

Free English Language Translation From the Spanish Version

Elektra Noreste, S.A.

(51% owned subsidiary of Panama Distribution Group, S.A.)

Consolidated Financial Statements for the year ended December 31, 2016, and the Independent Auditors' Report as at March 13, 2017

"This document has been prepared with the knowledge that its contents will be made available to its public investors and the general public."

Elektra Noreste, S.A.

(51% owned subsidiary of Panama Distribution Group, S.A.)

Independent Auditors' Report and 2016 Consolidated financial statements

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors,
Elektra Noreste, S.A.

Opinion

We have audited the financial statements of **Elektra Noreste, S.A.** (hereinafter "ENSA" or the "Company"), which comprise the statement of financial position as at December 31, 2016, and the statement of profit or loss and other comprehensive income, the statement of changes in shareholders' equity, and the statement of cash flows for the year ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2016, and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Auditing Standards. Our responsibilities under these standards are described in detail in the Auditor's Responsibilities section in the Audit of the Financial Statements of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants (Code of Ethics issued by IESBA) along with the ethical requirements that are relevant to our audit of the financial statements in Panama, and we have met with our other ethical responsibilities in accordance with these requirements, and the Code of Ethics issued by IESBA. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit issues

Key audit issues are those matters that, in our professional judgment, were of the greatest importance in our audit of the financial statements of the current period. These matters were covered in the context of our audit of the financial statements and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit issue

As described in Note 19, the Company operates in a regulated industry that maintains a pricing system in which the excess or deficit between the estimated cost of the energy considered in the tariff and the actual cost incurred by the Company, be included as a compensatory adjustment to be recovered or returned to customers in the next rate review. This pricing system results in the recognition of assets or liabilities for regulated activities in accordance with IFRS 14 "Deferred Activity Accounts for Regulated Activities". Due to the considerations of this specialized industry, this was a significant element in our audit.

Procedures applied to address the key issues, in the execution of the audit

- We involved information technology specialists "IT" specialists to validate the operational effectiveness of the systems controls and the automatic controls of invoice generation.
- We tested the design, implementation, and operational efficiency of the relevant controls of the tariff process, which among them are:
 - a. Changes to the tariffs in the information system.
 - b. Application of approved rates to different customers in billing.
- Procedures for reviewing the correspondence with the Regulating Entity, including the approval of the tariff adjustments.

The disclosures in Notes 3.19 and 19 related to disclosures of regulatory accounts are considered appropriate and comprehensive in the financial statements.

Responsibilities of Management and of those in charge of corporate governance for the financial statements

Management is responsible for the preparation and fair presentation of financial statements in accordance with IFRSs and for internal controls that Management determines is necessary to enable the adequate preparation of financial statements so that they do not contain material misstatements, due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to the going concern and using the going concern basis of accounting unless Management either intends to liquidate the Company or to cease operations, or has no other realistic alternative but to do so.

The Directors are responsible for overseeing the Company's financial reporting process.

Auditors' responsibility for audit of the financial statements

Our objectives are to obtain a reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with International Auditing Standards (IASs) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the users' economic decisions based on these financial statements.

As part of an audit in accordance with International Standards on Auditing (IASs), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- We identify and assess the risks of material misstatement in the financial statements, whether due to fraud or error, design and perform audit procedures in response to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- We obtain an understanding of the internal controls relevant to the audit in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- We evaluate the appropriateness of the accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

Deloitte

- We conclude on the appropriateness of Management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may give cast significant doubt about the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- We evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The Partner of the audit engagement that originates this issued independent audit report is Alvaro Lasso.

(Signed) Deloitte

March 13, 2017
Panama, Republic of Panama

Elektra Noreste, S.A.

(51% owned subsidiary of Panama Distribution Group, S.A.)

Statement of financial position**December 31, 2016**

(In balboas)

	Notes	2016	2015
Assets			
Non-current assets			
Properties, plant and equipment, net	5	473,144,961	420,748,492
Investment properties	6	2,480,209	2,480,209
Other intangible assets	7	20,442,389	19,563,006
Trade and other accounts receivable	8	9,700,000	-
Deferred tax asset	25	1,698,740	676,647
Employee benefits	16	172,499	39,642
Other assets	9	625,407	501,047
Total non-current assets		<u>508,264,205</u>	<u>444,009,043</u>
Current assets			
Inventories	10	22,931,180	25,867,559
Trade and other accounts receivable	8	96,228,584	107,535,483
Current tax assets		7,653,094	-
Other assets	9	559,150	361,957
Cash and cash equivalents	11	<u>3,620,659</u>	<u>2,146,109</u>
Total current assets		<u>130,992,667</u>	<u>135,911,108</u>
Total assets		<u>639,256,872</u>	<u>579,920,151</u>
Debit balances of deferred regulatory accounts	19	5,269,828	-
Deferred tax assets related to the balances of deferred regulatory accounts	19	<u>-</u>	<u>5,704,834</u>
Total assets and debit balances of deferred regulatory accounts		<u>644,526,700</u>	<u>585,624,985</u>

Elektra Noreste, S.A.

(51% owned subsidiary of Panama Distribution Group, S.A.)

Statement of financial position**December 31, 2016 - continued**

(In balboas)

Equity and liabilities	Notes	2016	2015
Shareholders' equity			
Issued capital	12	106,642,962	106,642,962
Treasury shares	12	(544,087)	(544,087)
Other accumulated comprehensive income	13	(416,369)	(312,952)
Retained earnings		8,658,399	-
Net profit for the year		32,164,937	31,295,275
Total shareholders' equity		146,505,842	137,081,198
Non-current liabilities			
Credits and loans	14	201,247,440	200,975,975
Trade and other accounts payable	15	15,509,763	6,333,039
Employee benefits	16	382,375	419,104
Provisions	17	-	425,132
Other liabilities	18	2,812,791	3,015,434
Total non-current liabilities		219,952,369	211,168,684
Current liabilities			
Credits and loans	14	82,000,000	27,000,000
Trade and other accounts payable	15	189,427,518	162,166,370
Employee benefits	16	38,839	38,882
Income tax payable		-	25,555,074
Provisions	17	5,021,184	3,598,664
Total current liabilities		276,487,541	218,358,990
Total liabilities		496,439,910	429,527,674
Credit balances of deferred regulatory accounts	19	-	19,016,113
Deferred tax liabilities related to the balances of deferred regulatory account	19	1,580,948	-
Total liabilities and credit balances of deferred regulatory accounts		498,020,858	448,543,787
Total shareholders' equity and liabilities		644,526,700	585,624,985

The accompanying notes are an integral part of these financial statements.

Elektra Noreste, S.A.

(51% owned subsidiary of Panama Distribution Group, S.A.)

**Statement of profit or loss and other comprehensive income
for the year ended December 31, 2016**

(In balboas)

	Notes	2016	2015
Continuing operations			
Services rendered		558,915,624	592,556,635
Other Income		10,574,226	11,112,912
Income from continuing operations	20	<u>569,489,850</u>	<u>603,669,547</u>
Costs for rendering services	21	490,564,881	522,681,776
Administrative expenses	22	18,396,003	19,949,232
Impairment of accounts receivable		1,232,351	2,722,995
Other expenses	23	1,006,773	1,011,940
Financial income	24	233,799	207,909
Financial costs	24	12,773,908	12,510,857
Profit before tax		<u>45,749,733</u>	<u>45,000,656</u>
Income tax expense	25	<u>13,584,796</u>	<u>13,705,381</u>
Net profit for the year		<u>32,164,937</u>	<u>31,295,275</u>
Other comprehensive income, net of tax			
Items which will not be reclassified later to profit or loss of the year:			
New measurements of defined benefit plans	13	(147,739)	(164,051)
Income tax related to components which will not be reclassified	13, 25	<u>44,322</u>	<u>75,905</u>
Other comprehensive income, net of tax		<u>(103,417)</u>	<u>(88,146)</u>
Total comprehensive income for the year		<u>32,061,520</u>	<u>31,207,129</u>
Earnings per share:			
Basic earnings per share from continuing operations	26	<u>0.65</u>	<u>0.63</u>

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Elektra Noreste, S.A.

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**Statement of changes in Shareholders' equity
for the year ended December 31, 2016**

(In balboas)

			Other comprehensive income (loss)		
	Issued capital (Note 12)	Treasury shares (Note12)	Defined benefits plan (Notes 13- 16)	Retained earnings	Total
Balance at January 1, 2015	106,642,962	(544,087)	(224,806)	72,089,698	177,963,767
Profit for the year	-	-	-	31,295,275	31,295,275
Other comprehensive income for the year, net of income tax	-	-	(88,146)	-	(88,146)
Total comprehensive income for the year	106,642,962	(544,087)	(312,952)	103,384,973	209,170,896
Surpluses or dividends declared	-	-	-	(74,080,704)	(74,080,704)
Complementary dividend income tax	-	-	-	1,991,006	1,991,006
Balance at December 31, 2015	106,642,962	(544,087)	(312,952)	31,295,275	137,081,198
Balance at January 1, 2016	106,642,962	(544,087)	(312,952)	31,295,275	137,081,198
Profit for the year	-	-	-	32,164,937	32,164,937
Other comprehensive income for the year, net of income tax	-	-	(103,417)	-	(103,417)
Total comprehensive income for the year	106,642,962	(544,087)	(416,369)	63,460,212	169,142,718
Surpluses or dividends declared	-	-	-	(20,000,000)	(20,000,000)
Complementary dividend income tax	-	-	-	(2,636,876)	(2,636,876)
Balance at December 31, 2016	106,642,962	(544,087)	(416,369)	40,823,336	146,505,842

The accompanying notes are an integral part of these financial statements.

Elektra Noreste, S.A.

