

GETTING FIT FOR THE FUTURE.



**ANNUAL
REPORT
2016**

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ANNUAL REPORT 2016

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AQUALECTRA AT A GLANCE

The challenge we face is the one of leading an open-end change process. Implementing the ongoing strategic and transformational projects is not the end. This challenge is inherent to a global transitional stage; one in which **'CHANGE IS THE ONLY CONSTANT'**.

TRANSITION:

That intermediate period where 'shift happens' but it's still not visible to the world.

WHY:

To fundamentally contribute to the improvement of the quality of life in Curaçao.

ANG

49.2

MILLION
PROFIT
AFTER TAX

31%

INCREASE IN
SHAREHOLDERS'
EQUITY

STABLE

OUTLOOK AS
ASSESSED BY
STANDARD & POOR'S

A-

RATING BY
STANDARD
& POOR'S

40%

SOLVENCY
RATIO

ANG

43.5

MILLION
CAPITAL
EXPENDITURES

88%

COMPLIANCE
WITH CODE
CORPORATE
GOVERNANCE

80,619

WATER
CONNECTIONS
SERVICED

80,079

ELECTRICITY
CONNECTIONS
SERVICED

8.4%

REDUCTION
OF AVERAGE
ELECTRICITY
TARIFF IN 2016

10,492,000

M³ SOLD

691,548

MWH SOLD

25%

REDUCTION
OF AVERAGE
ELECTRICITY
TARIF BETWEEN
2012 AND 2016



TRANSITION

GETTING FIT FOR THE FUTURE!

The Integrated Utility Holding N.V., doing business as Aqualectra is Curaçao's utility company responsible for the production and distribution of power and water as well as for the delivery of accompanying services.

Aqualectra's workforce consisted of 633 (2015: 647) dedicated employees per December 31, 2016, and served 80,079 (2015: 78,746) electricity connections and 80,619 (2015: 79,304) water connections.

Gearing a company this size and of such importance to the island's economy into transition, is a challenging endeavor.

Getting Aqualectra to be fit for the future, requires unwavering resilience, willpower and a constant drive to raise our own bars to achieve the goals we set for our Company.

The exact same traits CrossFit athletes possess. CrossFit is a contemporary fitness regime developed over several decades, following a meaningful definition of fitness in a measurable way: increased work capacity across broad time and modal domains.

The similarities between CrossFit sport and Aqualectra's transition process are striking. Let's get into the comparison!

We chose a high intensity transition path at Aqualectra. Executing some transformational and strategic projects that require considerable investment amounts as well as human effort simultaneously, can, without a doubt, be qualified as highly intensive. As it is the belief of CrossFit athletes, intensity is essential for results. The more work you do in less time, or the higher the power output, the more intense the effort. By employing a constantly varied approach to training, functional movements and intensity lead to dramatic gains in fitness. We believe that the same applies for business¹. The community that spontaneously arises when people do these workouts together is a key component of why

CrossFit is so effective. Harnessing the natural camaraderie, competition and fun of sport or game, yields an intensity that cannot be matched by other means¹. There is no better way to describe how Aqualectra's workforce and stakeholders are involved in its transition. The fit and healthy athlete of the future is always in progress and working on different levels of health. The same applies to Aqualectra. We are implementing technological tools to modernize and optimize our work. However, our professionals managing these tools are just as important. Our staff is fully immersed in the process of getting fit for the near future. When we presented the upcoming significant changes of the transition that was on its way, everyone accepted that this was necessary feeling the same urge for change as Management did. We have experienced the right shift of mindset to reach for this exciting next step.

The CrossFit program is driven by data. Using whiteboards as scoreboards, keeping accurate scores and records, running a clock and precisely defining the rules and standards for performance, it not only motivates unprecedented output but produces both relative and absolute metrics at every workout.

This data has important value well beyond motivation¹. The reshaping program at Aqualectra is managed in the exact same way. Bound by time, a comprehensive planning, pre-defined checkpoints, a proven project management standard and an inclusive communication and training plan, Program Reshaping Aqualectra II (ProgResA II) is designed to motivate the employees towards this new direction the Company is taking.

Overall, the aim of CrossFit is to forge a broad, general and inclusive fitness supported by measurable, observable and repeatable results. The program prepares trainees for any physical contingency not only for the unknown but for the unknowable, too. Their specialty is not specializing¹. In business, one could translate this into the known saying 'change is the only constant'. The challenge Aqualectra faces is the one of leading an open-end change process. One in which the employees and all related stakeholders must know that implementing the ongoing strategic and transformational projects is not the end. This challenge is inherent to a global transitional stage.

The future we envision puts Aqualectra at the absolute forefront of energy suppliers in the Caribbean, guaranteeing steady and sustainable energy within a financially solid organization. The new technological systems, procedures and organizational structure we are implementing, offer our customers the possibility to manage their energy consumption and costs, using modern applications wherever they are in the world. Aqualectra is stepping into the gym of the future to keep in shape.

We are getting fit for the future!

¹ Source: www.crossfit.com/what-is-crossfit

A photograph of an industrial facility, possibly a refinery or chemical plant. The scene is dominated by a complex network of black metal pipes and structural beams. In the background, there are large, cylindrical storage tanks. The ground is a light-colored concrete or asphalt. In the bottom left corner, the lower leg and a red and black athletic shoe of a person are visible, suggesting they are walking through the facility. The sky is clear and blue.

1. MESSAGE FROM THE BOARD OF MANAGING DIRECTORS

Getting a company like Aquallectra fit for the future, is not a simple task. Changing such an important cornerstone of Curaçao's community, requires vision, cohesiveness and a strong focus on service to our customers.

The period of transition requires inexhaustible stamina, unwavering resilience, willpower and an intrinsic drive to continuously raise our own bars. 2016 can truly be considered a transitional year. The Board of Managing Directors (hereinafter 'the Board' or 'management') looks back with modest satisfaction on 2016; a year in which important milestones were reached and firm steps were taken towards Aquallectra's ambition to become the 'Utility of the Future'.

The Company's dedicated employees put in their extra efforts to achieve the financial and operational results presented in these statements. The year under report is characterized by achievements and challenges, with the Board focusing on delivering results for Aquallectra's customers and employees (People), Shareholders (Profit) while balancing each decision, taking its environmental and social impact into account (Planet).

Transition

The Merriam Webster dictionary defines transition as "a passage from one state, stage, subject, or place to another". In the art of writing, transitions are phrases or words used to connect one idea to the next.

'YOU ARE NEVER DONE. THE MOMENT ONE BIG INNOVATION IS FINISHED, WE ARE ALREADY WORKING ON THE NEXT. IT IS IMPERATIVE TO CREATE A CONTINUOUS IMPROVEMENT CYCLE.'

Both the years 2016 and, looking forward to, 2017, can be considered transitional years: that intermediate period where 'shift happens' but it's still not visible to the world. The period which connects the old Aquallectra to the future-proof Aquallectra that is crucial to the development of the community it serves.

The challenge the we face is the one of leading an open-end change process. One in which the employees and all related stakeholders must know that implementing the ongoing strategic and transformational projects is not the end. This challenge is inherent to a global transitional stage; one in which 'change is the only constant'.

If compared to the metaphor of climbing Mount Everest, applied during various employee gatherings to explain the change process, it can be stated that Aquallectra was in 2016 passed 'Base Camp'. The Company focused on reaching 'Base Camp' during the years 2012 to 2015. To reach 'Base Camp' one must have already climbed to 5,365 meters above sea level. During 2012 to 2015, we geared ourselves up to climb Mount Everest and reached 'Base Camp'. In 2016, the actual climb started, whereas the implementation of the ongoing projects is an important milestone but the realization thereof does not imply reaching the summit.



Strategic alignment

Knowing that change is the only constant, the height of the summit is still unknown. As the Management of this company, we are aware of our responsibility to strategically align with key management personnel and stakeholders to ensure everybody is geared towards the same direction. Obtaining this clear view of the common direction was our priority at the end of 2015 and during the first months of 2016. The results of the sessions held, were reported in the Financial Statements of the year ended December 31, 2015, but are briefly repeated in these statements, for the sake of completeness.

Together with the Management Board (second tier Managers), the Board reached the conclusion that at the core of everything Aqualetra does, lies the well-being and quality of life of the community it serves. Hence, the reason we do what we do is our pursuit to fundamentally contribute to the improvement of the quality of life in Curaçao.

This conviction aligns seamlessly with the Company's vision as set forth in the strategic plan 2012-2017: Aqualetra delivers high quality water and power which are produced and distributed safely and cost effectively while maximizing the use of sustainable technology and demonstrating a high level of Corporate Social Responsibility and commitment to the community of Curaçao and all other relevant stakeholders.

To achieve this, Aqualetra chose customer centricity, reliability, pro activeness and innovation as its core values. The underlying key success factors are the driving force behind decisions we make to give the Company the best chance to thrive towards its vision.

HIGHLIGHTS AND CHALLENGES

Whilst undergoing transformation, Aqualectra achieved important successes, seen impressive highlights but also tough challenges.

Financial & Commercial affairs

Our main achievement for the year 2016, marking also the closure of a challenging financial turnaround, was pursuing and obtaining a financial rating. In September of 2016, Standard & Poor's granted Aqualectra an A-rating. The Standaard & Poor's (S&P) report also stated a 'stable outlook' for the Company. We made sure to announce this to the wider public and celebrated this with the financial sector in a breakfast meeting, to which all banks and key financial institutions were invited.

The various projected investments of Aqualectra in the coming years, together with a broader financing perspective through the awarded financial rating, has led the Board to engage in a Corporate Finance Analysis with Deloitte Dutch Caribbean. In order to maintain a healthy financial position, sound Corporate Financial policy and Capital structure is required. Given the Company's solidified liquidity position and in preparation of possible financing for the upcoming investments, various loans were prepaid in 2016. Loans received from Curoil, PSB Bank and Vidanova were prepaid in full during 2016. Aside from the bonds held by the Central bank of Curaçao and St. Maarten (CBCS), the Meerjarenplan (MJP) loan and the loan related to the IUH agreement, there are no other loans recorded at the end of 2016.

2015 was the first year of the last 5 years in which Aqualectra reported a positive result from operating activities, even if non-recurring gains and the recovery of past fuel undercoverage component in sales are not taken into account. This positive development continued in 2016, whereas the results excluding recovery are even higher, compared to the year before. The recovery component of past fuel undercoverage ceased to be included in the tariffs. Hence the tariffs were structurally lowered.

The recovery component was initially lowered in April of 2016 and completely eliminated by May 2016. This led to an average tariff reduction of 8.4% in 2016. We are pleased to report that over the past 5 years, tariffs were averagely reduced by 26%, as efficiency gains achieved through well-balanced decisions of the Board, were passed on to customers.

The benefits rendered by the realized investments incurred, especially in the new plant at Dokweg II, continued to yield the projected benefits.

The increasing trend in the Company's Gross Profit was maintained, while the results from operating activities showed a decrease but remains solid. From a financial perspective, Aqualectra's main objective is to optimize efficiency of CAPEX and OPEX while maintaining an appropriate capital structure.

The year 2016 reports a positive net result before tax of ANG 61.8 million (2015: ANG 68.8 million).

This represents a decrease of ANG 7.0 million (10%) compared to 2015, which is attributable to an increase in Operating Expenses of ANG 18.3 million, partially offset by an increase in Gross Profit of ANG 8.2 million and a decrease in Interest Expenses of ANG 3.1 million.

