

RENEWABLE ENERGY IN ARGENTINA

New Regulatory Framework for Business Opportunities

Argentine Government is prompting investors to pursue opportunities in renewable energies (“RE”).

The National Government led by President Mauricio Macri is strongly supporting and promoting a law passed in September 2015 (“Law 27,191”) under the leadership of the previous national authorities.

Law 27,191 introduced relevant amendments to a promotional regime in RE already established by Law 26,190 (passed in January 2007). Law 26,190 did not succeed notwithstanding the important incentives granted to potential investors, mainly because of the lack of available financing and the not so friendly business environment in Argentina at that time contributed negatively. Law 27,191 was in turn regulated by President Macri through national decree (“Decree 531/2016”) issued in March 30, 2016 complementing and clarifying the scope of the new law.

Local media ¹ has reflected the attention and promotion that President Macri is providing to this initiative. On April 2016 the National Government presented a “roadshow” in New York and Washington which main features are included in this memorandum.

The short and long term objectives of Law 26,190 (as amended by Law 27,191) and Decree 531/2016 (“RE Framework”) are for RE to become 8% of the total electrical power consumed in Argentina by the end of 2017 and 20% by the end of 2025 respectively².

The RE sources included in the new framework are wind; solar thermal; solar photovoltaic; geothermal; tidal; wave; marine currents; hydro (up to 50 MW installed capacity); biomass; exhaust gases; biogas and biofuels (with the exception of uses thereof established in Law No. 26,093).³

RE projects that qualify under RE Framework and which are approved by the authorities shall benefit from a special tax and incentive regime. RE Framework tax and incentive benefits vary depending on the timing the RE project is implemented. Major incentives have been regulated for projects started before December 31, 2017 and decrease gradually over time to 2025.

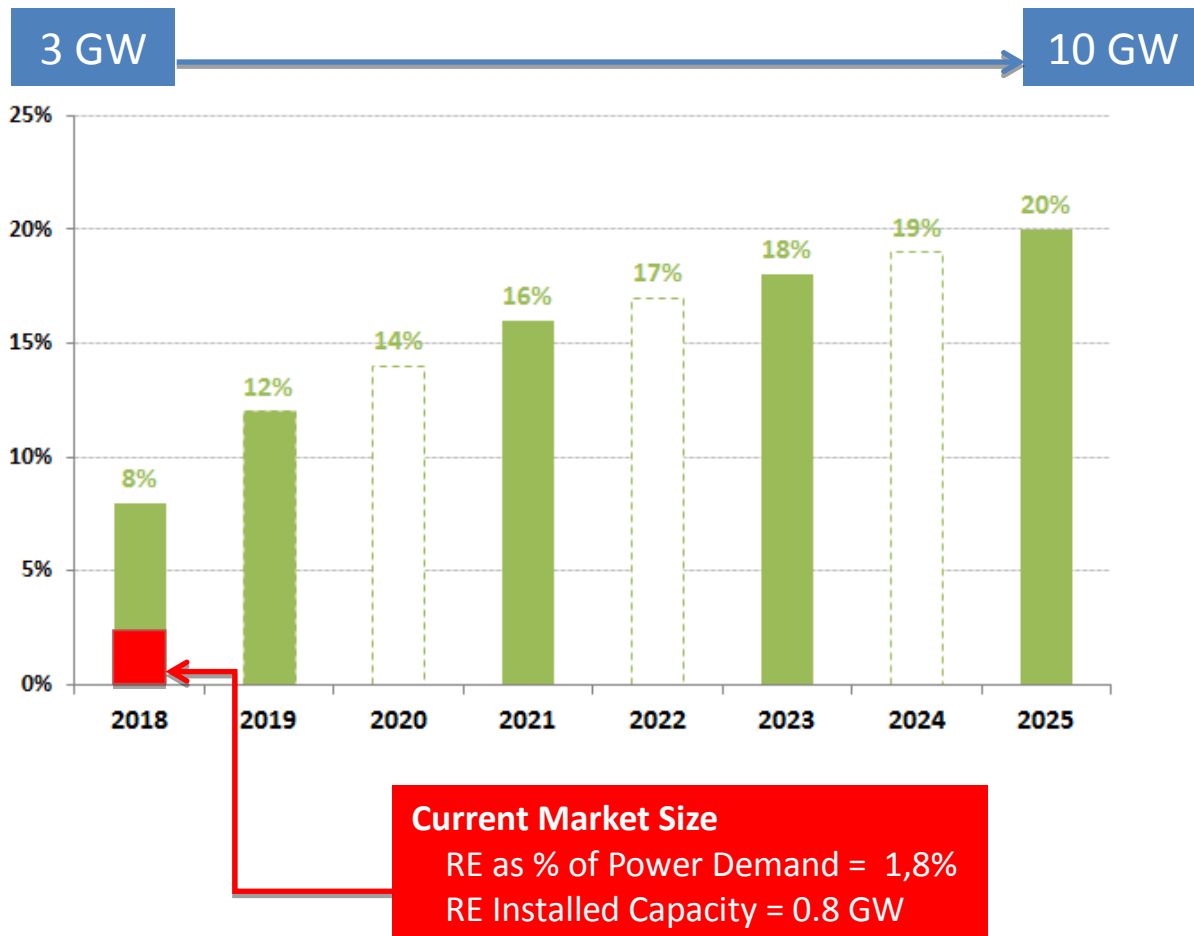
At the same time and due to the passing of Law 27,191, provincial governments (for example, Provinces of Jujuy, Mendoza, Santa Fe or Salta) are following similar policies and regimes, settling new local promotional regimes in RE, granting incentives for all participants, including final consumers.