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Statement of cash flows - continued
for the year ended December 31, 2016
(In balboas)

	Notes	2016	2015
Cash flows from operating activities:			
Net profit for the year		32,164,937	31,295,275
Adjustments to reconcile net income of the period with net cash used in operating activities:			
Depreciation and amortization of property, plant and equipment and intangible assets	5, 7	25,434,627	23,379,561
Impairment of financial instruments		1,232,351	2,722,995
Gain on changes in fair value of investment property		-	(337,909)
Provisions, and defined long-term post-employment benefits plan		1,270,337	2,966,296
Deferred income tax		6,308,011	(23,208,547)
Current income tax		7,276,785	36,913,928
Interest expenses		12,773,908	12,510,857
Gain or loss from disposal of property, plant and equipment	5, 23	1,006,773	1,011,940
Other non-cash income and expenses		352,704	365,461
		<u>87,820,433</u>	<u>87,619,857</u>
Changes in working capital			
Decrease (increase) in inventories		3,684,276	(7,782,654)
Decrease in trade and other receivables		374,548	45,977,939
(Increase) decrease in deferred regulatory accounts		(24,285,941)	30,121,563
(Increase) decrease in other assets		(321,552)	448,148
Increase (decrease) in trade and other accounts payable		30,439,816	(7,071,723)
Decrease in provisions		(272,949)	(918,480)
(Decrease) increase in employee benefits		(317,368)	410,211
		<u>(40,484,953)</u>	<u>-</u>
Net cash generated by operating activities		<u>56,636,310</u>	<u>148,804,861</u>
Cash flows from investing activities:			
Purchase of property, plant and equipment	5, 7	(75,009,790)	(81,486,580)
Purchase of Intangible Assets		-	-
Other cash flows from investing activities		306,269	389,913
		<u>306,269</u>	<u>389,913</u>
Net cash flows used in investing activities		<u>(74,703,521)</u>	<u>(81,096,667)</u>

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**Statement of cash flows - continued
for the year ended December 31, 2016**

(In balboas)

	Notes	2016	2015
Cash flows from financing activities:			
Obtaining public credit and treasury funds		55,000,000	15,000,000
Interest paid, including capitalized interest		(12,717,562)	(12,687,273)
Payment of dividends	12	(20,000,000)	(74,080,704)
Other cash flows from financing activities		(2,740,677)	1,991,006
		<u>19,541,761</u>	<u>(69,776,971)</u>
Net cash flows used in financing activities			
		<u>1,474,550</u>	<u>(2,068,777)</u>
Net Increase (decrease) in cash and cash equivalents			
		<u>2,146,109</u>	<u>4,214,886</u>
Cash and cash equivalents at the beginning of the year			
		<u>3,620,659</u>	<u>2,146,109</u>
Cash and cash equivalents at the end of the year	11		
		<u>5,591,746</u>	<u>2,200,018</u>
Non-monetary transactions:			
Construction agreements			
		<u>5,591,746</u>	<u>2,200,018</u>

The accompanying notes are an integral part of these financial statements.

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Notes to the consolidated financial statements for the year ended December 31, 2016

(In balboas)

1. General information

Elektra Noreste, S.A. (hereinafter “ENSA or the “Company”) is a corporation created as a result of the privatization of the Institute for Hydraulic Resources and Electricity (“IRHE” – Instituto de Recursos Hidráulicos y Electrificación). The Company was incorporated by means of Public Deed No.143, dated January 19, 1998, and began operations in January 1998, whose owner is Panama Distribution Group, S.A. (“PDG”). The authorized share capital of the Company consists of fifty million common shares without par value. Presently, Panama Distribution Group, S.A. (“PDG”) owns 51% of authorized outstanding issued common shares of the Company, while the Panamanian Government and former IRHE employees own 48.25% and 0.43%, respectively. The remaining shares are held as treasury shares.

The activities of the Company include the purchase of energy in blocks and its transportation to customers through the distribution network. In addition, the Company performs the related voltage transformation, delivery of electric energy to end consumers, measurement, reading, invoicing and collections on said electricity. The Company is also responsible for installing, operating, and servicing public lighting in the concession area (as defined in the following paragraph), according to lighting levels and criteria established by the National Public Services Authority (Asociación Nacional de Servicios Públicos - “ASEP”). Additionally, the Company is authorized to engage in energy generation activities up to a limit of 15% of the peak demand and energy in the concession area.

1.1 Legal and regulatory framework

Panama’s electricity sector is divided into three areas of activities: generation, transmission, and distribution. The country has a regulatory structure in place for the electric industry, based on legislation sanctioned between 1996 and 1998. This framework created an independent regulator called the National Public Services Authority (ASEP), and created a transparent process to establish rates for the sale of electricity to regulated customers.

The following legal standards mainly form the regulatory regime:

- Law No. 6 of February 3, 1997. Establishes the regulatory and institutional framework for rendering public electric service. The Law establishes a regime for the distribution, generation, transmission and commercialization activities of electric power.
- Law No. 57 of October 13, 2009. Various amendments were made to Law No. 6 of 1997, which include: the obligation of electricity-generating companies to participate in energy or power purchase processes, the obligation of Empresa de Transmisión Eléctrica S.A. (ETESA) of purchasing power in representation of distribution companies and the increase in fines that the regulator may impose up to 20 million balboas, while it establishes the customers’ right to refrain from paying for the portion they are claiming and grants a 30-day term to file a claim with the regulator in the event of not being satisfied with the answer given by the distribution company.
- Law No. 58 of May 30, 2011. Articles pertaining to rural electrification are amended, among which are: the modification of the calculation of the subsidy that the Bureau of Rural Electrification oficina de Electrificación Rural (OER) must pay to distribution companies for a 4-year term, which shall be comprised by the contributions of the market agents which sell electric power and shall not exceed 1% of their net profit before taxes.

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Notes to the consolidated financial statements for the year ended December 31, 2016

(In balboas)

1.2 Regulatory entities

Some of the main regulating entities for the energy sector in Panama are:

- Secretary of Energy: its mission is to formulate, propose and promote the national energy policy for the purpose of guaranteeing a secure supply, rational and efficient use of the resources and energy in a sustainable manner, according to the National Development Plan. Currently, the Empresa de Transmisión Eléctrica (ETESA) manages the formation of an energy matrix with greater and more varied renewable and clean resources (wind power, gas, among others).
- National Public Services Authority (ASEP): established pursuant to the Law of the Regulating Entity of Public Services of 1996. It is an autonomous governmental entity responsible for regulating, controlling and overseeing the rendering services of water supply and sewerage, telecommunications, radio and television, electricity and natural gas.

On February 22, 2006, through Decree Law 10, the Regulating Entity of Public Services (ERSP) was restructured and changed its name, therefore, since April 2006 it is known as ASEP, with the same responsibilities and functions that the regulating entity previously had, but with a new general manager and executive director, each one appointed by the President of the Republic of Panama and ratified by the National Assembly. Similarly, it has three national directors under the general manager's authority, one for the electricity and water segment, one for the telecommunications segment, and one for the customer service segment. National directors are responsible for issuing resolutions relating to their respective industries and appeals to these resolutions are resolved by the general manager and comprise the final stage of the administrative process.

- The Planning Unit of the Empresa de Transmisión Eléctrica (ETESA): prepares the referred expansion plans and forecasts global energy requirements and the means to satisfy such requirements, including the development of alternating sources and establishing programs to conserve and optimize the use of energy. Public service companies are requested to prepare and present their expansion plans before ETESA.
- National Distribution Center (CND): It is operated by ETESA. Plans, oversees and controls the integrated operation of the National Interconnected System ("Sistema Interconectado" Nacional). It also receives offers from the power-generating companies that participate in the spot market, determines spot energy prices, manages the transmission network and provides clearance values among vendors, producers and consumers, among others.
- Bureau of Rural Electrification (OER): It is responsible for promoting electrification in rural areas which do not receive the services and are not profitable or have not been granted in concession.

1.3 Concession agreement

As per the concession agreement, the Company has exclusive right to the distribution and commercialization of electric energy to customers located in the Eastern geographic area of Panama, Colon, the Bay of Panama, the Guna Yala Reservation, and Darien. The exclusive rights to the distribution phase also includes "large consumers", which are defined in Law No. 6, dated February 3, 1997, as those customers with a maximum demand higher than 100 KW per site, who can purchase power from other agents of the electric market.

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The concession agreement was signed on October 22, 1998 for a period of 15 years. On October 22, 2012, the regulator issued a call notice for a free open competitive bidding process for the sale of the majority bundle of the Company's shares. The current owner, Panama Distribution Group, S. A. ("PDG"), is authorized to participate in this process and if its offer is equal or greater than the highest bid presented by other bidders, then it may conserve the ownership of the majority shares bundle. Otherwise, if the price offered by another bidder is higher, then the ownership is to be delivered to such bidder and the price offered will be delivered to the current owner of the shares ("PDG"). In any event, a new 15-year concession is granted without any payment to the State. On August 9, 2013 bids were presented and PDG won the concession for 15 more years. Said concession period began on October 22, 2013.

The concession agreement stipulates provisions pertaining to the concessionaire's obligations on the subject of rendering the service, forbidding the separation of the majority shares bundle, and is required to send technical and financial information periodically to ASEP, in compliance with the technical quality standards, (quality standards, measurement standards and operation regulations from the National Distribution Center ("CND"), the payment of the control, surveillance and oversight fee of the ASEP, which cannot be transferred to the users through the rate.

1.4 External audit

According to the contents of the Code of Good Corporate Governance, an external audit is established as a control mechanism, which aims at examining the general accounting information and the financial statements, as well as to render an independent audit opinion regarding the reasonableness with which the statements represents the financial position of the Company at the cutoff date of each accounting period.

2. Adoption of the new and revised International Financial Reporting Standards (IFRSs)

2.1 New and revised standards and interpretations issued but not yet effective

Application of the new and revised standards: The standards and interpretations published at the date of ENSA's financial statements are detailed; however, the same are not yet in force in Panama. ENSA intends to adopt the following standards, if applicable, when they become effective:

IFRS 9 - Financial instruments

In July 2014, the IASB finalized the reform of financial instruments accounting and issued IFRS 9 - Financial instruments accounting (as revised in 2014), which will supersede IAS 39 - *Financial instruments: Recognition and measurement* upon the former's expiry date.

Phase 1: Classification and measurement of financial assets and financial liabilities

With respect to the classification and measurement, the number of categories of financial assets under IFRS 9 has been reduced; all recognized financial assets that are currently within the scope of IAS 39 will be subsequently measured at either amortized cost or fair value under IFRS 9. Specifically:

- A debt instrument that (i) is held within a business model whose objective is to collect the contractual cash flows and (ii) has contractual cash flows that are solely payments of principal and interest on the principal amount outstanding must be measured at amortized cost (net of any write down for impairment), unless the asset is designated at fair value through profit or loss (FVTPL) under the fair value option.

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(In balboas)

- A debt instrument that: (i) is held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets and (ii) has contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, must be measured at FVTOCI, unless the asset is designated at FVTPL under the fair value option.
- All other debt instruments must be measured at fair value through Profit or loss (FVTPL).
- All equity investments are to be measured in the statement of financial position at fair value, with gains and losses recognized in profit or loss except that if an equity investment is not held for trading, an irrevocable election can be made at initial recognition to measure the investment at FVTOCI, with dividend income recognized in profit or loss.