Total sales electricity and water combined has decreased in 2016 by 3% or ANG 14.6 million as compared to 2015. Electricity sales decreased by 5% or ANG 18.8 million compared to 2015 as a result of the substantial decrease of 8.4% in the average electricity tariff. MWh's sold increased by 3.7%. In 2016 water sales increased by 4% or ANG 4.2 million as a result of an increase of an equal 4% in cubic meters sold. The increase in units sold was partly offset by a 0.5% decrease in the average tariff.

The increase in Operating Expenses is due to increases in Parts, Repairs & Maintenance (increased by ANG 14.0 million) and Provision bad debts (increased by ANG 4.1 million), offset by decreases in Salaries, social securities and other personnel expenses (decreased by ANG 1.5 million) and Impairment on intangible assets (decreased by ANG 3.5 million).

The increase in Gross Profit is realized in spite of the steep reduction in the Recovery component in sales (decreased by ANG 25.1 million) as a result of the complete exclusion of this component from the water and electricity tariffs. The increase is primarily attributable to decreases in Direct Costs Production (decreased by ANG 10.9 million) and Other Directs Cost of Sales (decreased by ANG 7.5 million).

The Service and Other Income increased by ANG 4.5 million whilst the Sales of Electricity and Water decreased by ANG 14.6 million. The increase in unit sale was offset by the steep decrease in average tariffs, ultimately resulting in a decrease in revenue of water and electricity.

The downward trend in the Direct cost of production continued. The decrease in these costs is solely related to the decrease in fuel prices as the fuel usage increased from 124,618M3 in 2015 to 169,016M3 in 2016 (36%). This increase in usage was offset by lower fuel prices in 2016 compared to 2015 (on average 26% lower).

The increased fuel usage stems from the employment of a different production mix in 2016. Given the reliability challenges faced with the supply of CUC N.V. and the breakdown of various machines at Aqualectra's own production sites, back-up capacity units that are less efficient than the regular units, were used more.

The regulatory regime governing Aqualectra's revenue, allows the company to 'pass-through' all direct costs (mainly fuel, chemicals, lubricants and purchase of electricity and water from third parties) to the customer. All efficiency gains in the production process, if any, are reflected in the lower tariffs charged to customers and vice versa in higher tariffs after review of the Regulator.

The results before tax include the effect of the recovery of approximately ANG 13.7 million (2015: ANG 38.9 million). The EBITDA amounted to ANG 122.3 million which is ANG 8.5 million lower than the EBITDA of ANG 130.8 million in 2015.

The Customer Relation Department geared their focus towards a few campaigns aimed at increasing customer satisfaction by ensuring that customers are aware of improved service channels like amplified payment solutions and the re-launch of MiKuenta, offering online invoices and monitoring of monthly usage.

The campaign 'Paga na tempu pa evitá malkontentu' (pay timely to avoid displeasure) aimed at the reduction of disconnects and customers' dissatisfaction with regards to their reconnection (e.g. fees, timelapse, etc.) yielded great success and the amount of reconnects after office hours have been reduced significantly.

The Internal Audit & Business Risk Control department has also been a focal point in 2016. The Board engaged KPMG to support the department in drafting an Internal Audit charter and an Internal Audit plan. These were drafted and presented to the Board of Supervisory Directors at the end of 2016. The department is executing the internal audits as planned.

Operational affairs

Late 2016 Aqualectra confronted various challenges in meeting the Island's energy demand. As part of the annual capacity planning, Aqualectra planned for preventive maintenance tasks for the power plants as well as coordination of these tasks with the other Independent Power Producers ('IPP') being CRU (formerly BOO) and the Windfarm. Despite this planning, unexpected breakdowns at both Aqualectra power generating units as well as CRU yielded a shortage in production capacity. This shortage, together with a low wind regime in 2016 as well as an increased demand, led to a record high 86 brown-outs (load shedding) during 2016.

"This last year our customer satisfaction survey provided us with important feedback. We received complaints but also many positive remarks. With this information, we are able to manage local expectations. The customer's expectations have changed. We are now in an information and globalization age. We cannot continue trying to meet the old expectations. We are in the process of equipping ourselves with the necessary tools, people, systems and procedures to meet the new expectations."

The inconvenience caused to our customers is something that we deeply regret, even more so given the fact that customer satisfaction is one of Aqualectra's very top strategic priorities. However, the Board, together with the technical teams, worked diligently in solving the acute shortage and made sure to stabilize supply for 2017.

This capacity shortage along with the increased demand, led the Board to start endeavors to expand the DOKWEG II plant with minimally 3 generating units. This investment will be prepared and incurred in 2017.

The Water Supply Chain focused its efforts on the further stabilization of the production at the Reverse Osmosis plants at Mundu Nobo and at Fuik. The water distribution grid was also in focus, both with the 'Several Water Reconstruction' project (started in 2015, aiming at the replacement of 72km of water distribution grid) and recurring maintenance activities to ensure the quality and availability of the product.

During 2016, the demolishing of the Mundu Nobo water and power plant continued. A major milestone during these activities was the dismantling of the stacks (chimney) of the Plant. These stacks were iconic on the island's southern shore landscape and have now been totally removed. We organized a press moment at the start of the dismantling of these stacks in order to indicate to all stakeholders what the impact of these developments imply. The second phase of the demolition is to be finalized during 2017. At the same time we will start with the last phase of the demolition in 2017.

In January 2016, the Power Purchase Agreement for the expansion of the Tera Cora windfarm was signed. Based thereon, the construction of the windfarm started in June 2016. The construction is being completed and it is expected that mid 2017 an additional 15 MW will be available, being an estimated 18.2% of the total island demand. This will increase to 20.5% of the total island demand (annual average - only with regard to wind energy) after 2017. The inclusion of the expansion of the Windfarm, required us to invest in a new switchgear for the substation at Tera Cora. This investment has been initiated and finalized during 2016.

During 2016 Aqualectra, in conjunction with the Governmental Department of Public Works (UOOW), has been preparing an international tender for the full replacement of public streetlights. Besides yielding energy and cost savings for the government, this project will also put Curaçao on the world map with respect to well managed street lights. It is expected that this tender will take place during 2017 and that the replacement of all streetlights will take 3 years for execution. This project will yield several benefits for Aqualectra, mainly efficiency gains (cost savings) and improvement of the corporate image.





We completed the year with a total amount of ANG 43.5 million incurred in Capital Expenditures ('CAPEX'). The main focus was on technology and the distribution grid. The ongoing ERP implementation, the upgrade of SCADA and other smaller investments in technology represent a large portion of the total CAPEX in 2016, which at the end of the year, were still a work in progress. The distribution grids of both water and electricity were also in focus, with the Several Water Reconstruction project as well as the placement of a new 30 kV cable connection between substation Zegoe and substation Nijlweg. This project aimed at placing a 30 kV redundant transmission cable connection between the two substations to replace the old one, that reached its technical lifespan and to upgrade the connection to ensure the reliability of the power transportation capacity.

General Management:

The launch of Program Reshaping Aqualectra II ('ProgResA II') was one of the Board's highest priorities in 2016. After a period of preparation and renegotiation of the ERP implementation services to be procured, the contract with SAP Puerto Rico GmbH LLC. was signed early 2016. The implementation of SAP as ERP within Aqualectra, the installation of an Advanced Meter Infrastructure for water and electricity ('AMI project'), the legal merger of the Production and Distribution companies as well as the construction of a new headquarters are 4 of the 7 projects of which ProgResA II is composed of. The other 3 projects being the implementation of a Contact Center, the implementation of a Personnel Registration and Information System and the implementation of an access control system with stringent procedures, have already been launched.

The 'Preparation phase' of the SAP Implementation project was launched by mid-2016. Simultaneously, the preparation of the AMI project was ongoing, which entails the cleansing and updating of the basic meter registration. Various Board of Supervisory meetings and a Shareholder's meeting were held to collect the necessary approvals for the merger of the subsidiaries of Integrated Utility Holding. The operational execution of this merger will take place with the implementation of SAP. Therefore, SAP is blue printed and configured, based on the simplified corporate structure envisioned after the merger.

Late December 2016, two very important milestones were reached with regard to ProgResA II. The Memorandum of Understanding determining the terms and conditions against which Aqualectra will obtain the leasehold rights to the lot where the new headquarters will be constructed, was finally signed after months of negotiations with the Government of Curaçao. Furthermore, the contract for the 'Implementation and Deployment Phase' was signed with SAP Aindina, closing the 'Preparation phase' and gearing up to execute configuration and testing of the business processes as designed in 2016. This new phase will also encompass training for all users, a new organizational structure and job descriptions that align with the new requirements as supported by SAP.

ProgResA II will strategically transform Aqualectra. This transformation is accompanied by a robust Organizational Change Management program to ensure that the personnel is duly aligned, trained and equipped to continue functioning in the new Aqualectra.

"AMI and SAP are sophisticated systems that take us many steps closer to our goals. AMI, a smart metering application, will enable us to predict consumption, measure power quality and give us control over tampering. This is useful information that we implement to manage our products and our billing, which brings about customer service improvement and aids us with operations, killing two birds with one stone."



Human Resource ('HR') Management was also in focus of the Board. During the year, the overall training program was launched, which forms the basis for follow-up and more job-specific training in 2017. The basic training program consists of:

- Motivational assessment of each participant to the training program through a REISS profiling methodology;
- Personal leadership and development workshops where the participants are taught how to manage intrapersonal relationships at work as well as in private life;
- Personal budgeting workshops where how to deal with personal finance and financial wellbeing is presented and dealt with; and
- Computer training from basic computer level through Windows 10 and MS office.

The goal of this program is to set a personal and professional foundation in each employee with the intention to prepare the Company's workforce for the organizational changes coming up. The Management Board also participated in a leadership development training program offered by the Public Utility Research Center ('PURC'), an affiliate of the University of Florida. This program is ongoing.

Further to the training program, the HR Department was submitted to an 'HR service delivery' quick scan, executed by KPMG. The results of this scan presented key improvement areas and recommendations to raise the department's strategic thinking and embed the HR Management roles in the rest of the company.

By mid-2016, the application INSIGHT (Personnel Registration and Information System) and its annex PROFIT (Payroll System)

were launched by the HR and Payroll departments. INSIGHT is an application that supports the further ingrainning of the HR functions and tasks in the organization, allowing online requesting and recording of various HR related tasks (e.g. vacation requests, sick and other leaves, allowance requests, etc.). It is also a tool that Managers can use to control their employees' attendance better in their respective departments, build personnel dossiers and document any HR related matter of employees. PROFIT is INSIGHT's payroll application. Their level of integration allowed the Company to achieve new heights of efficiency in its payroll administration and in the synergy between the HR and the Payroll departments.

Another important milestone reached in 2016, was the implementation of a robust Access Control System to all the Company's premises. This system not only ensures the safeguarding of



Aqualectra's assets but also allows for the integration with INSIGHT, which will ultimately result in effective time and attendance registration. The second phase of this project in which further refinement of the policies, procedures and technical aspects is envisioned, is planned to be launched in 2017.

The negotiation of the Collective Labour Agreement ('CLA') with the union representing staff personnel (SEU) is still due. Unfortunately, the Board did not reach an agreement and negotiations are still ongoing. An agreement for the compensation of the pension and basic sickness insurance gap the personnel that will have reach(ed) the age of 60 in the year 2015 through (and including) the year 2023, is also still pending. This benefit stems from a protocol signed in January 2015 with the unions STK and STKo. Despite the various discussions that have

taken place during 2016, no firm agreement has been reached with the unions. Nevertheless, these financial statements include a provision specifically for this benefit, for the sake of prudence.

