estimate for contingency equivalent to 10% of overall cost, total US\$ 28.93 million
17. Investment analysis data (evidences/justifications): O&M Costs for scenario #4	Scenario #4 comprises a 48 MW natural gas-fired thermal power plant, following the latest investment trend in the SIN.

	<p>Spreadsheet has inverted the names for variable and fixed O&M costs; the figures below are properly referred.</p> <p>Variable O&M costs were estimated as follows:</p> <ul style="list-style-type: none"> • 8,430 Btu/kWh (<i>See Annex H1 – 2003 GTW Handbook</i>) • 960 Btu/PC (<i>See Annex I – Node Price Study Nov/2003, Item 5.1.a</i>) • 0.90 US\$/MPC gas price (<i>Idem</i>) • 357,036 MWh project energy generation • Result US\$ 2.82 million <p>Fixed O&M costs were estimated as follows:</p> <ul style="list-style-type: none"> • 1.040 US\$/MWh for base (<i>See Annex I – Node Price Study Nov/2003, Item 5.1.a</i>) • 1.454 US\$/MWh for semi-base (<i>Idem</i>) • 2.156 US\$/MWh for peak (<i>Idem</i>) • 7, 12, 5 hours/day duration of base, semi-base and peak periods, respectively (<i>See Annex I – Node Price Study Nov/2003, Item 5.5</i>) • Weighed O&M cost 1.50 US\$/MWh • COBEE estimate for other fixed O&M costs is also 1.50 US\$/MWh • Result is 3.00 US\$/MWh
--	---