IFRS 9 also contains requirements for the classification and measurement of financial liabilities and derecognition requirements. One major change from IAS 39 relates to the presentation of changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of that liability. Under IFRS 9, such changes are presented in other comprehensive income, unless the presentation of the effect of the change in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as FVTPL is presented in profit or loss.

Phase 2: Impairment methodology

The impairment model under IFRS 9 reflects expected credit losses, as opposed to incurred credit losses under IAS 39. Under the impairment approach in IFRS 9, it is no longer necessary for a credit event to have occurred before credit losses are recognized. Instead, an entity always accounts for expected credit losses and changes in those expected credit losses. The amount of expected credit losses should be updated at each reporting date to reflect changes in credit risk since initial recognition.

Phase 3: Hedge accounting

The general hedge accounting requirements of IFRS 9 retain the three types of hedge accounting mechanisms in IAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify as hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is no longer required. Far more disclosure requirements about an entity's risk management activities have been introduced. IFRS 9 (as revised in 2014) is effective for annual periods beginning on or after January 1, 2018 with earlier application permitted. If an entity decides to apply IFRS 9 early, it must apply all of the requirements of IFRS 9 simultaneously, except for some respects. ENSA is analyzing the impact of this standard on their financial statements and its application as at January 1, 2018.

IAS 7 - Disclosure Initiative

The amendment to IAS 7, "Disclosure Initiative," introduces new disclosure requirements that allow users of financial statements to assess changes in obligations arising from financing activities, including both changes arising from the statement of cash flows and non-cash reasons. It establishes that one way to comply with the disclosure requirement is to provide a reconciliation between the opening and closing balances in the statement of financial position of the obligations arising from financing activities. When an entity discloses such reconciliation, it shall provide sufficient information to enable the users of the financial statements to relate concepts included in the reconciliation to the statement of financial position and the statement of cash flows. ENSA will adopt this amendment as at January 1, 2017.

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Notes to the consolidated financial statements for the year ended December 31, 2016

(In balboas)

IAS 12 - Recognition of deferred tax assets for unrealized losses

The amendment to IAS 12, "Recognition of deferred tax assets for unrealized losses", clarifies that when an entity assesses whether taxable profit will be available against which a deductible temporary difference can be used, it should be considered whether the tax legislation restricts the sources of taxable income against which it can make inferences on the reversal of the deductible temporary difference. If the tax legislation does not impose such restrictions, the entity will evaluate a deductible temporary difference in combination with all their other deductible temporary differences. However, if the tax legislation restricts the use of losses to deduct against a specific type of income, a deductible temporary difference should be evaluated in combination only with other deductible temporary differences of its corresponding type. The estimation of probable future taxable profit may include recovery of some of the assets of the Company above its carrying value if there is enough evidence that it is likely that the institution accomplishes this. ENSA is currently analyzing the impact on its financial statements from these amendments. ENSA will adopt this amendment as at January 1, 2017.

IFRS 15 - Revenue from Contracts with Customers

Issued in May 2014, IFRS 15 provides a comprehensive framework for the recognition of income from contracts with customers from ordinary activities, because it replaces and eliminates all the income requirements in IFRSs (IAS 11 - Construction contracts, IAS 18 - Revenue from ordinary activities, IFRIC 13 - Customer loyalty Programs, IFRIC 15 - Agreements for the construction of real estate, IFRIC 18 - Transfers of assets from customers and SIC 31 - Revenue-Barter transactions involving advertising services) and applies to all income derived from contracts with customers. It also provides criteria for the recognition of costs incurred in the execution of a contract which is not within the scope of another standard (for example, IAS 2 - Inventories, IAS 16 - property, plant and equipment and IAS 38 - Intangible assets). Effective for annual periods beginning on or after January 1, 2018. Early application is permitted and, in such a case, the fact shall be disclosed. This new standard is more prescriptive than the current IFRS and offers more application guidelines. The reporting requirements are also more extensive. Its adoption will be a key issue with possible changes in accounting, systems and processes.

IFRS 16 - Leases

This standard introduces a unique lease accounting model that requires a lessee to recognize the assets and liabilities of all leases for more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right of use asset that represents his right to use the underlying leased asset and a lease liability representing his obligation to make lease payments.

IFRS 16 substantially maintains the accounting requirements of the lessor of IAS 17. A lessor will therefore continue to classify its leases as operating leases or financial leases, and will account for these two types of leases differently. It also requires to increase the disclosure information provided by the lessors, which will improve the disclosure of an exposure to the lessor's risk, namely the risk of the outstanding lease value.

IFRS 16 applies for annual periods beginning on or after January 1, 2019. Early application of this standard is permitted for entities applying IFRS 15 - *Revenue from contracts with customers* before the date of initial application of the IFRS 16. The Company is analyzing the impact on its financial statements of this standard and will adopt it as at January 1, 2019.

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3. Summary of significant accounting policies

3.1 Basis for the preparation of the financial statements

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards (hereinafter "IFRSs") as issued by the International Accounting Standards Board (hereinafter "IASB").

ENSA prepared and presented its financial statements as at December 31, 2013, complying with the generally accepted accounting principles of the United States of America (hereinafter "Previously USGAAP"). The financial statements as at December 31, 2014, were the first financial statements prepared in accordance with IFRSs.

The presentation of financial statements in accordance with IFRSs requires making estimates and assumptions that affect the amounts reported and disclosed in the financial statements, without undermining the reliability of the financial information. Actual results may differ from such estimates. The estimates and assumptions are reviewed constantly. Review of accounting estimates is recognized in the period in which the estimates are revised if the revision affects that period or the current review period and future periods, if it affects both the current and the future period. The estimates made by Management, in the application of IFRSs, which have a material effect on the financial statements, and those that involve significant judgments for the annual financial statements, are described in greater detail in note 4 significant accounting judgments, estimates, and causes of uncertainty in the preparation of the financial statements.

The Company presents financial statements in compliance with the control entities and for the purpose of internal administrative follow-up and provides information to investors.

Assets and liabilities are measured at cost or amortized cost, with the exception of the investment properties which are measured at fair value.

The financial statements are expressed in Balboas, the monetary unit of the Republic of Panama where the Company is incorporated and operates, and their figures are expressed in units. As at December 31, 2016 and for the year ended on that date, the Balboa has been maintained at the same par value of the US dollar, which circulates freely in Panama. The Republic of Panama does not issue paper currency and instead uses the U.S. dollar as legal tender.

3.2 Classification of current and non-current assets and liabilities

An asset is classified as a current asset when it is primarily held for trading purposes or is expected to be realized in a term no greater than a year after the period in which it is reported, or it is cash and cash equivalents which are not subject to restrictions for their exchange or use in the cancellation of a liability within at least one year after the reporting period. Other assets are classified as non-current assets.

Liabilities are classified as current liabilities when they are primarily held for trading purposes or are expected to be liquidated in a term no greater than a year after the period in which they are reported or when the Company does not have an unconditional right to defer its settlement for at least one year after the reporting period. Other liabilities are classified as non-current liabilities.

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Derivative instruments to which hedge accounting is not applied are classified as current or non-current based on the assessment of facts and circumstances (i.e. underlying cash flows contracts) such as:

- When the Company has a derivative, to which hedge accounting does not apply for a period of more than twelve (12) months from the filing date, the derivative is classified as non-current (or divided into current and non-current parts) to correspond to the classification of the underlying item.
- Embedded derivatives that are not closely related to the host contract are classified along with the cash flows of the host contract in a consistent manner.
- Derivative instruments, which are designated as hedging instruments and are effective, are classified consistently with the classification of the underlying hedged item. The derivative instrument is divided into a current portion and a separate non-current portion only if such allocation can be done reliably.

3.3 Cash and cash equivalents

Cash and cash equivalents in the statement of financial position and in the statement of cash flows include petty cash, bank balances and highly liquid investments, easily convertible into a certain amount of cash and subject to an insignificant risk of changes in value, with a maturity of three months or less from the date of purchase. Payable bank overdrafts, which form a comprehensive part of the Company's cash management, represent a component of the cash and cash equivalents in the statement of cash flows.

3.4 Revenue recognition

3.4.1 Ordinary income

Ordinary income corresponds to that obtained from the Company's main activity, which is providing the services of distribution and commercialization of electricity, which are recognized when the service is rendered or at the time of delivery of the goods, to the extent that is probable that the economic benefits enter into the Company and the revenue can be measured reliably. Income is measured at the fair value of the consideration received or receivable, excluding taxes or other obligations. Discounts granted are recorded as to lower the value of the income.

3.4.2 Interest income

For financial instruments measured at amortized cost, interest earned or lost is recorded using the effective interest rate method, which is the interest rate that accurately discounts future flows of payments and collections in cash over the expected life of the financial instrument or a shorter period, as it corresponds with respect to the net carrying value of the asset or financial liability. Interest earned is recognized as they materialize and included in the financial income in the statement of profit or loss and other comprehensive income.

3.4.3 Rental income

Income arising from operating leases on investment properties is recorded on a straight-line basis over the lease term and recognized once the service has been rendered according to the terms of the contract.

3.5 Construction contracts

When the outcome of the contract can be reliably measured, the Company recognizes revenues and expenses associated with construction contracts using the degree of advancement method, depending on the proportion representing the costs accrued for the work done to date and the total cost estimates until its completion.

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Costs incurred includes costs, including borrowing costs, directly related to the contract, until the work has been completed. Administrative costs are recognized in the statement of profit or loss for the period.

When the result of a contract in progress cannot be reasonably estimated, income of the latter is recognized to the extent in which the costs incurred are likely to be recovered. In projects where it is likely that the costs are greater than the income, expected losses are recognized immediately.

Payments received from the customer before completion of the corresponding work has been done, are recognized as a liability in the statement of financial situation as other financial liabilities.

The difference between the income recognized in the statement of profit or loss and other comprehensive income and that which is billed is presented as an asset in the statement of financial position as trade receivables and other receivables, or as a liability in other financial liabilities.

3.6 Government subsidies

Government subsidies are recognized at fair value when there is assurance that the subsidies will be received and all conditions linked to them will be fulfilled. Subsidies intended to compensate for costs and expenses already incurred, without further costs are recognized in the statement of profit or loss and other comprehensive income of the period in which they become enforceable. When the subsidy relates to an asset, it is recorded as deferred income and recognized the statement of the period on a systematic basis over the estimated useful life of the relevant asset. The benefit of a State loan with a below-market interest rate is treated as a government subsidy, measured as the difference between the amounts received and the fair value of the loan based on the market interest rate.