It is our duty to report on the progress of the Civil Investigation. Based on the request of the Public Prosecutor ('Openbaar Ministerie'), the Court of Appeal (the Court) ordered in July 2013 a civil investigation to be carried out at certain governmental entities including IUH N.V. (Aqualectra). This investigation encompasses the point of law whether mismanagement has taken place at the company. In July 2016 the report of the investigator was submitted to the Court. In connection with the findings presented in this report, a second phase procedure was started by the Public Prosecutor. Besides the Public Prosecutor, Aqualectra too has filed a request at the Court to establish possible

mismanagement at the company. Hearings were held in November 2016 and March 2017. The decision of the Court in the second phase remains pending.

We will continue our pursuit of operational excellence throughout our organizational performance improvement programs within the business operations. In this regard, we are pleased to inform that all of the ISO and financial reviews and audits we underwent during 2016, were concluded with satisfactory results. The optimization of the production and distribution processes will continue, as well as that of the non-revenue programs to lower the non-revenue for water and electricity and that of our policies aimed at cost rationalization and efficiency improvement. Customer care will remain a focal point and a target has been set to improve service and customer satisfaction.

Community engagement

We have a firm believe that our Corporate Social Responsibility policy should function as a built-in, self-regulating mechanism whereby our business would monitor and ensure our adherence to law, ethical standards and international norms. Consequently, our organization embraces the responsibility for the impact of its activities on the environment, consumers, employees, community, stakeholders and all other members in the public sphere. Furthermore, we proactively promote the public interest by encouraging community growth and development and voluntarily eliminate practices that harm the public sphere. Therefore it is essential for the Board that the public interest is included in the corporate decision-making, thus honoring of a triple bottom line: People, Planet, and Profit.

Contributions to sport, education, environmental and sustainable development and non-profit social and humanitarian organization or causes:

Among the numerous small contributions to various initiatives that positively contribute to the wellbeing and development of our community, we can certainly highlight Aqualiectra's contributions to sports and, in particular, to baseball for the most professional league as well as for the little ones. The Company's policy is to contribute to federations and umbrella organizations under which individual teams are grouped. It is our belief that this way, more individual teams will benefit from our contribution, in comparison to when a contribution is made to a single team.

Besides sports, Aqualiectra also contributed to an important conference, hosted by our Regulator, that set the cornerstone to start building a Smart Nation. Curaçao has an immense potential that can only be realized when putting all assets, tools and people to work in one direction. Following our aspiration to fundamentally contribute to the improvement of the quality of life in Curaçao, we consider it of the utmost importance to play an important role in initiatives like the Smart Nation Conference and other Nation Building endeavors.

Excursions to the production plants:

It is our firm belief that every citizen of Curaçao must be made conscious about the fact that water and electricity are very scarce on the island and that it takes a lot of effort and resources to make this water and electricity available for the local community. The reason for promoting this consciousness is the fact that it is in the consumers' own economic interest to be efficient with the use of these utilities and, on the other hand, from an environmental standpoint and in the interest of the whole community. During the year under report, several excursions to Aqualiectra's production plants and technical facilities have been organized by our Communications Department for schools and interest groups (including tourists and universities), explaining the production process of water and the generation processes of electricity.

Special mention should be made of the day the dismantling of the stacks (chimneys) was initiated. Their iconic presence on the island's southern shore landscape would disappear and this was commemorated with the personnel, the Board of Supervisory Directors and the Shareholder.

Protecting our environment

The production and distribution of electricity and water are Aqualectra's core businesses. This requires the construction and maintenance of plants and a physical network of transmission pipes, lines and cables, transformers, pumps and other infrastructures. This undoubtedly has an impact on the environment and on environmental conditions. We are aware of the impact that our operations can have on the overall environment and on the community we serve. Therefore, we continue to make every effort to minimize this possible negative impact effectively. By obtaining the ISO 14001 in 2005, we explicitly specified in our business processes the actual requirements for an environmental management system and adhere to those environmental standards which the organization has control over and which it can be expected to have an influence on.

With the continuation of the ISO 14001: 2004 standard in 2014, we proactively show the community that we wish to:

- implement, maintain and improve an environmental management system;
- ensure compliance with our own stated environmental policy;
- demonstrate compliance;
- ensure compliance with environmental laws and regulations;
- seek certification of our environmental management system by an external third party organization;
- make a self-determination of compliance.

The Future

Before 2016, we were preparing the organization to enter a season in which strategic and transformational projects would be deployed. One can safely label 2016 as a transitional year; the Company was and remains (for 2017 and 2018) in transition. This stage must be addressed with the same caution as when dealing with a Company in distress, while still being aware that its future is being shaped, along with Curaçao's future. This caution is specifically relevant when dealing with regulatory matters. Important discussions are being held at the moment regarding the tariff setting approach and mechanism. Nevertheless, the budget for 2017 and the Forward Looking Projections do not include assumptions of changes in the base component.

The budget shows an increase in demand, efficiency and investments whilst on the other hand a decrease in cost, profit and rate of return is projected. At the same time we intend to diversify Aqualectra's business to face the changing environment and the decrease in profitability and in the rate of return. This necessitates providing customers value added services which will determine the future profitability and sustainability of the company.

Embracing Utilities of the Future

The utilities industry is at a pivotal crossroads, seemingly moving into an era of empowered consumers. Worldwide, radical technological changes, such as solar panels, are disrupting the utilities industry. This is changing the demand pattern of the consumer and in some cases could even fortify their supply power.

We are aware of the impact that this development could have on Aqualectra's market and consequently on its operations. Therefore, we chose to embrace the change in technology and business models by focusing our strategic direction on the Utilities of the Future.

"Nobody is ever ready for what the future brings. Human nature is one that when faced with it one adapts and work with it. We cannot wait for people to be ready for innovation. We want to guide and educate our customers and stakeholders in coming along on this path of digitization. It is an inevitable change.

Facebook and Whatsapp cannot be outthought anymore when it comes to communication. Why not an Aqualectra-app that is directly beneficial to the customer."

To achieve this, a well-balanced production mix using innovative technology, is required in order to maximize the use of renewable energy. During the past 3 years, firm steps have been set towards the optimization of the company's production mix. These changes have led to a steep reduction of the Direct costs of production, which was the main contributor to a financial turnaround.

This financial turnaround makes it possible to continue with the various change trajectories that were previously placed on hold. Mid 2016 the Program Reshaping Aqualetra II (ProgResA II) was launched, which encompasses seven major projects. Four of them are in their implementation phase, while three have already been implemented in 2016.

One aspect is certain after the implementation and the execution of these projects, Aqualetra will not be the same. To ensure that the transformation is achieved in a responsible way, the project '**Organizational Change Management**' has been launched, as a binding factor between the aforementioned four projects.

ProgResA II is a comprehensive transformation program, with the aim to prepare the organization to deal with the competitive challenges in the utilities industry. This program requires substantial investments and robust planning.

The implementation/realization is planned as follows:

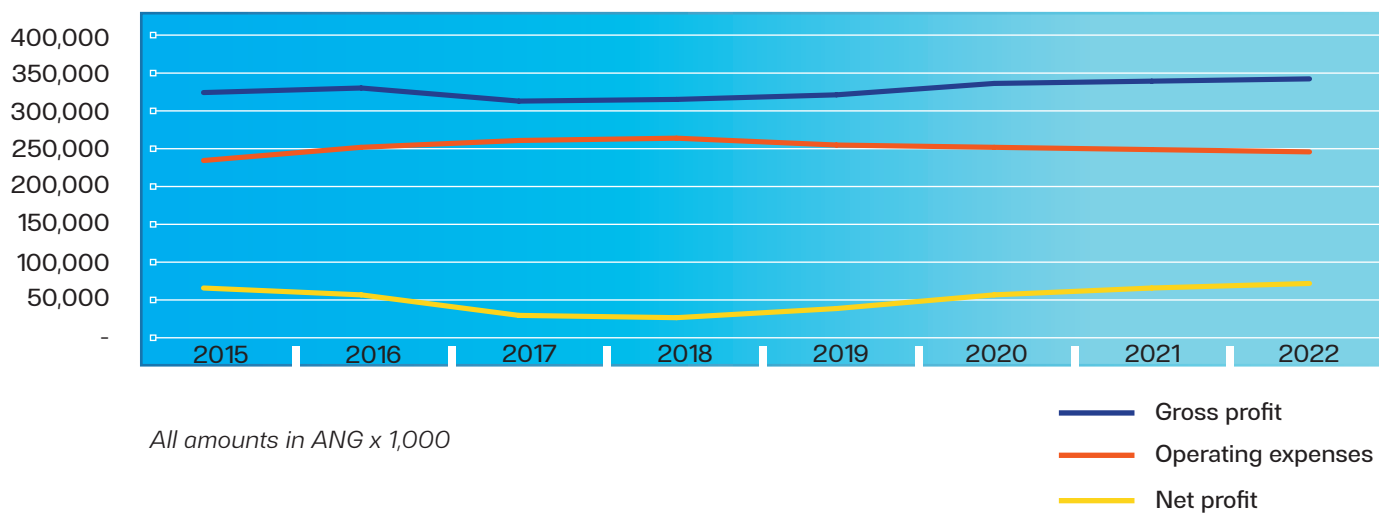
Project name	Description	Deadline
New Headquarters	Construction of a new Headquarters and selling of the current premises to allow economic development	2019
Legal Merger	Merger of Aqualetra Production and Aqualetra Distribution	2017
SAP Implementation	Implementation of SAP as ERP	2017
AMI Roll-out	Replacement of all meters in the grid with digital meters	2017-2020
Organizational Change Management	Developing and supporting the change capability	2016 - 2020

Forward looking projections:

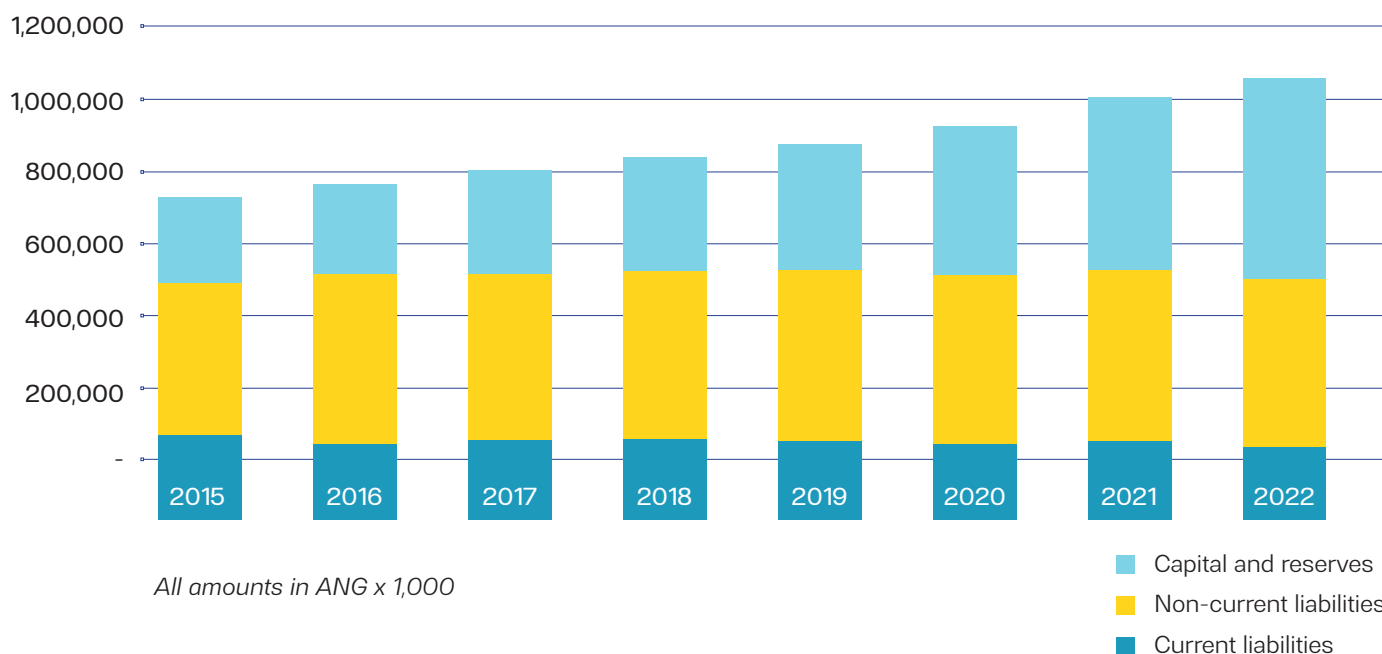
Aqualetra's budgeted results for 2017 and forward looking projections ('FLP's') are positive, despite the economy's expected lack of growth. The forward looking projections indicate a consistent increase in gross margin and a steady decrease in operational cost. This, at a stable rate of interest expenses and taxes, will yield an increasing net result in the coming years.