¹ *La Nación*: 18 de mayo de 2016 - <http://www.lanacion.com.ar/1899887-macri-lanzo-un-plan-de-energias-renovables>;
Clarín: 19 de mayo de 2016 http://www.ieco.clarin.com/economia/Macri-lanzo-licitacion-energias-renovables_0_1579642051.html

² This target applies to all entities of the Major Electricity Market (MEM or “Mercado Electrónico Mayorista”).

³ Mixed with fossil fuels.

RE Mandates to 2025 ⁴



Some remarks about RE Framework

- Notwithstanding Law 27,191 was approved within a fierce presidential campaign and just 3 weeks prior to elections date, this law obtained extraordinary multi-party support what sets sound bases for long term sector stability
- Complementary regulation and contracting rules under elaboration.
- Argentina macro and sector specific improvements expected to boost investor interest in RE. Main improvements have been introduced by the newly elected National Government in foreign exchange regulations aimed at freeing cash inflows and outflows. Legal and *de facto* foreign exchange limitations that local companies and individuals suffered in the previous years in Argentina have been eliminated.
- First tender planned for 2Q'16, announced for the first days of June 2016.

⁴ New York and Washington DC Roadshow April 4-8, 2016. Ministry of Energy and Mines (MINEM), Republic of Argentina

Law 27,191 – Main Issues

- Sets mandatory RE targets to 2025 to all major consumers and instructs the Ministry of Energy and Mines (MINEM) to set the necessary mechanisms to achieve the mandates
- Allows large consumers to source RE directly from power producers, traders, utilities or self-consumption projects
- Introduces important market and financial incentives for local supply chain building, however it does not set minimum local content rules
- Creates a sector specific trust fund (called “FODER”) funded by public funds, specific consumer charges, and public offerings and which is designed to provide payment guarantees and project financing

RE Framework Tax Benefits

- Exception of Import Duties for projects starting construction prior to 12/31/2107
- Accelerated Fiscal Depreciation of applicable assets
- Anticipated Refund of Value Added Tax (“VAT”)
- Exception of Minimum Deemed Income Tax
- Exception of Dividend Tax (subject to re-investment in infrastructure)
- Extension of Income Tax Loss Credits to 10 years (standard is 5)
- Tax deduction of all financial expenses
- Tax Credit on locally supplied CAPEX