3.7 Taxes

The country's tax structure, regulatory framework and its operations makes the Company subject to taxes, rates, and contributions. Obligations arise from the State, municipal entities, and other active subjects, once the conditions stipulated in the issued relevant standards are met.

The income tax and the tax on the transfer of goods and services are among the most relevant taxes.

3.8 Income tax

3.8.1 Current

Current assets and liabilities for the income tax of the period are measured by the values that are expected to be recovered or paid to the tax authority. Income tax expense is recognized in the current tax in accordance with the streamlining between taxable income and the accounting profit or loss affected by the income tax rate in compliance with the country's tax regulations. Rates and fiscal regulations used to calculate these values are those that have been enacted or substantially ratified at the end of the reporting period.

Taxable profit differs from the reported profit in the statement of profit or loss and other comprehensive income of the period due to taxable or deductible income and expense items in previous years and items that are not taxable or deductible in the future.

Current assets and liabilities from income tax are also reimbursed if they relate to the same fiscal authority and with the intention to settle them at their net worth or to recognize the asset and settle the liability simultaneously.

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3.8.2 Deferred

Deferred income tax is recognized using the liability method based on the temporary differences between the taxable bases of the assets and liabilities and their carrying values. The deferred tax liability is generally recognized for all temporary taxable differences, and the deferred tax asset is recognized for all temporary deductible differences and by the future compensation of tax credits and unused tax losses to the extent that future taxable profits will be available against which the asset can be charged. Deferred taxes are not discounted.

The carrying value of deferred tax assets is reviewed at each filing date and they are reduced to the extent they are no longer probable that there will be a sufficient tax gain to use all or part of the deferred tax asset. The unrecognized deferred tax assets are re-evaluated on each filing date and are recognized to the extent it is likely that future taxable profits will allow their recovery.

Deferred tax assets and liabilities are measured at the tax rates expected to be applied in the period in which the asset is realized or liabilities are cancelled and considering future tax consequences based on rates and tax regulations that have been ratified at the filing date, or whose ratification procedure is near to completion at such date.

Deferred tax assets and liabilities should be presented as non-current assets.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to do so and are with the same tax authority.

Deferred Tax assets and liabilities for income tax are also offset if they relate to the same tax authority and they are intended to be settled at their net worth or to recognize the asset and settle the liability simultaneously.

Deferred tax is recognized in the statement of profit or loss of the period with the exception of items recognized outside this statement of profit or loss. In this case, it will be presented in other comprehensive income or directly in equity.

3.8.3 Transfer of goods and services tax - (ITBMS, in Spanish)

The Company is responsible for the regime since it sells taxable goods and services. In general, this means that ITBMS taxpayers are business merchants, producers or industrial, which transfer goods, and are professionals and lessors of goods and service providers in general in the Republic of Panama, but with a limited monthly and annual income level. Currently in Panama energy services, are exempt from this tax.

3.9 Property, plant and equipment

Property, plant and equipment is measured at cost less accumulated depreciation and accumulated impairment losses, if any, as stated in IAS 16. The cost includes the acquisition price, costs directly related to the location of the asset on site and conditions needed to make it operate in the manner intended by the Company, borrowing costs of projects under construction that take a substantial period to be completed, if the requirements for recognition and the present value of the cost expected for dismantling the asset after being used are complied with and if the criteria for recognition for a provision are met.

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Constructions in progress are measured at cost less any recognized impairment loss and include those expenditures that are essential and which are directly related to the construction of the asset, such as professional fees, supplies, civil engineering and, in the case of qualified assets, borrowing costs are capitalized. These constructions in progress are classified in the appropriate categories of property, plant and equipment at the time of their completion and when they are ready for use. The depreciation of these assets starts when they are ready for use in accordance with the same basis as in the case of other items of property, plant and equipment.

The Company capitalizes as the higher value of the assets any additions or improvements made thereof, provided they meet any of the following conditions: a) they increase their useful life, b) expand production capacity and operational efficiency of the same and c) reduce costs to the Company. All other repair and maintenance costs are recognized in the statement of profit or loss and other comprehensive income as incurred.

Inventories of spare parts for specific projects, which are not expected to have rotation in a year and meet the criteria for capitalization, known as replacement assets, are presented in the line item "other properties, plant and equipment".

Depreciation starts when the asset is available for use and is calculated on a straight-line basis over the estimated useful life of the asset as follows:

	Estimated useful life in years
Plants, ducts and tunnels	
Civil works	35 years
Equipment	12 to 30 years
Networks, lines and cables	
Power distribution grid	12 to 30 years
Buildings	50 years
Communication and computer equipment	5 to 25 years
Equipment and machinery	8 to 25 years
Furniture, fixtures and office equipment	5 to 20 years

These are determined considering, among other things, the technical specifications of the manufacturer, knowledge of the technicians who operate and maintain the assets, geographic location and the conditions to which they are exposed.

The Company calculates depreciation by component, which implies individual depreciation of the portions of the assets that have different useful lives. The depreciation method used is the straight-line method; the residual value is calculated for the assets (vehicles), which is not part of the depreciated amount.

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A component of property, plant and equipment and any significant part initially recognized is written off at its disposal or when it is not expected to obtain future economic benefits from its use or disposal. The profit or loss at the time of derecognition the asset, calculated as the difference between the net disposal value and the carrying value of the asset, is included in the statement of profit or loss and other comprehensive income.

Salvage values, useful lives, and depreciation methods for the assets are reviewed, and adjusted prospectively at the end of each year, if it is necessary.

3.10 Leasing

Determining whether an agreement is or contains a lease is based on the nature of the agreement at its initial date, if the execution of the agreement depends on the use of an asset or specific assets, or if the agreement grants a right for the use of the asset.

Leases are classified as financial and operating leases. A lease is classified as a financial lease when substantially all the risks and benefits inherent in ownership of the leased asset are transferred to the lessee, otherwise it is classified as an operating lease.

3.10.1 ENSA as lessee

Payments for operating leases, including incentives received, are recognized as expenses in the statement of profit or loss and other comprehensive income on a straight-line basis over the term of the lease, unless another systematic allocation basis is more representative in effectively reflecting the temporal pattern of the benefits of the lease for the user.

3.10.2 ENSA as lessor

Land and buildings given under operating leases are presented as investment properties and other assets given under operating lease are presented as property, plant, and equipment. The initial direct costs incurred in negotiating an operating lease are added to the carrying value of the leased asset and recognized as an expense over the lease term on the same basis as rental income. Leasing revenues are spread during the lease term to reflect a constant net investment performance rate. Contingent leases are recognized as income in the period in which they are obtained.

3.11 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period to get ready for their intended use or sale, are capitalized as part of the cost of the respective asset until the asset is ready for its intended use. Income received from the temporary investment in specific outstanding loans to be consumed in qualified assets is deducted from borrowing costs eligible for capitalization. All other borrowing costs are registered as expenses in the period in which they are incurred. Borrowing costs consist of interest and other costs incurred by the Company in relation to the borrowing of funds.

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3.12 Investment properties

Investment properties are those maintained for obtaining rent and/or revaluations of capital (including the investment properties in construction for such purposes). Investment properties are initially measured at cost, including transaction costs. The carrying value includes the cost of refitting or replacement of a part of an existing investment property at the time in which the cost is incurred, if the recognition criteria are met; and excludes the daily maintenance costs of the investment property.

After initial recognition, the investment properties are measured at fair value reflecting the market conditions at the date of presentation. Gains and losses arising from changes in the fair values of investment properties are included in the statement of profit or loss and other comprehensive income in the period in which they arise.

The investment properties are derecognized, either at the time of disposal, or when permanently removed from use and no future economic benefit is expected. The difference between the net proceeds from the disposal and the carrying value of the asset is recognized in the statement of profit or loss and other comprehensive income in the period in which it is derecognized.

Transfers are made to, or from the investment properties, only when there is a change in their use. In the case of a transfer from an investment property to a property, plant and equipment, the cost taken into consideration for subsequent accounting is the fair value at the date of change in use. If a property, plant and equipment becomes an investment property, it shall be accounted for at fair value, the difference between the fair value and the carrying value is recorded as a revaluation applying IAS 16.

3.13 Intangible assets

Intangible assets acquired separately are initially measured at cost. After initial recognition, intangible assets are accounted for at cost less any accumulated depreciation and any accumulated impairment loss. Internally generated intangible assets, are capitalized if they meet the criteria for recognition as an asset and the generation of the asset should be classified in: research phase and development phase; if it is not possible to distinguish the research phase from the development phase, disbursements should be reflected in the statement of profit or loss and other comprehensive income in the period in which they were incurred.

The useful lives of intangible assets are determined as finite or indefinite.

Intangible assets with finite useful lives are amortized over their useful economic life using the straight-line method and are assessed for impairment, provided there are indications that the intangible asset might have suffered such impairment. The amortization period and method for an intangible asset with a finite life is reviewed at least at the end of each period. The changes in the expected useful life or in the expected consumption pattern of future economic benefits of the asset are accounted for by changing the period or depreciation method, accordingly, and are treated as changes in accounting estimates. The depreciation expense of intangible assets with finite useful lives is recognized in the statement of profit or loss and other comprehensive income of the period in the expenditure item line that is consistent with the function of the intangible asset.

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Intangible assets with indefinite useful life are not amortized but are subject to annual impairment testing, either individually or at the cash-generating unit level. The assessment of the indefinite life is reviewed on an annual basis to determine whether such an indefinite life remains valid. If not, the change of the useful life from indefinite to finite is made prospectively.

An intangible asset is derecognized at the time of its disposal, or when no future economic benefits are expected from its use or disposal. Gains or losses that arise are measured as the difference between the proceeds from the disposal and the carrying value of the asset and is recognized in the statement of profit or loss and other comprehensive income of the period.

The research and development costs that do not qualify for capitalization are recorded as expenses in the statement of profit or loss.

3.13.1 Other intangible assets

Other intangible assets such as service concessions, licenses, software, exploitation rights, trademarks and similar rights acquired by the Company are measured at cost less any accumulated depreciation and any impairment loss.

3.14 Financial instruments

Financial assets and financial liabilities are recognized in the statement of financial position when the Company becomes a party in accordance with the contractual conditions of the instrument.