With the increasing margins and the projections for oil prices, the expectation for maintaining the net profit growth in the future is to be discussed with the Regulator. Ongoing discussions are geared towards the establishment of tariff setting guidelines, whereas the Weighted Average Cost of Capital and regulated return are thoroughly addressed. When finalized, a revision of Aqualetra's budget and FLP's must take place. For now, a sensitivity analysis is included in this document to show how changes in the base component may impact Aqualetra's financial stability.

Forward Looking Projections: Earnings



Forward Looking Projections: Capital structure



Fuel price volatility:

In the past, we defined fuel price volatility as a major risk. We still recognize fuel price to be of risk even though this risk has been mitigated by the currently applied tariff structure which was introduced per June 2012. With the application of a fuel clause in the tariffs, a full fuel pass through is in fact being applied. Nevertheless, monitoring the fuel price volatility will remain of high importance for Aqualectra.

Financing:

As a capital intensive industry, utility companies must always focus on their financing needs and financing capabilities. Obtaining a financial rating is one of the important steps set in the direction of securing a well-balanced capital mix and financing at competitive rates. During the coming years, capital expenditure projections are expected to remain high, given the mentioned strategic and transformational projects to be executed as well as other investments in plant and grid infrastructure. The Board engaged Deloitte Dutch Caribbean late 2016 to execute a corporate finance analysis to conclude on the most effective and efficient ways to structure Aquallectra's capital and to secure financing that fits the business model. Besides the CAPEX planning, a robust liquidity buffer is taken into account, to build in headroom, to ensure that the Company is prepared to handle any disruptive changes that may come its way. The aforementioned, together with the earnings projections, led to the determination of the funding need with which the financial market is being sound at this report's date. After the market sounding stage, the Board will analyze the results and decide on the next steps with regards to Aquallectra's capital structure and financing endeavors.

Sustainable developments and fuel diversity:

We favor renewable energy in full and will sponsor all mayor sustainable developments in the utility sector, whether private or public, in this area. Since the Company is not in the position to invest in this technology at the present time, we will only engage in studies of the subject, pilot of different types of sources and grid studies allowing increased renewable energy penetration. If the results of these studies and pilots indicate plausible deployments, Aquallectra will not hesitate to engage in Private Public Partnerships to implement these alternatives.

The value of fuel diversity is firmly acknowledged by the Board in order to help stabilize fuel costs as well as to maintain and improve overall system reliability. With the operation of the wind farm expansion at Tera Cora in 2017 and the expansion of solar based generation, 19% of the total energy demand of Curaçao will be provided through renewable energy with a total capacity of 30 MW by the end of 2017. This is expected to increase to 26% in five years' time.

Late 2016, while facing the capacity challenges, the Board decided to engage in the preparation of a tender for a 10 MW rooftop solar park. This, in light of sustaining renewable developments in Curaçao. The expectation is that this park will be fully operational in 2017 and will deliver 16 GWh per year which is 2.5% of the annual island consumption.

For being the power and water provider for the island of Curaçao, Aquallectra must also take into consideration the new technological developments in the water processing and distribution sector. In this matter it is important to state that we are analyzing more lucrative yet reliable ways to provide second grade water to customers with a high volume of water consumption for other purposes than human consumption. Thorough analysis of these possibilities were started in 2016 and are to be deployed during 2017.

Gratitude

Attaining the above-mentioned achievements and overcoming the challenges that presented themselves throughout 2016, would not have been possible without the efforts of the 633 men and women that work at Aqualectra. They leave their homes every day with one goal in mind: fundamentally contribute to the improvement of the quality of life in Curaçao. We thank them for their infallible commitment to Aqualectra and their devotion to the well-being of the community we serve.

The trust, support and guidance by our Board of Supervisory Directors and by our Shareholder were also crucial to our success. We specially recognize the contribution of Mr. Mike Willem, Mr. Abedd Hammoud and Mr. Haidel Haile as departing Chairperson and members of the Board of Supervisory Directors respectively during 2016. A special word of gratitude is also extended to Mr. Jose Jardim who served as Minister of Finance and as the representative of the Shareholder for the past 4 years. Without his comprehension of our business and firmness in decision making, the successes being reaped at this point in time would have been much less.

We are excited about the future. This phase of transition will ultimately yield exceptional and unprecedented results. We cannot wait to show the results to our customers, Shareholder and other stakeholders. We thank you in advance for your patience and are sure that the results will propel our community to a next level.

Willemstad, May 30, 2017

On behalf of the Board
of Managing Directors,

Mr. D.P. Jonis M.Sc. MBA
Acting Chief Executive Officer





A photograph of an industrial facility. In the foreground, there are large white storage tanks with blue vertical support beams. A yellow and black striped safety barrier is visible. In the background, there is a building with a corrugated metal roof and a door. The sky is clear blue.

2. MESSAGE FROM THE BOARD OF SUPERVISORY DIRECTORS

The Board of Supervisory Directors (hereinafter 'BSD') has as primary task to supervise and advise the Board of Managing Directors (hereinafter 'BMD') regarding the implementation of the policies and strategy as set forth by the Shareholder (The Government of Curaçao). In this role, the BSD is responsible for assessing whether the decisions taken by the BMD are in compliance with the company's strategic, societal, financial and technical objectives.

The BSD also devotes attention at the Board meetings to adherence to all laws and regulations and internal procedures by the BMD. Twenty one (21) meetings were held during 2016, addressing various topics and reaching key decisions such as:

- The approval and progress reports of various contracts and projects, mainly those pertaining to ProgResA II (SAP, AMI, legal merger, new headquarters, Access Control and Personnel Information and Registration System);
- Approval of Financial Statement 2015 and discharge to the BMO;
- Approval of Budget 2017 & Forward Looking Projections;
- Strategic plan and issues;
- Quarterly Financial & KPI progress;
- Management letter 2015 including Management's action plan;
- Starting the recruitment process for a CEO, a CFO and a CTO;
- Evaluation of internal controls and risk.

COMPLIANCE WITH ...

Compliance with the Corporate Governance Code

One aspect of focus by the BSD is the Company's compliance with the Corporate Governance Code. With modest satisfaction, the BSD reports an overall average compliance rate of 84% to the Corporate Governance Code. The BSD will continue monitoring Aqualetra's compliance to the Corporate Governance Code and will strive for further improvement of the reported compliance rate in coming years.

Composition of the Board of Supervisory Directors

Members of the BSD are appointed for a term of four years with a maximum of two terms. On December 31, 2016 the BSD of Integrated Utility Holding (IUH) N.V. consisted of the following Directors:

	Name	Function
1	Mr. D.E. Evertsz (as of September 11, 2013 until 2017)	Vice Chairman
2	Mrs. T.K. Prins (as of March 25, 2013 until 2017)	Director
3	Mr. A. Davelaar (as of January 19, 2015 until 2019)	Director

In addition to the above-mentioned Directors, the following Directors were also members of the BSD during 2016:

	Name	Function
1	Mr. Michael F. Willem (until December 28, 2016)	Chairman
2	Mr. Haidel Haile (until July 1 st , 2016)	Director
3	Mr. Abbed L.A. Hammoud (until December 28, 2016)	Director

COMMITTEES OF THE SUPERVISORY BOARD

The BSD had two committees: The Audit Committee and the Recruitment Committee

The Audit Committee

According to the Code Corporate Governance an Audit Committee has to be established when the BSD has more than 5 members. The Audit Committee monitors the company's financial reporting, including quarterly and annual reports, financing policy, risk management and internal control system, internal audit, the independent external audit of the financial statements and the evaluation of the external auditor.

In 2016, the Audit Committee did not function for the full year since the BSD had less than 5 members for a prolonged period of time. During its functioning months, the Audit Committee consisted of Chairman Mr. A. Hammoud and members Mr. H. Haile and Mrs. T. Prins. It held two meetings attended by, among others, the acting CEO, the Manager Internal Audit/Business Risk and Control, the Managers of the Accounting & Administration and Reporting & Control Departments the Chairman of the BSD and the company's external auditor.

The Recruitment Committee

In connection with the recruitment process for the CEO, the CTO and the CFO, initiated by the BSD a Recruitment Committee has been established. This Committee consisted of Mr. D. Evertsz, Mr. A. Davelaar and Mr. H. Haile. The recruitment process has not been finalized as yet and has been put on hold.

Word of Appreciation

Over the course of 2016, Aqualectra successfully dealt with significant challenges while simultaneously working on multiple essential investment projects. Through all of this, Aqualectra remained focused and dedicated to its central purpose of providing excellent supply of water and electricity, accompanied by excellent service. In recognition of Aqualectra's achievements, the BSD would like to thank the members of the BMD and all Aqualectra employees. It is our employees' hard work and dedication, contribution and continuous commitment that made this possible.

In accordance with the Code Corporate Governance, all members of the BSD are independent. The principal appointment/ position and all other relevant additional positions of each board member have been adequately documented and is retained in the BSD handbook.