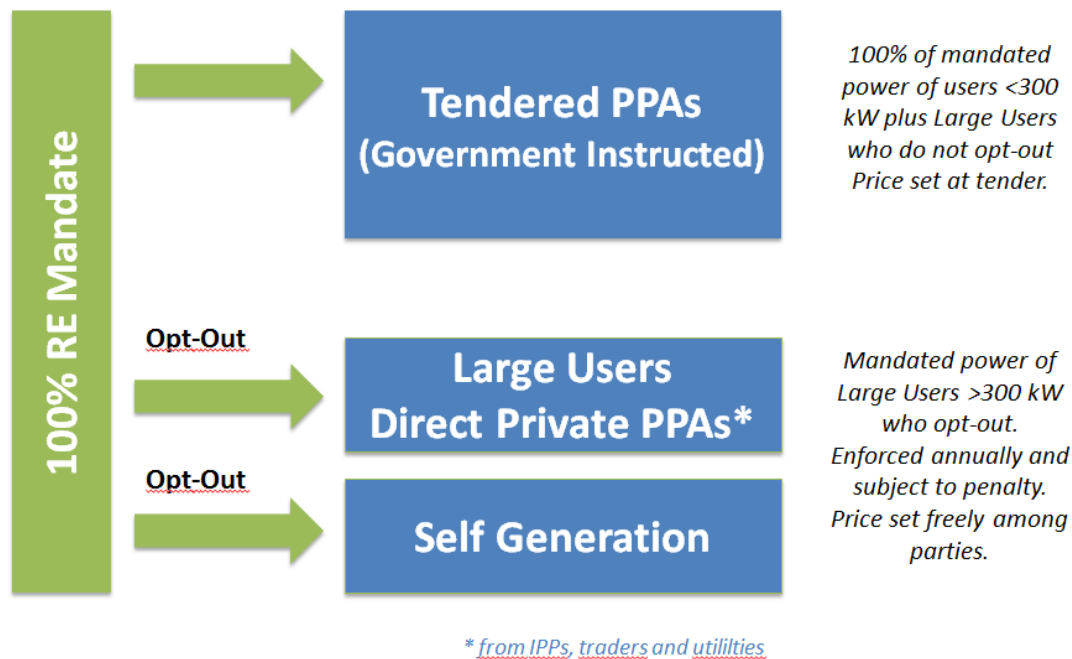
Law 27,191 – Power Purchase Agreement Mechanisms

- **MINEM will tender RE PPAs for 100% of mandated target**
 - PPA costs will be rolled out to all consumers
 - Pre-qualified projects awarded at tender will have automatic access to tax benefits and FODER project financing and guarantees
 - Award rules will be set based on price and non-price criteria including local content integration
- **Large Consumers Situation**
 - Under RE Framework, large consumers (i.e. consumers with a demand equal to or larger than 300 kW) are required to source a minimum level of their electricity consumption from RE, following targets and dates established above (8% by December 31, 2017 and 20% by December 31, 2025, in

a sequential manner). Failure to meet the applicable targets triggers a fine calculated on the basis of the variable cost of power generated using imported diesel oil.

- In order to meet the target under RE Framework, large consumers may opt to self-generate or purchase power sourced from RE either directly from generators or from marketers, distributors or CAMMESA⁵. RE Framework sets a USD 113 per MW/h price-cap, applicable only to PPAs entered into by large consumers with power generators. According to Law 27,191 any existing regulation that restricts the execution of PPAs between private parties and power generators are not applicable to large consumers for the purposes established therein and no further restrictions will be established to the execution of such contracts in the future.

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RE Framework does not establish a binding obligation for residential and small consumers (i.e. consumers which demand is below 300 kW). However, RE Framework regulates that the authority shall instruct CAMMESA to diversify its energy mix in order to meet the new regulated targets. In this sense, the PPAs entered into by CAMMESA with power generation companies are not subject to the aforementioned price-cap and will allow the pass through to prices of any new or increased tax.

This memorandum is intended to general information to readers regarding recent legislation on renewable energies in Argentina and it does not purport to provide a legal advice.

⁵ Cammesa is a state-owned company to which the administration of the wholesale electricity market (WEM) is entrusted. Cammesa is empowered to purchase electricity from renewable sources to supply the WEM.

⁶ New York and Washington DC Roadshow April 4-8, 2016. Ministry of Energy and Mines (MINEM), Republic of Argentina