Financial assets and liabilities are initially measured at fair value. The transaction costs that are directly attributable to the acquisition or issuance of financial assets and liabilities (different to financial assets and liabilities designated at fair value through profit or loss) are added or deducted from the fair value of the financial assets or liabilities, where appropriate, at the time of initial recognition. Transaction costs directly attributable to the acquisition of financial assets or liabilities designated at fair value through profit or loss are recognized immediately in the results for the period.

3.15 Financial assets

The Company classifies, at the moment of initial recognition, their financial assets for future measurement at amortized cost or at fair value depending on the Company's business model used to manage the financial assets and the characteristics of the contractual cash flows of the instrument.

A financial asset is subsequently measured at an amortized cost using the effective interest rate if the asset is kept within a business model whose objective is to hold it in order to collect the contractual cash flows granted by the contractual terms therein, on specific dates, which are solely payments of principal and interest on the outstanding principal. Notwithstanding the foregoing, the Company can irrevocably designate a financial asset as measured at fair value through profit or loss.

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3.15.1 Impairment of financial instruments

For assets at an amortized cost, impairment is assessed at the date of the period in which it is reported, if there is evidence of impairment. When there is objective evidence that there has been an impairment loss for financial assets at amortized cost, the value of the loss is measured as the difference between the asset's carrying value and the present value of the estimated future cash flows discounted using the investment's original effective interest rate. The impairment losses are recognized in the profit or loss for the period.

The Company first evaluates whether there is any objective evidence of individual impairment of financial assets or collectively for financial assets that are not individually significant or when there is no objective evidence of impairment loss for a financial asset that has been assessed individually. When a collective impairment assessment is carried out, accounts receivable is grouped by similar credit risk characteristics that make it possible to identify the payment capacity of the debtor, in accordance with the contractual terms of negotiation of the account receivable. The Company uses the method of expected loss called cascade to collectively determine the impairment losses.

The objective evidence that an asset or group of assets is impaired includes:

- Significant financial difficulties of the issuer or of the debtor;
- Breach of contracts, such as default or delinquency in the interest or principal payments;
- The lender gives concessions or advantages which it would not have granted under other circumstances;
- It is likely that the borrower will enter bankruptcy or another form of financial restructuring;
- The disappearance of an active market for that financial asset in question.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying value of the investment at the date the impairment reversed does not exceed what the amortized cost would have been determined if the impairment loss had not been recognized at the time of the reversal. The amount of the reversal is recognized in the profit or loss for the period.

Financial assets different from those measured at an amortized cost are subsequently measured at fair value with changes recognized in the profit or loss for the period.

In the fair value category through profit or loss the investments made to optimize the surplus liquidity are included, i.e. all those resources that are not immediately destined for the development of activities that constitute the legal purpose of the Company. The investment of surplus liquidity is done under the criteria of transparency, security, liquidity and profitability, under the guidance of a suitable control and in market conditions without speculative intention.

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3.15.2 Financial liabilities

The Company classified financial liabilities at the time of initial recognition for later measurement at amortized cost or fair value through profit or loss.

Financial liabilities at fair value through profit or loss include liabilities held for trading, financial liabilities designated at the time of initial recognition at fair value through profit or loss, and derivatives. The gains or losses for liabilities held for trading are recognized in the statement of profit or loss and other comprehensive income. On initial recognition, the Company did not designate financial liabilities as at fair value through profit or loss.

The liabilities at amortized cost are measured using the effective interest rate. The gains and losses are recognized in the statement of profit or loss and other comprehensive income when the liabilities are derecognized, as well as through the amortization process under the effective interest rate method, which is included as a financial cost in the statement of profit or loss and other comprehensive income.

3.15.3 Derecognition of financial assets and liabilities

A financial liability or a part of it is derecognized in the statement of financial position when contractual obligation has been liquidated or has expired or the Company loses control over the contractual rights or of the cash flows of the instrument.

If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying value and the amount of the consideration received and receivable as well as the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss. On derecognition of a financial asset other than in its entirety (e.g. when the Company retains an option to repurchase part of a transferred asset), the Company allocates the previous carrying value of the financial asset between the part it continues to recognize under continuing involvement and the part it no longer recognizes based on the relative fair values of those parts on the date of the transfer.

The difference between the carrying value allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

When an existing financial liability is replaced by another from the same lender under substantially different conditions, or if the conditions of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying values are recognized in the statement of profit or loss and other comprehensive income.

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3.15.4 Compensation of financial instruments

Financial assets and liabilities are the subject of compensation so as to report the net value in the statement of financial situation, only if (i) there is, at the present time, a legally enforceable right to compensate the recognized values, and (ii) there is the intention to liquidate them for the net value, or realize the assets and cancel the liabilities simultaneously.

3.15.5 Inventories

Inventories are classified as goods acquired with the intention of selling them in the ordinary course of business or consuming them in the process of the delivery of services.

Inventories are valued at cost or net realizable value, whichever is less. The net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Inventories include goods in existence that do not require transformation, such as energy meters, transformers, public lighting equipment and supply goods. It includes materials such as spare parts and accessories for the delivery of services and goods in transit and that are in the possession of third parties.

Inventories are valued using the weighted average method and its cost includes the costs directly related to the acquisition and those incurred to give them their status and current location.

3.15.6 Impairment of non-financial assets

At each filing date, the Company assesses whether there is any indication that a tangible or intangible asset has been impaired. The Company estimates the salvage value of the asset or a cash generating unit, at the time at which it detects an indication of impairment, or annually (as at December 31) for intangible assets with indefinite useful life and those that are not yet in use.

The salvage value of an asset is the higher value between the fair value less the costs of sale, either of an asset or a cash-generating unit, and its value in use and is determined for an individual asset, unless the asset does not generate cash flows that are substantially independent of those from other assets or groups of assets, in which case, the asset should be grouped with a cash-generating unit. When the carrying value of an asset or a cash-generating unit exceeds its salvage value, the asset is considered impaired and its value is reduced to its salvage value.

When calculating the value in use, the estimated cash flows, either of an asset or a cash-generating unit, are discounted to their present value using a discount rate before taxes that reflects the market considerations of the temporal value of money and the specific risks to the asset. An appropriate valuation model is used to determine the fair value less the costs of sale.

Impairment losses of continuing operations are recognized in the statement of profit or loss and other comprehensive income in those expenditure categories that correspond to the function of the impaired asset. Impairment losses attributable to a Cash-Generating Unit are assigned proportionally based on the carrying value of each asset to the non-current assets of the Cash-Generating Unit.

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For assets in general, on each filing date, an assessment is made as to whether there is any indication that an impairment loss previously recognized no longer exist or may have decreased. If there is such an indication, the Company estimates the salvage value of the asset or a cash-generating unit. An impairment loss previously recognized can only be reversed if there was a change in the assumptions used to determine the salvage amount of an asset from the last time in which the last impairment loss was acknowledged. The reversal is limited so that the carrying value of the asset does not exceed its salvage value, nor exceeds the carrying value that would have been determined, net of depreciation, if an impairment loss had not been recognized for the asset in previous years.

3.16 Provisions

Provisions are recorded when the Company has a present obligation, legal or implied, because of a past event, it is likely that the Company might have to dispose of resources that incorporate economic benefits to settle the obligation and a reliable estimate can be made of the value of the obligation. In cases where the Company expects that the provision will be reimbursed as a whole or in part, the reimbursement is recognized as a separate asset, but only in cases where such reimbursement is virtually certain and the value of the asset can be reliably measured.

Provisions are measured at the best estimate of the management of the disbursements required to settle the present obligation at the end of the reporting period, considering the corresponding risks and uncertainties. When a provision is measured using the estimated cash flows to settle the present obligation, its carrying value corresponds to the present value of the cash flows, using for the discount a rate calculated in relation to market yields on the bonds issued by the National Government. The expenditure corresponds to any provision that is presented net of any reimbursement in the statement of profit and loss and comprehensive income in the item line for other expenses. The increase in the provision due to the passage of time is recognized as a financial expense.

3.16.1 Provision for disassembling

The Company recognizes as part of the cost of a fixed asset in particular, provided that there is a legal or implied obligation to disassemble or restore, the estimate of future costs in which the Company expects to incur to perform the disassembling or restoration and its counterpart recognizes it as a provision for the costs of disassembling or restoration. The cost of disassembling is depreciated over the estimated useful life of the fixed asset.

The cost of disassembling or restoration is recognized at the present value of the expected costs to cancel the obligation using estimated cash flows. The cash flows are discounted at a rate before taxes, which must be determined taking as a reference the market yields of the bonds issued by the National Government.

The future estimated costs for disassembling or restoration are reviewed annually. The changes in the future estimated costs, in the estimated dates of the disbursements or in the applied discount rate are added to or deducted from the cost of the asset, without exceeding the carrying value of the asset, any excess is immediately recognized in the results of the period. The change in the value of the provision associated with the passage of time is recognized as a financial expense in the statement of profit or loss and other comprehensive income of the period.

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3.16.2 Onerous contracts

The Company recognizes present obligations that derive from an onerous contract, such as provisions, and its counterpart is in the statement of profit or loss and other comprehensive income. An onerous contract is considered to exist when the Company has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

3.16.3 Contingent liabilities

They are possible obligations arising from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events that are not entirely under the control of the Company, or present obligations arising from past events, but that it is not probable, but possible, that an outflow of resources that include economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability, are not recognized in the statement of financial position, but instead are disclosed as contingent liabilities.

3.16.4 Contingent assets

Due to the possible nature of assets arising from past events and whose existence will be confirmed only by the occurrence or in the event of non-occurrence of one or more uncertain future events not entirely within the control of the Company, they are not recognized in the statement of financial position, but instead are disclosed as contingent assets when their occurrence is probable. When the contingent fact is true, the asset and the associated entry in the results for the period is recognized.

3.17 *Pensions and other post-employment benefits*

3.17.1 Defined benefit plans

Post-employment benefits plans are those in which the Company has the legal or implicit obligation to respond for the payments of the benefits that were under its responsibility.

For defined benefit plans, the difference between the fair value of the plan assets and the present value of the obligation of the plan is recognized as an asset or liability in the statement of financial position. The cost of providing benefits under the defined benefit plans is determined separately for each plan, using the method of actuarial valuation of the projected credit unit, using actuarial assumptions up to the date of the reporting period. The assets of the plan are measured at fair value, which is based on the information of market prices and, in the case of listed security titles, constitutes the purchase price published.

The actuarial gains or losses, the performance of the assets of the plan and the changes in the ceiling effect on the asset, excluding the values included in the net interest of liabilities (assets) of net defined benefits, are recognized in the other comprehensive income. The actuarial gains or losses include the effects of the changes in the actuarial assumptions as well as the adjustments for experience.