Willemstad, July 25, 2017

On behalf of the Board of Supervisory Directors,



Mr. F. Metry

Chairman, Supervisory Director

3. CONSOLIDATED SUMMARY FINANCIAL STATEMENTS





3.1 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Amounts in ANG * 1,000)	As at Dec 31, 2016	As at Dec 31, 2015
ASSETS		
Non-current assets		
Intangible assets	14,827	3,091
Property, Plant and Equipment	550,262	562,516
Other non - current financial assets	34,063	34,063
Deferred tax assets	11,948	32,272
	611,100	631,942
Current assets		
Inventories	23,540	21,315
Trade accounts receivable	65,584	62,774
Other receivables	24,821	26,803
Cash & cash equivalents	76,485	59,285
	190,430	170,177
Total assets	801,530	802,119
EQUITY AND LIABILITIES		
Shareholder's equity		
Share capital	528,000	528,000
Share premium	55,000	55,000
Preferred shares	72,800	72,800
Treasury shares	(72,800)	(72,800)
Accumulated losses	(307,796)	(402,146)
Profit for the year	49,216	67,073
	324,420	247,927
Non-current liabilities		
Corporate bonds IUH N.V.	222,954	232,005
Financial liabilities	10,631	28,773
Customer deposits	24,806	24,714
Provisions	113,904	144,604
	372,295	430,096
Current liabilities		
Trade accounts payable	45,007	42,830
Bank overdrafts	-	7,172
Other liabilities	59,808	74,094
	104,815	124,096
Total equity and liabilities	801,530	802,119

The accompanying notes form an integral part of these Consolidated Summary Financial Statements



3.2 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Amounts in ANG * 1,000)	For the year ended Dec 31, 2016	For the year ended Dec 31, 2015
CONTINUING OPERATIONS		
Sales electricity & water	466,249	480,845
Direct costs production	(115,315)	(126,180)
Other direct costs of sales	(32,161)	(39,665)
Services & other income	13,149	8,688
Gross profit	331,922	323,688
Salaries, social securities and other personnel expenses	93,995	95,530
Parts, repairs & maintenance	63,963	49,900
Customer Relations Service Fees	5,996	5,995
General expenses	32,084	28,641
Depreciation expenses	45,055	43,386
Impairment on intangible assets	-	3,461
Provision bad debts	13,537	9,393
Total operating expenses	254,630	236,306
Results from operating activities	77,292	87,382
Interest expenses (net)	(15,445)	(18,573)
Net finance costs	(15,445)	(18,573)
Profit before income tax	61,847	68,809
Income tax	(12,631)	(1,736)
Profit for the year	49,216	67,073
Other comprehensive gains / (losses)		
Actuarial gains / (losses)	34,970	9,518
Deferred tax related to the components of other comprehensive results	(7,693)	(2,380)
Other comprehensive gain /(loss) for the year, net of income tax	27,277	7,138
Total comprehensive gain for the year	76,493	74,211

The accompanying notes form an integral part of these Consolidated Summary Financial Statements

3.3 CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

(Amounts in ANG * 1,000)

	Share capital	Share premium	Preferred shares	Treasury shares	Accumulated losses	Profit for the year	Total Shareholder's equity
Balance at January 1, 2015	528,000	55,000	72,800	(72,800)	(460,710)	51,425	173,715
Loss for the year 2014	-	-	-	-	51,425	(51,425)	-
Profit for the year 2015	-	-	-	-	-	67,073	67,073
Other comprehensive loss for the year 2015	-	-	-	-	7,139	-	7,139
Balance at December 31, 2015	528,000	55,000	72,800	(72,800)	(402,146)	67,073	247,927
Balance at January 1, 2016	528,000	55,000	72,800	(72,800)	(402,146)	67,073	247,927
Profit for the year 2015	-	-	-	-	67,073	(67,073)	-
Profit for the year 2016	-	-	-	-	-	49,216	49,216
Other comprehensive income for the year 2016	-	-	-	-	27,277	-	27,277
Balance at December 31, 2016	528,000	55,000	72,800	(72,800)	(307,796)	49,216	324,420

The accompanying notes form an integral part of these Consolidated Summary Financial Statements



3.4 CONSOLIDATED STATEMENT OF CASH FLOWS

(Amounts in ANG * 1,000)	For the year ended Dec 31, 2016	For the year ended Dec 31, 2015
Cash flow from operating activities		
Profit for the year	49,215	67,073
Adjustments for non-cash items:		
Depreciations on fixed assets & major spare parts	45,055	43,386
Impairment on intangibles assets	-	3,461
Provision doubtful debts	13,537	9,393
Disposals of property, plant and equipment (net)	-	(1,036)
Change in provision slow moving inventory	(4,218)	2,828
Change in deferred tax asset	20,324	4,116
Amortization on bond	2,950	3,045
Change in provisions	(3,423)	(4,925)
Finance cost	12,522	-
Total adjustments for non-cash items	86,747	60,268
Change in inventories	1,993	6,086
Change in trade accounts receivable	(7,077)	11,495
Change customer deposit	92	701
Change in other receivables	(7,288)	(9,003)
Change in trade accounts payable	2,177	(16,521)
Change in other liabilities (excluding interest paid)	(6,287)	15,650
Total of operational activities	(16,390)	8,408
Total cash flow from operating activities	119,572	135,749
Cash flow from investing activities		
Acquisition of property, plant, equipment (net)	(32,801)	(53,080)
Investing intangible assets	(11,736)	-
Total cash used in investing activities	(44,537)	(53,080)
Cash flow from financing activities		
Repayments of loans	(38,334)	(23,270)
Other long term liabilities	-	(2,536)
Interest paid	(12,330)	(18,366)
Total cash flow used in financing activities	(50,664)	44,172
Balance at start of year	52,113	13,616
Increase / (decrease)	24,371	38,497
Balance at end of year	76,484	52,113
The balance at end of year comprises of:		
Cash & cash equivalents	76,485	59,285
Bank overdraft	0	(7,172)
Balance at end of year	76,485	52,113

The accompanying notes form an integral part of these Consolidated Summary Financial Statements

4. NOTES TO THE CONSOLIDATED SUMMARY FINANCIAL STATEMENTS





4.1 GENERAL

CORPORATE INFORMATION

Integrated Utility Holding N.V. (IUH N.V., hereinafter 'The Group') was incorporated on September 12, 1997 in Willemstad, Curaçao. The shares of Kompania di Awa i Elektrisidat N.V. (K.A.E.), a water and electricity production company and Kompania di Distribushon di Elektrisidat i Awa (KODELA), a water and electricity distribution company, were transferred into IUH N.V. The headquarters of the Group is located at Rector Zwijssenstraat 1, Curaçao.

The objectives of the Group are:

- Investing funds in shares of utility companies which have the goals of producing and distributing water and electricity; and
- Managing, controlling and administering of other companies and representing interests of the shareholders and financiers in / of the Group;
- Generating electricity and the production of water;
- Distributing electricity and water;
- Offering management consultancy and engineering services; and
- Bottling of potable water.

The Group's authorized capital amounts to ANG 600 million, consisting of 600 shares at ANG 1 million par value each. 470 shares were issued to the Island territory of Curaçao on June 1, 1998 with an additional 58 shares issued on January 31, 2013 to the Government of Country Curaçao, who became the legal successor of the Island territory of Curaçao and the shareholder of the Group after the restructuring of the Netherlands Antilles on October 10, 2010. All 528 shares are paid up in full.

Utilities sector in Curaçao

Concessions

The National Ordinance for Electricity concession ('Landsverordening Elektriciteitsconcessies') states that the building, construction or usage of equipment for the generation of power and for the transmission and/or transformation of electricity, in order to deliver this to a third party, is restricted to the company to which permission has been granted by the Government. Furthermore, the ordinance states that the concession shall be given for a maximum period of 30 years with possibilities for extension.

On July 30, 2012 concessions for the production and distribution of electricity were adopted, granting the Group the certainty of production of power for the coming 30 years. Management initiated discussions and negotiations with the Regulator, Bureau Telecommunicatie en Post (BTP), on various restrictions identified in complying with these requirements. On June 9, 2014 the Minister of Finance provided Aqualetra with a draft of a proposed amended concession for the production of electricity. On June 11, 2014 the Government adopted a concession for the production of electricity.

VIANNEY MUZO

Team member,
SAP Implementation
Project

I like to explain everything in detail so everyone understands why we're doing things a certain way. Understanding how things work, helps people to be more confident and independent. This creates leadership on all levels.





A notable change in this concession, compared to the previous concession, is the simplification of various requirements. Another major change in the new concession is the granting to Aqualectra of a minimum and a maximum production capacity. This granted capacity can be applied in direct form (own production) and indirect form (contracted production). The amended concession was issued on June 19, 2014 and formalized on November 6, 2014.

Tariff structure

The tariff structure for water and electricity consists of (i) a base component and (ii) a fuel component. The base component is intended to cover all the non-direct costs for the production, distribution and supply, while the fuel component must cover the fuel costs and other direct costs of production and sales. This separation made the application of a rate calculation system that could track changes in fuel costs possible.

Determination of tariffs

The Ordinance for prices ('Prijzenverordening') states that the authority for the determination and the adjustment of electricity and water tariffs, lies with the Government of the Country of Curaçao.

The Executive Council of the Island Government of Curaçao adopted in 2002 a resolution in which is stated that as the public entity and as the shareholder of the Group it is in favor of tariffs that will allow the Company to comply with all its obligations including its capital investments. The resolution also mentions that tariffs for water and electricity may be changed as a consequence of the increases in the fuel prices. Furthermore, it is indicated that the price increases shall be charged to the consumers.

Energy policy

In the resolution dated November 17, 2008 it is stated that the Government will institute a regulatory framework as per March 1, 2010 for the review, determination and approval of the tariffs for water and electricity. Furthermore, it was stated that a regulatory body would be instituted, as per March 2009, for the analysis and approval of the Group's requests for tariff changes and for the execution of the regulation yet to be implemented.

In 2009, the Group was notified by the Government that BTP was appointed as the Regulator.

On November 15, 2010, the Regulator presented to the Group and other stakeholders a New Policy Paper ('Beleidsnota') concerning the future regulatory structure for electricity supply in Curaçao.

The intended effect of the policy paper is to lower the tariffs, upgrade the services to the customers, provide choices for the clients and increase the reliability and sustainability of energy. BTP made amendments to the policy paper in February 2011 based on comments from the BMD and the policy paper is being implemented and will continue to be implemented in the coming years.

4.2 SIGNIFICANT ACCOUNTING POLICIES

a) General

The accounting policies adopted in the preparation of these Consolidated Summary Financial Statements of the Group are set below. These explanatory notes are an extract of the detailed notes included in the complete set of the Consolidated Financial Statements and are a fair summary of those from which they have been derived.

b) Basis of preparation

The Consolidated Financial Statements of the Group from which these Consolidated Summary Financial Statements have been derived, are prepared in accordance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The figures in this report are presented in Netherlands Antillean Guilders and all values are rounded to the nearest thousand (ANG'000), except when otherwise indicated.

c) Basis of consolidation

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies. The following subsidiaries have been consolidated as of December 31, 2016. All entities listed below, together with Integrated Utility Holding N.V., are hereinafter collectively referred to as 'The Group':

d) Property, plant and equipment

Name	% equity interest	
	2016	2015
Aqualectra Production (KAE N.V.)	100%	100%
Aqualectra Distribution (KODELA N.V.)	100%	100%
General Engineering & Utility Services N.V. (GEUS)*	100%	100%
Aqualectra Multi Utility Company N.V. (AMU)	100%	100%
Aqualectra Bottling Co. N.V.**	100%	100%
KUMEPE N.V.	100%	100%

* GEUS is 100% subsidiary of Aqualectra Distribution

** Aqualectra Bottling Co N.V. is 100% subsidiary of AMU

Construction in progress, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such costs include the cost of replacing part of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of plant and equipment are required to be replaced at intervals, the Group depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement, if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred.

Expenses for the decommissioning of the Mundu Nobo plant are included in property, plant and equipment. These capitalized expenses are based upon estimations performed by an independent expert.

Since commencement of the demolition activities, the provision has been adjusted based on more accurate information gathered internally regarding the expected decommission costs. The depreciation of the capitalized decommissioning cost is calculated using the straight-line method to write off the cost of each asset, or the recoverable amounts, to their residual values over their estimated useful life, taking into account the useful life of the most important components.

Major spare parts are accounted for as property, plant and equipment when the Group expects to use them during more than one period. Similarly, if the spare parts can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

The cost of work in progress comprises materials, direct labor (Aqualectra Distribution), service charges and other costs.

Depreciation is calculated, using the straight-line basis over their estimated useful life, taking into account the useful life of the most important components as follows:

Buildings	10 to 50 years
Plant and equipment	5 to 33 years
Distribution network	15 to 40 years
Other assets	3 to 50 years

Major spare parts are depreciated in accordance with the category of Plant & Equipment.

An item of property, plant and equipment and any significant part initially recognized, is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss resulting on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognized. The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

e) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Financial assets

The group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments and available for sale financial assets. The classification depends on the purpose for which the financial assets were acquired.

Management determines the classification of its financial assets at initial recognition. The group only holds financial assets categorized as loans and receivables as at December 31, 2016 and 2015.

All financial assets are recognized initially at fair value plus transaction cost, except in the case of financial assets recorded at fair value through profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables comprise trade accounts receivable, other receivables, cash and cash equivalents and other non-current financial assets. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate (EIR) method, less impairment. The losses resulting from impairment are recognized in the statement of profit or loss.

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

Financial liabilities

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables and loans and borrowings including bank overdrafts.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the statement of profit or loss.

The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of profit or loss.

f) Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events. Furthermore, it should be probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are determined, unless otherwise stated, by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of

money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

Onerous contracts

A provision for onerous contracts is recognized when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognizes any impairment loss on the assets associated with that contract.

Provision for the decommissioning of Mundu Nobo

The Group records a provision for decommissioning costs of the Mundu Nobo plant which consists of the costs for the demolition of buildings, civil works and installations, including the costs of removal and eventual processing of the residuals. Decommissioning costs are provided at the expected costs to settle the obligation and are recognized as part of the cost of the particular asset. The unwinding of the discount is expensed as incurred and recognized in the consolidated statement of comprehensive income as finance cost. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. In the intervening years, the value is increased with accrued interest and any changes in the estimated future costs added to or deducted from the cost of the asset.

Employee benefits

Certain employee benefits provisions, except for the provision for vacation

leave, are based on actuarial calculations. The independent and qualified actuary obtained sufficient information in order to perform the valuations.

g) Revenue recognition

Revenue represents the income from the supply of goods and services relating to the generation, distribution and supply of energy and water, less discounts and transactions within the Group. Sales are recognized upon delivery of products and customer acceptance, if any or on the performance of services. The revenue from respectively the generation and supply of energy and the production and distribution of water is measured on a monthly basis. The revenue is based on the customer's monthly usage and applicable tariffs.

The usage is based on monthly meter readings spread over the cycles. The cycles have a 25 to 30 days consumption period which may differ from a monthly calendar. Due to the aforementioned, a part of the monthly revenue is accrued and reported as still to be invoiced.

The revenue from Pagatinu electricity is accounted for at the sales moment.

4.3 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risks (including the effects of foreign exchange risk, interest rate risk and tariff risk), credit risk and liquidity risk. The Group's overall risk management is aimed at minimizing the potential adverse effects of these risks on the financial performance of the Group.

The Board of Supervisory Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. During 2016 the Risk Management Committee did not engage in risk monitoring activities through the Risk Committee but discussed risk matters in the general setting.

The Audit Committee oversees how Management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

4.3.1 Market risk

The market risk consists of the foreign exchange risk, interest rate risk and tariff risk.

Foreign exchange risk

Foreign exchange risk is the probability of loss occurring from an adverse movement in foreign exchange rates. The Group is exposed to foreign exchange risk resulting from purchasing parts, services and supplies from foreign suppliers. These foreign transactions are mainly invoiced in United States Dollars (USD) and/or EURO (EUR).

The Group's policy is to regularly review the significant risks resulting from foreign exchange transactions at the point the commitment is entered into, by purchasing the foreign currency and/or limiting the period that commitments in foreign exchange rates are exposed to foreign exchange risk.

Interest rate risk

The interest rate risk of the Group can be defined as the risk of incurring extra interest costs due to adverse movements of the interest rate of non-fixed interest bearing loans of the Group. In managing interest rate risk, Management monitors developments in the Group's loan rates and keeps abreast of interest rates both locally and internationally. The Group has long term and short term loans payable with fixed interest rates. The corporate bonds have a floating rate that is capped at 6% with a minimum of 4%. But based on current developments, it is expected that the interest rate will remain at 4%. As the loan portfolio consists of loans with a fixed interest rate, effects of development in interest rates have no impact on the Group.



RANDY ALEXANDER

Team member,
AMI
Implementation
Project

This transformation is taking Aqualectra to a new level. With AMI and SAP we're implementing new technology, getting smarter and are centralizing our knowledge and information. I am proud to be part of the team laying the groundwork for the future!

Tariff risk

The Group is exposed to the volatility of international fuel-price developments, which influences the direct cost component of the electricity and water tariffs to consumers. The chart below shows the development in average fuel price throughout the years 2016 and 2015.

	Realized 2016	Realized 2015	Variance	% Variance
AVG FUEL PRICES PER UNIT in ANG				
Fuel usage IFO - MN	-	-	-	0%
Fuel usage GO - MN	633	802	(169)	-21%
Fuel usage MFO - DW	420	602	(182)	-30%
Fuel usage IFO DPP ISLA	385	486	(101)	-21%
Fuel usage MDO - DW & KNPL	559	837	(278)	-33%
Fuel usage MDO - DPP ISLA	697	917	(220)	-24%
FUEL USAGE Quantity in ton/m³				
Fuel usage IFO - MN ton	-	70	(70)	-100%
Fuel usage GO - MN m ³	42,906	12,416	30,490	246%
Fuel usage MFO - DW ton	88,560	80,591	7,970	10%
Fuel usage IFO DPP ISLA ton	29,752	24,874	4,878	20%
Fuel usage MDO - DW & KNPL m ³	5,104	3,172	1,932	61%
Fuel usage MDO - DPP ISLA m ³	564	1,596	(1,033)	-65%
FUEL USAGE ANG (*1000)				
Fuel usage IFO - MN	-	-	-	0%
Fuel usage GO - MN	27,141	9,959	17,182	173%
Fuel usage MFO - DW	37,174	48,541	(11,367)	-23%
Fuel usage IFO DPP ISLA	11,453	12,092	(639)	-5%
Fuel usage MDO - DW & KNPL	2,852	2,654	198	7%
Fuel usage MDO - DPP ISLA	393	1,464	(1,071)	-73%
Total fuel usage in ANG	79,013	74,710	4,303	

Since June 1, 2012, the electricity and water rates charged to customers consist of:

- A fuel component which is intended to cover fuel expenses, expenses for purchasing water and electricity from external sources, expenses for chemicals and lubricants, expenses for electricity used for water production and expenses related to non-revenue electricity and water (NRE & NRW);
- A base component which is intended to cover all expenses which are not related to the fuel component;
- A recovery component which is a temporary component. The fuel component was introduced as per June 1, 2012 but is deemed to have started retrospectively on January 1, 2011. All shortfalls in the fuel component due to the late implementation are charged via the recovery component.

The change in the tariff structure has introduced risks which Management categorizes and manages as follows:

1. Fuel- and recovery component related: all expenses related to the fuel component should be covered and if not these will be recovered via the recovery component. Management monitors these expenses and their coverage on a monthly basis and also monitors developments in the recovery component. The chart below shows the developments throughout the reported period.

COVERAGE CALCULATION FUEL AND RECOVERY		
Component (ANG X 1,000)	Dec 31, 2016	Dec 31, 2015
Coverage calculations fuel component		
Coverage fuel component E	108,919	115,011
Coverage fuel component W	16,172	14,022
Total coverage fuel component	125,091	129,033
Expenses in the fuel component E & W	(134,732)	(137,941)
Interest expenses CUROIL	-	(919)
Total realized expenses in the fuel component E & W	(134,732)	(138,860)
Undercoverage developed during the reporting period	(9,641)	(9,827)
Recovery component E	11,895	34,682
Recovery component W	1,847	4,175
Recovered during the reporting period	13,742	38,857
Coverage / (undercoverage) developed during the reporting period (net of Recovery)	4,101	29,030
Outstanding undercoverage per the end of the period		
Beginning balance (excluding regulatory account dec 2010)	(12,211)	(41,241)
Coverage / (undercoverage) developed during the reporting period (net of Recovery)	4,101	29,030
Total Balance of Prefinancing	(8,110)	(12,211)

From the table above Management concludes that ANG 8.1 million is yet to be covered by the recovery component. Management also noted that undercoverage continued to develop in the fuel component throughout 2016, mainly due to electricity and water purchases from third parties not being covered.

2. Base component related: all expenses related to the base component should be covered; Management monitors these developments. The chart below shows the developments throughout the reported period.

COVERAGE CALCULATION BASE COMPONENT		
Component (ANG X 1,000)	Dec 31, 2016	Dec 31, 2015
Coverage calculations base component		
Coverage base component E	228,280	217,831
Coverage base component W	86,087	81,256
Total coverage base component	314,367	299,087
Realized base Expenses		
Reduction of expenses in base component due to miscellaneous sales	(17,243)	(18,363)
Other direct costs of sales	12,771	27,896
Personnel costs	93,995	95,530
Parts, repair and maintenance	63,963	49,900
Hired services	5,996	5,995
General expenses	32,084	28,793
Depreciations	45,055	46,847
Provision bad debt	13,537	9,393
Interest expense	15,445	18,573
Income tax credit	12,631	1,736
Total realized base expenses	278,234	266,300
Coverage on base component	36,133	32,787

These figures do not reconcile with the comprehensive income statement because Aqualectra Multi Utility Company (AMU) is not included, and also because reclassifications occur between "Direct Cost of Sales" and "Other Direct Cost of Sales".

From the table above Management concludes that in 2016 there is an over-coverage in the base component of ANG 36.1 million. Increased coverage was achieved in 2016 as a result of the increase in the base component of water and electricity and the decrease in operating expenses. Discussions with the Regulator are ongoing to find a structural approach to achieve full coverage of the expenses pertaining to the base component.



AQUALEO
FACILITAIRE

The world is changing and we must keep up. I'm happy to work at a company that is working on reflecting that change internally and externally. I believe that by creating a work friendly environment we create a well-functioning and efficient company that can provide high level customer service.

MARITZA MULLER

Team member,
Project New
Headquarters

4.3.2 Credit risk

For the Group, credit risk is the risk as a consequence of the uncertainty in a counterparty's (customers, etc.) ability to meet its obligations leading to the possibility of a loss incurred by the Group due to the financial failure by the counterparty.

Credit risk within the Group mainly appears when billing customers for the delivery of electricity and water and of other types of services rendered by the Group. Significant financial difficulties of customers (e.g. the probability that the customer will enter bankruptcy or financial reorganization) and or default payments are considered credit risk indicators.

Credit risk losses result in a provision being created for uncollectible amounts, which is based upon previously established collection patterns and historical analyses.

Credit risk within the Group also results from cash and cash equivalents with banks and financial institutions.

The Group aims at mitigating this credit risk by using reputable financial institutions for investing and cash handling purposes. As per December 31, 2016 the Group has cash balances placed at 8 reputable banking institutions (2015:8).

The credit risk management within the Group entails:

- Assessment of the credit quality of retail customers by the Customer Relations Department, taking into account the past experiences with the customer, the customer's financial position and other factors;
- Collection procedures for outstanding invoices to customers;
- Revenue protection program (e.g. discontinuation of the delivery of electricity and water or replacement of an electricity meter with a Pagatinu meter).