The net interest on liabilities (assets) for net defined benefits includes the interest income for the assets of the plan, interest costs for the defined benefit obligation and interests for the ceiling effect on the asset.

The current service cost, the cost of past service, any settlement or reduction of the plan is immediately recognized in the statement of profit or loss and other comprehensive income in the period in which they arise.

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The Company classifies as short-term employee benefits those obligations with the employees they hope to liquidate at the end of the next twelve months following the end of the accounting period in which the obligation has been generated or the service provided. Some of these benefits are created by the valid labor legislation, by collective agreements or by non-formalized practices that generate implicit obligations.

The Company recognizes the short-term benefits at the moment in which the employee had provided its services as a liability for the amount that will be paid to the employee, by deducting the values already paid beforehand, and its counterpart as a period expense, unless another chapter demands or allows including the payments in the cost of an asset or inventory, for example, if the payment corresponds to employees whose services are directly related to the construction of a work project, these will be capitalized to this asset.

In accordance with the foregoing, the accounting recognition of the short-term benefits is done at the moment the transactions occur, regardless of when the employee or third parties are paid, those whom the Company has entrusted the provision of certain services.

The Company classifies as long-term employee benefits those obligations which they expect to liquidate after the next twelve months following the end of the accounting year or the period, in which the employees provide the related services, i.e. from month thirteen onward; they are different from the short-term benefits, post-employment benefits and benefits for contract termination.

The Company measures the long-term benefits in the same way as the post-employment defined benefit plans, although its measurement is not subject to the same degree of uncertainty, the same methodology for measurement will be applied as follows:

- The Company should measure the surplus or deficit in a benefit plan of long-term employees, using the technique that is applied for post-employment benefits both for the estimate of the obligation as well as to the plan's assets.
- The Company should determine the net value of the benefits to long-term employees (assets or liabilities) finding the deficit or surplus of the obligation and comparing the asset limit.

The benefits received by the employees year after year, throughout their entire working life, should not be considered as "long-term", if at the end of the accounting year of each year the Company has delivered them in its entirety.

3.18 Fair value

Fair value is the price that would be received upon selling an asset or would be paid when transferring a liability in an orderly transaction between market participants at the measurement date, irrespective of whether the price is directly observable or estimated using another valuation technique. When estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability, if market participants take into account these characteristics when assessing the asset or liability at the measurement date. The fair value for purposes of measurement and/or disclosure in these financial statements is determined on that basis, except for the share-based payment transactions, lease transactions and the measurements that have certain similarities with the fair value but that are not fair value, as the realizable value or the value in use. The fair value of all financial assets and liabilities is determined at the filing date of the financial statements, for recognition or disclosure in the notes to the financial statements.

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The fair value is determined:

- Based on quoted prices in active markets for assets or liabilities that are identical to those that the Company can access at the measurement date (level 1).
- Based on valuation techniques commonly used by market participants that use different variables than those of the quoted prices that are observable for assets or liabilities, directly or indirectly (level 2).
- Based on internal valuation techniques of discounted cash flows or other valuation models, using non-observable estimated variables by the Company for the asset or liability, in the absence of observable variables in the market (level 3).

In Note 29 measurement of fair value, an analysis is provided of the fair values of financial instruments, non-financial assets and liabilities and with greater detail of its measurement.

3.18.1 Changes in estimates, accounting policies and errors

3.18.1.1 Changes in accounting estimates

During 2016, the Company revised its accounting estimates, with no significant changes in the current or future period. There are no significant changes in accounting estimates to report.

3.18.1.2 Changes in accounting policies

There were no changes in accounting policies.

3.19 Deferred regulatory accounts

The Company is subject to regulation by the ASEP. This agency regulates and makes the final determination regarding the rates the Company charges to its customers. The Regulatory assets represent probable future earnings associated with certain costs that are expected to be recovered from customers through the rate-making process. Regulatory liabilities represent probable reductions in future earnings associated with amounts that are expected to be credited to customers through the rate-making process. The standard allowed the Company, as the entity that adopted the IFRS for the first time, to continue to use, in its financial statements in accordance with IFRS and thereafter, its accounting policies under previous USGAAP for the recognition, measurement, impairment, and derecognition of the deferred account balances for regulated activities. The Company, in accordance with these requirements, presents the deferred accounts balances of regulated activities as separate items in the statement of financial position and requires disclosure of specific information to identify the nature and risks associated with the tariff regulation that have led to the recognition of deferred accounts balances of regulated activities in accordance with this standard.

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3.20 Reclassifications

The Company, for comparison purposes, has made certain presentation reclassifications of the financial statements previously reported as at December 31, 2015, which are detailed below:

Reclassification effect	2015	Reclassification	2015
Statement of Financial position			
Trade and other receivables	98,870,086	8,665,397	107,535,483
Trade and other payables (Non-current)	(5,138,536)	(1,194,503)	(6,333,039)
Trade and other payables (Current)	(154,695,476)	(7,470,894)	(162,166,370)
Total	(60,963,926)	-	(60,963,926)

Reclassification effect	2015	Reclassification	2015
Statement of Profit or Loss			
Services rendered	588,273,224	4,283,411	592,556,635
Other Income	15,396,323	(4,283,411)	11,112,912
Cost for Services rendered	(525,404,771)	2,722,995	(522,681,776)
Impairment of Accounts Receivable	-	(2,722,995)	(2,722,995)
Total	78,264,776	-	78,264,776

Reclassification effect	2015	Reclassification	2015
Statement of Cash Flows			
Impairment of Financial instruments	-	2,722,995	2,722,995
Provisions, defined benefit plans post-employment and long term	5,689,291	(2,722,995)	2,966,296
Decrease in Trade and other Accounts Receivable	54,643,336	(8,665,397)	45,977,939
Decrease in Trade and other payables	(13,537,102)	8,665,397	(4,871,705)
Total	46,795,525	-	46,795,525

4. Significant accounting judgments, estimates and causes of uncertainty in the preparation of the financial statements

The following are judgments and significant assumptions, including those that involve accounting estimates that the Company's Management used in the implementation of accounting policies under IFRS, and which have a significant effect on the values recognized in the financial statements.

The estimates are based on historical experience and on the best information available on the facts analyzed at the cut-off date. These estimates are used to determine the value of the assets and liabilities in the financial statements, when it is not possible to obtain the value from other sources. The Company assesses its estimates on a regular basis. Actual results may differ from these estimates.

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The estimates and significant judgments made by the Company are described below:

4.1 Evaluation of the existence of impairment indicators for the assets and asset valuation to determine the existence of impairment losses

The status of the assets is reviewed on each filing date, to determine if there are indications that any of these has suffered an impairment loss. If there is an impairment loss, the salvage value of the asset is affected; if the estimated recoverable amount is lower, it is reduced up to its fair value and an impairment loss is immediately recognized in the statement of comprehensive income.

The assessment of the existence of impairment indicators is based on external and internal factors, and at the same time on quantitative and qualitative factors. The assessments are based on the financial results, the legal, social and environmental scenarios and market conditions; significant changes in the scope or manner in which it is being used or the asset or a cash-generating unit (CGU) is expected to be used and evidence on the obsolescence or physical impairment of an asset or CGU, among others.

The calculation of the value in use requires that the entity determines future cash flows that should emerge from the cash generating units and an appropriate discount rate for calculating the present value. When the actual future cash flows are less than the expected, you may encounter an impairment loss.

4.2 Hypotheses used in the actuarial calculation of the post-employment obligations with employees

The assumptions and hypotheses that are used in actuarial studies include: demographic assumptions and financial assumptions; the first relate to the characteristics of current and former employees, have relation with the mortality rate, turnover rates among employees, and the latter have relation with the discount rate, future wage increases and changes in future benefits.

4.3 The useful life and residual values of the properties, plant and equipment and intangibles

In the assumptions and hypotheses that are used for the determination of the useful lives technical aspects are considered such as: periodic maintenance and inspections conducted on the assets, statistics of failure, environmental conditions and operational environment, protection systems, refitting processes, factors of obsolescence, manufacturer recommendations, geographical and climatic conditions and experience from the technicians that are knowledgeable on the assets. There are aspects considered in the determination of the salvage value, such as: market values, reference journals and historical data of sales.

4.4 The probability of occurrence and the value of the liabilities of uncertain value or contingencies

The assumptions used for uncertain or contingent liabilities, include the qualification of the legal process by the "Expert judgment" of area professionals, the type of contingent liability, the possible legislative changes and the existence of jurisprudence of the high courts that apply to the specific case in question, the existence within the Company of similar cases, the study and analysis of the subject matter, the existing guarantees at the time of the occurrence of the events.

The Company will disclose but not recognize in the financial statements those obligations qualified as probable; obligations described as remote are neither disclosed nor recognized.

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4.5 Future expenditures by dismantling obligations and withdrawal of assets

In the assumptions and hypotheses that are used for determining future expenditures due to disassembling obligations and withdrawal of assets, aspects such as these are considered: estimates of future disbursements in which the Company must incur for the implementation of the activities associated with the disassembly of the assets over which legal or implied obligations have been identified, the initial date of the disassembling or restoration, the estimated completion date and discount rates.