The table below shows a breakdown of accounts receivable and other receivables as at reporting date.

(Amounts in ANG * 1,000)	Dec 31, 2016		Dec 31, 2015	
	Trade receivables	Other receivables	Trade receivables	Other receivables
Industrial & large commercial	29,474	6,304	24,558	9,089
Commercial	13,344	13,960	13,558	13,921
Households	38,159	17,338	36,530	8,089
Government	6,016	5,721	4,041	8,691
Standing orders	1,741	0	2,118	0
New accounts	55	0	80	0
Inactive	37,500	0	36,700	0
Other	698	11,106	2,330	9,853
Balance of receivables	126,987	54,429	119,915	49,643
Clients' payments in transit	(987)	-	(1,789)	-
Billing cycle to be invoiced	15,093	-	16,512	-
Total operating expenses	141,093	54,429	134,638	49,643
Less allowance for doubtful debts	(75,509)	(30,933)	(71,863)	(23,994)
Net receivables	65,584	23,496	62,775	25,649
Less customer deposits	(24,806)	-	(24,715)	-
Receivables net of customer deposits	40,778	23,496	38,060	25,649

A high risk group within the trade accounts receivable is the inactive group. These clients have closed their accounts and the Group has procedures in place to avoid these customers from reopening the account elsewhere or under another name. Inactive accounts are 100% provided for. The maximum exposure and categorization of the assets which are exposed to credit risk, are set out in the table below.

	Dec 31, 2016	
(Amounts in ANG * 1,000)	Trade receivables	Other receivables
Neither past due nor impaired	32,822	7,146
Past due but not impaired	32,762	16,350
Individually impaired	75,509	30,933
Gross	141,093	54,429
Less allowance	(75,509)	(30,933)
Net receivables	65,584	23,496
Customer deposits	(24,806)	-
Receivables net of customer deposits	40,778	23,496

	Dec 31, 2015	
(Amounts in ANG * 1,000)	Trade receivables	Other receivables
Neither past due nor impaired	31,607	3,085
Past due but not impaired	31,167	22,563
Individually impaired	71,863	23,994
Gross	134,637	49,642
Less allowance	(71,863)	(23,994)
Net receivables	62,774	25,648
Customer deposits	(24,714)	-
Receivables net of customer deposits	38,060	25,648

	Dec 31, 2016	
(Amounts in ANG * 1,000)	Trade receivables	Other receivables
Past due up to 60 days	2,571	-
Past due more than 60 days	30,191	16,350
	32,762	16,350

	Dec 31, 2015	
(Amounts in ANG * 1,000)	Trade receivables	Other receivables
Past due up to 60 days	6,540	-
Past due more than 60 days	24,627	22,563
	31,167	22,563

4.3.3 Liquidity risk

Liquidity risk is defined as the risk that the Group will encounter difficulties in raising funds to timely meet its commitments.

Management applies prudent centralized liquidity management which implies a cash flow matching approach in which projected cash inflows are matched against outflows. The Group's aim is to maintain sufficient cash and lines of credit to be able to comply with its obligations. In this, Management takes the necessary measures to either adapt cash inflows or cash outflows. In broad terms, Management uses long-range projections for a maximum of five years, which have

been approved by the Group's Board of Supervisory Directors. The Group updates the cash flow planning for a period of 12 months, on a weekly basis and uses this cash flow planning for control purposes.

With adequate and timely tariff adjustments and prudent reduction in operating expenses, the company is expected to continue turning profit, contributing to a positive operating cash flow. Based on the approved 2017 budget and forward looking projection, the cash flow generated from operations together with third party financing, will guarantee the realization of the necessary investments included in the budget.

4.3.4 Capital Management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to effectively manage the cost of capital. Capital risk is the risk that the Group loses its value as a result of which financiers (shareholders, lenders, etc.) may lose all or part of the principal amount invested in the Group.

The following chart shows the ratio's used by Management in monitoring and measuring the development in capital and reserves:

Ratios and financial covenants		
(Amounts in ANG * 1,000)	Dec 31, 2016	Dec 31, 2015
Debt service coverage ratio (DSCR)	2.13	2.95
Compliance DSCR ratio	>1.45	>1.45
Adjusted debt service coverage ratio (ADSCR)	1.36	1.33
Compliance ADSCR	>1.15	>1.15
Debt/EBITDA ratio (D/E)	2.10	2.79
Compliance D/E ratio	<8.5	<8.5
Current ratio (CR)	1.82	1.37
Compliance CR	>1.00	>1.00
Solvency ratio (SR)	40.67%	31.00%
Compliance SR	>30.00%	>30.00%

As per the period ending December 31, 2016 the Group is in compliance with financial covenants as described in the offering circular of tranche 1a bonds.

SANIEL THEODORA

Head of
Department
Contact Points

The influence of
transition on the
'ongoing business'

SAP (or if you don't want to mention the name too often Implementing new systems) enables us to provide better and more efficient service. The transition is going on behind the scenes and the team is being prepared. This has massive impact on the ones that are not directly involved in the project, as the service to our customers cannot suffer under these circumstances. Soon the change will be visible to our customers. There is no finish line, customer service is a continuous process.



4.4 EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

4.4.1 Property, Plant and Equipment

Below is an overview of the property, plant and equipment as per December 31, 2016:

(Amounts in ANG * 1,000)	cost 1-Jan-16	Accum. depr. 1-Jan-16	Book value 1-Jan-16	Additions 2016	Disposals 2016	Transfers 2016	Reclass/ Adjust.	Depreciations 2016	Disposals accum. depr. 2016	Reclass/ Adjust.	cost 31-Dec-16	Accum. depr. 31-Dec-16	Book value 31-Dec-16
PRODUCTION													
Land & buildings	47,739	29,412	18,327	397	-	-	56,296	(4,337)	-	14,604	104,432	48,353	56,079
Plant/Equipment	351,745	139,835	211,910	-	(13,601)	1,213	(56,296)	(15,739)	13,601	(14,604)	283,061	127,369	155,692
Major spare parts	17,685	12,200	5,485	2,644	-	-	-	(1,108)	-	-	20,329	13,308	7,021
Other assets	36,223	35,855	368	603	(6,571)	-	-	(163)	6,571	-	30,255	29,447	808
Work in progress	2,570	-	2,570	863	-	(3,326)	-	-	-	-	107	-	107
Total Production	455,962	217,302	238,660	4,507	(20,172)	(2,113)	-	(21,347)	20,172	-	438,185	218,477	219,707
DISTRIBUTION													
Land & buildings	56,939	27,731	29,208	-	-	105	(2)	(1,184)	-	-	57,042	28,915	28,127
Distribution network	755,785	480,534	275,251	(985)	(7,620)	9,042	(356)	(21,055)	7,620	-	755,866	493,969	261,897
Other assets	63,498	63,106	392	176	-	878	-	(1,469)	-	-	64,552	64,575	(23)
Work in progress	19,008	-	19,008	39,752	-	(18,992)	786	-	-	-	40,554	-	40,554
Total Distribution	895,230	571,371	323,859	38,943	(7,620)	(8,967)	428	(23,708)	7,620	-	918,014	587,459	330,555
Total	1,351,192	788,673	562,519	43,450	(27,792)	(11,080)	428	(45,055)	27,792	-	1,356,199	805,936	550,262

4.4.2 Trade Accounts Receivable

The composition of trade accounts receivable as per December 31, 2016 and as per December 31, 2015 is as follows:

(Amounts in ANG * 1,000)	Dec 31, 2016	Dec 31, 2015
Government institutions	6,016	4,041
Business & industrial customers	42,818	38,116
Households	38,159	36,530
Inactive	37,500	36,700
Billing cycle to be invoiced	15,093	16,512
Standing orders	1,741	2,118
Client's payment in transit	(987)	(1,789)
Other	753	2,410
	141,093	134,638
Provision for bad debts	(75,509)	(71,864)
	(75,509)	(71,864)
Total trade accounts receivable	65,584	62,774

Trade debtors are valued at the actual billing amounts for electricity and water.
A provision has been made for doubtful debts as shown below.

(Amounts in ANG * 1,000)	Dec 31, 2016	Dec 31, 2015
Balance at beginning of the year	(71,864)	(66,799)
Additions	(4,267)	(5,272)
Utilized	621	208
Balance at end of the year	(75,509)	(71,864)

Accounts receivables due to Aqualectra Distribution have been assigned to PSB Bank N.V. as collateral against bank overdraft facilities.

4.4.3 Provisions

The provisions as per December 31, 2016 and as per December 31, 2015 can be divided in the following categories:

(Amounts in ANG * 1,000)	Dec 31, 2016	Dec 31, 2015
Provisions employee benefits	106,217	135,907
Other provisions	7,687	8,697
Total provisions	113,904	144,604

'Other provisions' consists of the provision for the decommissioning of the Mundu Nobo Plant. The Island Government has identified the South coast as an area for tourism development for the Island, and in supporting these efforts Management has subsequently created a provision for the decommissioning of the Mundu Nobo plant. Over the years, an independent valuation expert was engaged for estimating the costs of decommissioning (most recent year was 2011). The provision was estimated at ANG 17.0 million. This provision has been reduced by actual demolition costs incurred since in 2013 and by a change in the valuation of the provision.

The total demolition costs incurred in 2016 amounted to ANG 317,000 (2015: ANG 108,000). Based on updated projections regarding costs to complete the dismantling, the provision decommissioning of Mundu Nobo has been reduced by ANG 693,000 in 2016 (2015: 5.4 million). The provision does not take into account possible proceeds from the sale of the dismantled equipment on the scrap market as the residual value cannot yet be determined reliably.

The provision for employee benefits as per December 31, 2016 and as per December 31, 2015 is specified below:

(Amounts in ANG * 1,000)	Dec 31, 2016	Dec 31, 2015
Provision medical costs retired employees	7,854	8,986
Provision supplementary pension APC (DT)	11,231	12,019
Provision early retirement benefit (VUT)	3,766	2,010
Provision anniversary bonus	15,146	18,423
Provision pension obligations	46,247	75,500
Provision AOV/BVZ compensation	18,215	15,222
Provision vacation leave	3,758	3,747
Total provisions	106,217	135,907

4.4.4 Corporate Bonds

On December 28, 2009 the Group issued through the Central Bank of Curaçao and St. Maarten the tranche 1a of the Aqualectra Corporate Bonds with a nominal amount of ANG 300,045,000 and a coupon rate of 4%. The purpose of the issue of the first tranche was to refinance the existing loans and liabilities. The actual realized net result on this issue amounts ANG 238,894,162. The difference was the discount incurred on the bonds as the interest rate on the market was higher than the rate the Group wanted to pay. Quarterly redemption began on March 15, 2015.