5. Property, plant and equipment, net

The following is the breakdown of the carrying value of property, plant and equipment:

	2016	2015
Cost	689,549,126	623,437,309
Accumulated depreciation and impairment	<u>216,404,165</u>	<u>202,688,817</u>
Total	<u>473,144,961</u>	<u>420,748,492</u>

The movement of the cost, depreciation and impairment of property, plant and equipment is detailed below:

2016	Network, lines and cables	Plantas, ducts and tunnels	Construction in Progress	Land & buildings	Machinery and equipment	Communication and computer equipment	Furniture, fixtures and office equipment	Other property, plant and equipment	Total
Initial cost	311,165,246	136,772,161	50,407,219	38,261,021	71,263,685	8,051,573	1,535,210	5,981,194	623,437,309
Acquisitions	-	-	81,890,941	-	-	-	-	-	81,890,941
Transfers	42,576,972	9,238,474	(82,894,754)	15,559,341	13,039,822	1,006,436	50,205	1,423,504	-
Disposals & write-offs	(6,111,899)	(264,795)	-	-	(3,890,150)	(528,949)	(41,272)	(511,841)	(11,348,906)
Other changes	270,896	(1,569,197)	(3,131,917)	-	-	-	-	-	(4,430,218)
Final balance cost	347,901,215	144,176,643	46,271,489	53,820,362	80,413,357	8,529,060	1,544,143	6,892,857	689,549,126
Accumulated depreciation									
Initial balance - accumulated depreciation	109,125,959	56,663,339	-	7,309,241	21,665,842	4,641,704	894,542	2,388,190	202,688,817
Depreciation for the period	11,485,209	4,252,490	-	878,888	4,876,349	930,437	168,823	581,002	23,173,198
Disposals & write-offs	(5,406,975)	(228,494)	-	-	(2,972,689)	(510,785)	(40,888)	(298,019)	(9,457,850)
Final balance - accumulated depreciation	115,204,193	60,687,335	-	8,188,129	23,569,502	5,061,356	1,022,477	2,671,173	216,404,165
Total property, plant and equipment, net	232,697,022	83,489,308	46,271,489	45,632,233	56,843,855	3,467,704	521,666	4,221,684	473,144,961

2015	Network, lines and cables	Plantas, ducts and tunnels	Construction in progress	Land & buildings	Machinery and equipment	Communication and computer equipment	Furniture, fixtures and office equipment	Other property, plant and equipment	Total
Initial cost	284,023,399	118,309,051	45,654,490	27,420,805	63,981,562	7,014,631	1,345,842	5,432,258	553,182,038
Acquisitions	31,301,617	18,506,325	84,469,937	10,845,664	9,483,948	1,829,593	251,072	684,563	157,372,719
Transfers	-	-	(79,717,208)	-	-	-	-	-	(79,717,208)
Disposals & write-offs	(4,159,770)	(43,215)	-	(5,448)	(2,201,825)	(792,651)	(61,704)	(135,627)	(7,400,240)
Ending balance - cost	311,165,246	136,772,161	50,407,219	38,261,021	71,263,685	8,051,573	1,535,210	5,981,194	623,437,309
Accumulated depreciation									
Initial balance - accumulated depreciation	102,588,126	52,813,700	-	6,667,223	18,578,314	4,373,643	725,808	1,959,515	187,706,329
Depreciation for the period	10,180,105	3,885,737	-	644,116	4,484,661	1,045,671	199,848	540,738	20,980,676
Disposals & write-offs	(3,654,690)	(36,098)	-	(2,098)	(1,397,133)	(777,610)	(31,114)	(115,283)	(6,014,026)
Other changes	12,418	-	-	-	-	-	-	3,220	15,638
Ending balance - accumulated depreciation	109,125,959	56,663,339	-	7,309,241	21,665,842	4,641,704	894,542	2,388,190	202,688,817
Total property, plant and equipment, net	202,039,287	80,108,822	50,407,219	30,951,780	49,597,843	3,409,869	640,668	3,593,004	420,748,492

At the end of the periods, an impairment test on assets was performed, no impairments were identified in the long-term assets.

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Property under construction includes capitalization of borrowing costs for B/.688,447 (2015: B/.7,02,022), the average rate used to determine the amount of the borrowing costs was 6.0084% (2015: 5.9504%), which is the effective interest rate specifically for this type of borrowings.

Other property, plant and equipment includes the vehicular fleet and replacement assets.

The main Construction in Progress correspond to the following:

Project	2016	2015
Network Growth	15,276,988	8,565,335
Sub stations and high voltage lines	10,392,455	5,380,745
Other minor projects	7,194,714	12,627,664
Corporate Buidling	6,433,258	8,307,593
Loss reduction and reliability improvements	5,526,694	8,290,525
ASEP special projects	1,447,380	3,721,517
Storage of materials	-	3,513,840
Total	<u>46,271,489</u>	<u>50,407,219</u>

6. Investment property

The fair value of investment property is based on valuations made by Panamericana de Avalúos, S.A. and EcoAmbiente S.A., independent companies with the ability and recent experience in the location and category of the investment property. The fair value of investment property is determined by appraisal companies that are recognized in the Republic of Panama every 5 years.

	2016	2015
Balance at the beginning of the year	2,480,209	2,142,300
Net Profit or Loss for fair value adjustment	<u>-</u>	<u>337,909</u>
Balance at the end of the year	<u>2,480,209</u>	<u>2,480,209</u>

The income from investment property leases for the period amounted to B/.23,400 (2015: B/.27,300).

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7. Other intangible assets

The following is the breakdown of the carrying value of the other intangible assets:

	2016	2015
Cost	33,166,194	30,430,981
Accumulated amortization and impairment	12,723,805	10,867,975
Total	20,442,389	19,563,006

The movement of the cost, amortization and impairment of intangible assets is detailed below:

2016	Software & IT applications	Licenses	Other intangible assets	Total
Initial Balance - Cost	19,775,551	9,535,864	1,119,566	30,430,981
Acquisitions ²	2,607,580	533,232	-	3,140,812
Disposals (-)	(381,850)	(23,749)	-	(405,599)
Ending Balance - Cost	22,001,281	10,045,347	1,119,566	33,166,194
Initial balance - Accumulated Amortization	4,861,636	6,006,339	-	10,867,975
Amortization for the period	1,712,048	549,381	-	2,261,429
Disposals (-)	(381,850)	(23,749)	-	(405,599)
Ending Balance - Accumulated Amortization	6,191,834	6,531,971	-	12,723,805
Ending Balance - Intangible Assets, net	15,809,447	3,513,376	1,119,566	20,442,389

2015	Software & IT applications	Licenses	Other intangible assets	Total
Initial Balance - Cost	15,258,322	8,024,560	1,122,771	24,405,653
Acquisitions ²	4,522,988	1,511,304	-	6,034,292
Disposals (-)	(5,759)	-	-	(5,759)
Other changes	-	-	(3,205)	(3,205)
Ending Balance - Cost	19,775,551	9,535,864	1,119,566	30,430,981
Initial Balance - Accumulated Amortization	3,214,700	5,260,348	-	8,475,048
Amortization for the period	1,652,694	745,991	-	2,398,685
Disposals	(5,758)	-	-	(5,758)
Ending Balance - Accumulated Amortization	4,861,636	6,006,339	-	10,867,975
Ending Balance - Intangible Assets, net	14,913,915	3,529,525	1,119,566	19,563,006

At the end of the periods, an impairment test on assets was performed for having registered intangible assets with an indefinite useful life; no impairments were identified in the long-term assets.

¹ Includes easements.

² Includes the purchases, capital disbursements that meet the recognition criteria.

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The useful lives of intangible assets are:

Software and IT applications	5 to 15 years
Licenses	5 years
Other intangible assets	Indefinite

The amortization of the intangibles is recognized as an expense in the statement of profit or loss and other comprehensive income.

The following intangible assets have an indefinite useful life as they are compensations and reimbursements paid by the Company for making easements required for the passage of its distribution network and at December 31, 2016 have a carrying value of B/.1,119,566 (2015: B/.1,119,566).

	2016	2015
Other Intangible Assets		
Easements	<u>1,119,566</u>	<u>1,119,566</u>
Total Intangible Assets with indefinite useful life:	<u>1,119,566</u>	<u>1,119,566</u>

The carrying value as at December 31, 2016 and the remaining period of amortization for the significant assets are:

	Remaining amortization term	Carrying value 2016	Carrying value 2015
SAP Commercial system	12 years	12,785,212	12,673,755
Maximum system	9 years	1,539,979	1,503,721
SCADA system	7 years	<u>1,322,779</u>	<u>1,503,484</u>
		<u>15,647,970</u>	<u>15,680,960</u>

8. Trade and other receivables

The breakdown of trade and other receivables is as follows:

	2016	2015
Non Current		
Other Accounts Receivables	<u>9,700,000</u>	<u>-</u>
Total Non Current	<u>9,700,000</u>	<u>-</u>
Current		
Customers - Public Service	99,662,147	113,125,260
Impairment - Public Service	(15,840,130)	(14,434,079)
Others	<u>12,406,567</u>	<u>8,844,302</u>
Total current	<u>96,228,584</u>	<u>107,535,483</u>
Total	<u>105,928,584</u>	<u>107,535,483</u>

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Accounts receivable from customers generate interests for the overdue balances which are recognized as income until the termination date of the client account, which happens 60 days after the suspension of the supply of electrical energy.

As at the cut-off date, the aging analysis of financial assets at the end of the period of time on which it is reported that are in arrears, but are not deteriorated is:

Aging analysis according to date of invoice.	Total	Less than 30 days	31-60 days	61-90 days	91-120 days	> 121 days
Public Utilities - Customers						
2016	99,662,147	56,526,049	14,292,789	4,715,439	1,112,723	23,015,147
2015	113,125,260	62,363,063	20,215,249	5,610,127	3,475,852	21,460,969
Other Customers						
2016	12,406,567	7,449,897	3,717,926	66,119	44,967	1,127,658
2015	8,844,302	6,604,024	602,078	200,251	240,730	1,197,219
Total Accounts Receivable						
2016	112,068,714	63,975,946	18,010,715	4,781,558	1,157,690	24,142,805
2015	121,969,562	68,967,087	20,817,327	5,810,378	3,716,582	22,658,188

The conciliation of the portfolio impairment losses is as follows:

	2016	2015
Initial balance	14,434,079	13,748,592
Acquisitions	1,406,051	2,863,475
Write-off during the period	-	(2,177,988)
Ending balance	15,840,130	14,434,079

The Company maintains a provision for portfolio impairment. The calculation of this provision relates to a technical assessment to determine the contingency loss or risk of the eventual insolvency of the debtor. It is the Company's policy to review balances receivable on a monthly basis and adjust the provision for doubtful accounts. Each month the status of collectability using the Cascade Model, which requires 12 months for a minimum historical basis to determine the percentages of loan losses, is assessed. The amount of the provision is recognized in the statement of profit or loss and other comprehensive income under line item "Costs for services rendered". The financial difficulties of the debtor and default or nonpayment are indicators of possible impairment of accounts receivable. When the recovery is not possible through an administrative action, coercive jurisdiction or an ordinary action, it executes the portfolio write-off to recognize the extinction of the receivable for the Company. Portfolio write-offs do not relieve the Company of its responsibility to continue collection efforts that are conducive to a possible recovery. In the event of a debt recovery, the debt recovery income is registered.