(Amounts in ANG * 1,000)	Dec 31, 2016	Dec 31, 2015
Corporate bonds	276,042	288,043
Current maturity	(12,002)	(12,002)
Amortized discount on bonds	(41,086)	(44,036)
Net value Corporate bonds	222,954	232,005

The discount is amortized by means of the effective interest method over a period of 35 years. The yearly amortization is presented as part of the interest expenses in the statement of comprehensive income. The movement in the discount on bonds is as follows:

(Amounts in ANG * 1,000)	Dec 31, 2016	Dec 31, 2015
Non-current liability		
Amortized discount on bonds beginning of the year	44,036	47,083
Amortization current period	(2,950)	(3,047)
Amortized discount on bonds end of the year	41,086	44,036

4.4.5 Other liabilities

(Amounts in ANG * 1,000)	Dec 31, 2016	Dec 31, 2015
Aqualectra Production		
Social securities	1,195	2,745
Current maturity long term loans	2,537	11,025
Early retirement benefit obligations ('Aqualectra VUT')	1,110	888
Other accrued expenses	3,297	2,359
Other payables foreign countries	2,436	3,111
Payable to Wartsila	81	1,556
Miscellaneous	1,392	1,856
	12,048	23,540
Aqualectra Distribution		
Social securities	1,578	2,985
Services public lighting	343	343
Current maturity long term loans	8,279	6,932
Accrued interest	1,583	1,391
Selikor	4,905	9,558
Other accrued expenses	15,035	12,687
Miscellaneous	801	(75)
MJP projects	3,094	3,094
	35,618	36,915
Integrated Utility Holding N.V.		
Social securities	57	73
Other payables foreign countries	239	-
Other accrued expenses	(234)	436
Current maturity long term loans	12,002	13,052
	12,064	13,561
Aqualectra Multi Utility N.V.		
Other accrued expenses	78	78
	78	78
Total Other liabilities	59,808	74,094

4.5 EXPLANATORY NOTES TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

4.5.1 Sales Electricity and Water

The total revenues are presented net of intercompany sales. Sales to connections with Aquallectra Distribution (own usage) have been deducted from total sales but remain relevant for regulation and tariff setting purposes. Calculating average tariffs without taking the own usage into account, would taint the outcome significantly.

Since June of 2012 the Regulator adopted the tariff-structure of electricity and water to consumers comprising three components, namely:

- the fuel component, which covers the direct costs (mainly fuel, chemicals, lubricants and purchase of electricity and water from third parties);
- the base component, which covers the operational costs and finance costs;
- the recovery component, which covers shortages in the fuel component which developed in the years after 2011.

The fuel component can change as a result of fluctuations in the price of Curoil's and PDVSA/Refineria ISLA's fuel products. The Group keeps track of the fluctuations and when necessary, the fuel component is adjusted in the tariffs to make the sales work budget neutral to the actual fuel costs.

Unaccounted usage for water distribution at the end of 2016 is 23.10% (2015: 24.29%). This is a decrease of 1.19 percentage points compared to 2015.

Unaccounted usage for electricity distribution at the end of 2016 is 12.27% (2015: 13.95%). During 2016 the unaccounted usage decreased with 1.68 percentage point. Management is working together with the Regulator on measures to manage unaccounted usage.

A portrait of Nathaly Elizabeth, a woman with short brown hair, wearing a white blazer over a white ruffled top and a red patterned skirt. She is standing outdoors in front of a blue wall with the word 'AQUALECTRA' visible in the background.

NATHALY ELIZABETH

Sector Advisor HR

Organizational Change
Management

Aqualectra has always stimulated and facilitated the personal and professional growth of her employees. This transition is a logical next step toward the future because automation and centralization of our internal processes enables us to fully focus on developing the potential of new and existing employees.

4.5.2 Direct costs production

Direct costs production is specified below:

(Amounts in ANG * 1,000)	Dec 31, 2016	Dec 31, 2015
Fuel usage	79,013	74,710
Chemicals	3,586	4,465
Lubrication	3,594	3,084
Purchase of water & electricity	16,378	16,048
IUH DPP element	8,171	8,023
IUH Fuel element	4,191	4,183
IUH Extension element	13	(6)
Temporary Diesel Power Plant	369	15,673
Total direct costs production	115,315	126,180

Direct costs of production includes an amount of ANG 12,375,000 (2015: ANG 12,200,000) being the DPP, fuel and extension component of the IUH N.V. agreement between the Group, Refineria ISLA and RdK N.V. According to this agreement, a total fee of USD 12,000,000 has to be paid on a yearly basis until the year 2019. Since 2011 the extension element is being paid by RdK, as a result of the transfer of the CUC shares to RdK. The amount mentioned increases yearly with the consumer index. This agreement covers the construction costs of a Diesel Power Plant and consists of a fuel and an extension component.

4.5.3 Salaries, social securities and other personnel expenses

Salaries, social securities and other personnel expenses are specified below:

(Amounts in ANG * 1,000)	Dec 31, 2016	Dec 31, 2015
Salaries	48,627	55,069
Overtime	4,266	4,740
Social securities	30,035	32,167
Other personnel expenses	6,194	4,083
Other (post) employment benefits (net)	4,873	(529)
Total salaries, social securities and other personnel expenses	93,995	95,530

The development in the labor force during 2016 and 2015 was as follows:

	Aqualectra Production	Aqualectra Distribution	Integrated Utility Holding N.V.	Total
12/31/2015	263	381	3	647
12/31/2016	257	373	3	633
Net Decrease	(6)	(8)	0	(14)

4.5.4 Parts, repairs and maintenance

Parts, repair and maintenance expenses are expenses made for parts and hired services for the operation and maintenance of the electricity and water production units, electricity and water distribution network and other assets of Aqualiectra Production and Aqualiectra Distribution.

(Amounts in ANG * 1,000)	Dec 31, 2016	Dec 31, 2015
Aqualiectra Production		
Repairs and maintenance electricity production units		
Parts used	11,480	5,623
Hired services used	19,686	18,764
	31,166	24,387
Repairs and maintenance water production units		
Parts used	824	2,091
Hired services used	1,977	971
	2,801	3,062
Repairs and maintenance other assets and facilities		
Parts used	8,930	6,239
Hired services used	1,261	(4,731)
	10,191	1,508
Total parts and hired services Aqualiectra Production	44,158	28,957
Aqualiectra Distribution		
Operation and maintenance electricity distribution network		
Parts used	5,096	3,821
Hired services used	6,115	6,001
	11,211	9,822
Operation and maintenance water distribution network		
Parts used	1,870	3,312
Hired services used	4,378	4,865
	6,248	8,177
Operation and maintenance other assets and facilities		
Parts used	1,426	310
Hired services used	920	2,634
	2,346	2,944
Total parts and hired services Aqualiectra Distribution	19,805	20,943
Total Parts, repairs and maintenance	63,963	49,900

4.5.5 General expenses

General expenses are specified below:

(Amounts in ANG * 1,000)	Dec 31, 2016	Dec 31, 2015
General expenses		
Housing and car fleet	7,121	7,042
Office expenses	2,502	2,669
Insurance and security	5,336	5,548
Consultancy	4,117	4,147
Communications and public relations	2,898	3,153
Regulation and compliance fees	1,250	3,671
Other expenses	8,543	2,411
Supervision expenses	318	-
Total general expenses	32,085	28,641

Supervision expense includes compensation of the Board of Supervisory Directors, travel expenses and expenses related to consulting services on behalf of the Board of Supervisory Directors. These expenses were not reported separately in previous years.



5. REPORT OF THE INDEPENDENT AUDITOR ON THE CONSOLIDATED SUMMARY FINANCIAL STATEMENTS

To: the Shareholder, the Board of Supervisory Directors and the Board of Managing Directors Integrated Utility Holding N.V.

Opinion

The consolidated summary financial statements, which comprise the consolidated statement of financial position as at December 31, 2016, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and related notes, are derived from the audited consolidated financial statements of Integrated Utility Holding N.V. (the Company) for the year ended December 31, 2016. We expressed a qualified audit opinion on those consolidated financial statements in our report dated August 10, 2017.

In our opinion, the accompanying consolidated summary financial statements are a fair summary of the audited consolidated financial statements, on the basis described under Significant accounting policies. However, the consolidated summary financial statements are misstated to the equivalent extent as the audited consolidated financial statements of Integrated Utility Holding N.V. for the year ended December 31, 2016.

Consolidated Summary Financial Statements

The consolidated summary financial statements do not contain all the disclosures required by International Financial Reporting Standards. Reading the consolidated summary financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited consolidated financial statements and the auditor's report thereon. The consolidated summary financial statements and the audited consolidated financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the audited consolidated financial statements.

The Audited Consolidated Financial Statements and Our Report Thereon

We expressed a qualified audit opinion on the audited consolidated financial statements in our report dated August 10, 2017. The basis for our qualified audit opinion was that as per year end 2010 there was an uncertainty regarding the

valuation of the investment in the equity accounted investee, Curaçao Utility Company Holdings N.V. ("CUC Holdings"). Based on the assumptions and valuation model generally used by management for determining the value of the investment, management was of the opinion that the current value of the investment at 31 December 2010 was approximately ANG 62.1 million, as disclosed in note 2.6 'Assertion of the Board of Supervisory Directors' of the audited consolidated financial statements. The advisor of the Government on this matter has valued the shares at approximately ANG 53.8 million based on their advice to the Council of Minister. In January 2011, the Shareholder decided to transfer the shares of CUC Holdings to a related party for a nil consideration. As a consequence of this decision of the Shareholder per the afore-mentioned date management decided to impair the value of the participation in CUC Holdings to nil as per 31 December 2010. The predecessor auditor was unable to obtain sufficient appropriate audit evidence whether the 2010 recognized loss on this investment position, was appropriate. This may also have an impact on the disclosures in the 2010 consolidated financial statements in accordance with all the relevant requirements of IAS 24, related party disclosures. Consequently, the predecessor auditor was unable to determine whether any adjustments were necessary to the carrying value of this investment, to the recognition thereof at 31 December 2010 and to the related disclosures. The situation as described above is still applicable to the year 2016 and therefore until a settlement is reached between parties involved, we are unable to determine whether any adjustments were necessary to the carrying value of the shareholder's equity at 31 December 2016. Our qualified opinion states that, except for the effects of the described matter, those consolidated financial statements presents fairly in all material respects the consolidated financial position of Integrated Utility Holding N.V. as at 31 December 2016, and of its consolidated financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Management's Responsibility for the Consolidated Summary Financial Statements

Management is responsible for the preparation of the consolidated summary financial statements on the basis described under Significant accounting policies.

Auditor's Responsibility

Our responsibility is to express an opinion on whether the consolidated summary financial statements are a fair summary of the audited consolidated financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810 (Revised), Engagements to Report on Summary Financial Statements.

Curaçao, 24 August, 2017

For Ernst & Young Accountants

/s/ E.R. Stadius van Eps

6. COLOPHON

Integrated Utility Holding N.V.
Kompania di Awa i Elektrisidat N.V. (K.A.E.)
Kompania di Distribushon di Elektrisidat i Awa (KODELA)
General Engineering & Utility Services N.V. (GEUS)
Aqualectra Multi Utility Company N.V. (AMU)
Aqualectra Bottling Co. N.V.
KUMEPE N.V.

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E-mail: info@aqualectra.com
Website: aqualectra.com

Board of Managing Directors

Mr. Darick P. Jonis MSc. MBA (Acting CEO)
Mr. Ir. Irvin E.H. Hanst (Technical Director)
Mr. Curt S. Belfor (General Council & Company Secretary)
Mrs. Neysa R. Schoop-Isenia MSc. RA (Interim Manager Administration & Accounting)

Board of Supervisory Directors

Mr. Dennis E. Evertsz (Vice-Chairperson)
Mr. Angelo A. Davelaar
Mrs. Tara K. Asjes-Prins

Mr. Michael F. Willem (Chairperson, until December 28, 2016)
Mr. Abedd L.A. Hammoud (Chairman of the Audit Committee, until December 28, 2016)
Mr. Haidel Haile (until July 1, 2016)

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