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The other non-current receivable corresponds to an irrevocable promissory note issued by Banco Davivienda (Panama), S.A. ordered by Bahía las Minas Corp., in favor of Elektra Noreste, S.A. as the beneficiary, for the sum of B/.9,700,000 with validity until March 2, 2017 renewable annually, and with the obligation to be payable as at January 1, 2019, being considered automatically canceled on its expiration date. The irrevocable pledge letter was issued to cover the termination of Contract DME-018-06, signed between Bahía las Minas Corp. and Elektra Noreste, S.A., for the purchase of stable long-term power and its associated energy. In that sense, ASEP ordered the company Bahía las Minas Corp., through Resolution AN No. 9189-Elec of October 23, 2015, to present an Irrevocable Letter of Payment in favor of Elektra Noreste, S.A. for the amount of nine million seven hundred thousand balboas (B/.9,700,000) no later than ninety (90) days after said resolution was duly executed, to be payable as of January 1, 2019 and ordered Elektra Noreste, S.A. that once the payment is received, these funds are destined to its regulated customers, for which it must comply with the guidelines established by the ASEP in the corresponding tariff review.

9. Other assets

The breakdown of other assets at the end of the year is as follows:

	2016	2015
Non current		
Severance Indemnity Fund	310,317	269,106
Severance Indemnity Fund - Interest	131,316	46,767
Guarantee deposit	183,774	185,174
Total other assets - non current	625,407	501,047
Current		
Advances to suppliers	420	11,289
Various Insurance	232,822	205,413
Other expenses to amortize	287,528	111,076
Temporary costs of vehicle maintenance	38,380	34,179
Total other current assets	559,150	361,957
Total other assets	1,184,557	863,004

10. Inventories

Inventories at the end of the year were represented as follows:

	2016	2015
Materials for rendering services ¹	22,417,268	24,490,519
Inventory in transit	513,912	1,377,040
Total inventory at cost or net realisable value, whichever is less	22,931,180	25,867,559

Includes material for internal use and for rendering services.

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Inventories for B/.1,214,340 (2015: B/.1,217,408) were recognized as expenses for the rendering of services during the period. The decrease in inventory values recognized as an expense during the period amounted to B/.147,691 (2015: B/.226,846) and the reversals of the decrease in values amounted to B/.87,733 (2015: B/.67,965). The circumstances leading to the reversal of the decrease in inventory values were due to the fact that some inventory items after the necessary technical analysis were considered good for operational use. The Company has no inventory committed to guarantee its liabilities.

11. Cash and bank balances

The composition of cash and bank balances at end of period is the following:

	2016	2015
Petty cash and bank balances	<u>3,620,659</u>	<u>2,146,109</u>
Total cash and cash equivalents presented in the Statement of financial position	<u>3,620,659</u>	<u>2,146,109</u>
Total cash and cash equivalents presented in the Statement of cash flows	<u>3,620,659</u>	<u>2,146,109</u>

12. Equity

The capital stock of the Company is composed of 50,000,000 authorized common shares authorized issued without nominal value, of which 160,031 shares are in treasury.

	Value		Number of Shares	
	2016	2015	2016	2015
Authorized Capital	106,642,962	106,642,962	50,000,000	50,000,000
Treasury Shares	<u>(544,087)</u>	<u>(544,087)</u>	<u>(160,031)</u>	<u>(160,031)</u>
Subscribed and paid Capital	<u>106,098,875</u>	<u>106,098,875</u>	<u>49,839,969</u>	<u>49,839,969</u>

By Minutes of the Board of Directors dated December 2, 2016, a dividend distribution of B/.20,000,000 was approved corresponding to the earnings of 2015. By Minutes of the Board of Directors dated February 26, 2015, a dividend distribution of B/.74,080,704 was approved corresponding to prior year's earnings.

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13. Components of other accumulated comprehensive income (loss)

The details of each component of the other comprehensive income of the statement of financial position and the corresponding tax effect is as follows:

	2016			2015		
	Gross	Net tax effect	Net	Gross	Net tax effect	Net
New measures for defined benefit plans	594,813	178,444	416,369	447,074	134,122	312,952
Total	594,813	178,444	416,369	447,074	134,122	312,952

For each component of the comprehensive income, a reconciliation of the opening and closing balances at the cut-off date is presented below.

13.1 Component of new measurements of defined benefit plans

The component of new measurements of defined benefit plans represents the cumulative value of the actuarial gain or loss, the performance of the plan assets and the changes in the ceiling effect for the asset, excluding the values included in the net interest on liabilities (assets) of defined net benefits. The net value of the new measurements is transferred to the retained earnings and not reclassified to the results of the period.

	2016	2015
Balance at the beginning of the year	312,952	224,806
Results of the year for new measures done for defined benefits plan	147,739	164,051
Income tax associated	(44,322)	(75,905)
Total	416,369	312,952

14. Credits and loans

The breakdown of the facilities and long-term debt at the cut-off date is as follows:

	2016	2015
Non current		
<i>Credits and loans</i>		
Bonds and securites issued	201,247,440	200,975,975
Total of other non-current credits and loans	201,247,440	200,975,975
Credits and loans		
Loans commercial banks	82,000,000	27,000,000
Total Other non-current credits and loans	82,000,000	27,000,000
Total other non-current credits and loans	201,247,440	200,975,975

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The Company maintains contracts for credit lines facilities with the Bank of Nova Scotia, Banco General, S.A., Banistmo, S.A. Banco Nacional de Panamá, Banco Latinamericano de Comercio Exterior, Banco Davivienda, BAC Panamá and Citibank for a total amount as at December 31, 2016 of B/.280,000,000 (2015: B/.172,000,000), with LIBOR annual interest rates between one (1) and three (3) or six (6) months, plus a margin between 2% and 2.5%. The credit lines are not subject to guarantees and are available for a maximum period of one year. The Company uses these credit facilities depending on the need for working capital or other needs. These credit facilities have a "pari passu" order of precedence over other "senior" obligations not guaranteed, and are not subordinated to the Company. The credit lines include, among other provisions, an indicator of debt coverage which sets a limit of indebtedness so it does not exceed 3.50 times its EBITDA.

By entity, the long-term debt breakdown is as follows:

Long term bonds	2016		2015	
	IRR	Value	IRR	Value
Preferred bonds 2021	8.16%	101,986,005	8.16%	101,764,850
Corporate bonds 2018	3.46%	20,198,886	3.46%	20,223,889
Preferred bonds 2027	4.96%	79,062,549	4.96%	78,987,236
Total		<u>201,247,440</u>		<u>200,975,975</u>

Preferred bonds 2021

The Company has bonds payable per the Debt Agreement ("Senior Notes") for a nominal value of B/.100,000,000. The bonds have a fixed interest rate of 7.6%, payable semi-annually, with maturity in 2021. The payment to principal will be performed on the due date. The bonds are not guaranteed and are not subordinated. The Company can redeem the bonds, in whole or in part, at any time prior to its maturity provided they meet certain conditions that include the payment of a premium. The obligations include among other provisions an indicator of debt coverage which sets a limit of indebtedness so it does not exceed 3.50 times its EBITDA.

In the occurrence of a non-compliance event in the terms and conditions of the Debt Agreement, the Trustee, at the request of the holders of the bonds that hold no less than 25% in principal amount and foreseeing that the non-compliance event remains, will immediately declare all bonds due and payable.

On May 31, 2016, the Company requested the Superintendence of the Securities Market the registration of the changes to the terms and conditions of the bonds for B/.100,000,000. The substantial change corresponds to the limit of indebtedness so it does not exceed 3.50 times its EBITDA, previously the limit of indebtedness was 3.25 times its EBITDA.

On December 16, 2016, the Superintendence of the Securities Market issued resolution SMV-803-16 in which it approved the registration of the changes in the terms and conditions requested by the Company.

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Corporate bonds 2018

On October 20, 2008, in a public offering, the Company offered corporate bonds "Bonds" for a nominal value of B/.40,000,000, unsecured and unsubordinated, with expiration date on October 20, 2018. On that date, B/.20,000,000 were subscribed and issued with Banco General, S. A., which correspond to these bonds. The bonds have a "pari passu" order of preference with regards to other company obligations not guaranteed and not subordinated. The bonds will yield an annual interest rate of LIBOR plus 2.375%, payable quarterly. The payment to principal will be performed on the due date. The proceeds from the Bond offering were used for current and future capital investments and for general corporate purposes. The Bonds are subject to additional terms and conditions subject to this transaction. The obligations include indicators of coverage of debt and other provisions. The Company can redeem the Bonds, in part or completely, upon the third anniversary from the offering date.

In the event of non-compliance with the terms of the contract that originate in one or more grounds for an anticipated expiration and these have not been corrected within the stipulated deadline, the Trustee may, for and on behalf of the registered holders of the Bonds, issue a declaration of anticipated expiration which shall be communicated to the Company and in whose issuance date all Bonds of said issuance will automatically be constituted as expired-term obligations and the Company will be requested to pay the amount necessary to cover the principal of the Bonds issued and outstanding and the interest earned on the same, whether they are delinquent or ordinary, and all and any fees, commissions or other amounts owed by the Issuer.

Preferred bonds 2027

On December 6, 2012, the Company signed a Promissory Note Purchase Agreement with a group of investors that individually agreed to buy from the Company a total of B/.80,000,000 in Preferred Bonds ("Senior Notes"). The bonds were agreed upon with a fixed rate of 4.73% payable semiannually, with maturity on December 13, 2027 and were issued pursuant to the Indenture Agreement signed between the Company and The Bank of New York Mellon in its capacity as fiduciary agent and dated December 11, 2012.

With reference to the Promissory Note Purchase Agreement and the Indenture Agreement, the Company signed, a Bridge Financing Agreement on December 13, 2012, where the Company agrees to issue tax-free promissory payment notes ("Bridge Notes"), to the order of each of the buyers for a total of B/.80,000,000; each Buyer severally agrees to transfer the corresponding funds of each one of these Bridge Notes to the Company. The Agreement establishes that the Bridge Notes shall bear an annual interest of 4.73% cumulative from the transfer date of the funds, with maturity on February 1, 2013 or on the date of termination of the Financing Agreement, whichever comes first. The Financing Agreement may be terminated by mutual agreement of the parties or in the absence of the issuance of the preferred bonds. The Financing Agreement requires that the Company maintains and ensures that it has the capacity for indebtedness in funds available under its credit line facilities along with their cash equivalents for an amount in excess of the amount needed to cancel the obligation due to the termination of this Agreement.

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On January 17, 2013, the termination of the Promissory Note Purchase Agreement was executed, where the preferred bonds were handed over to the buyers, being that on the same date it is confirmed by the Company and the buyers that the conditions of the promissory note purchase agreement have been met, to satisfaction, and the Company is released of its payment obligations under the Bridge Notes and the Financing Agreement. The payment of the undersigned price under the issuance of the preferred bonds must be met with the cancellation of the Bridge Notes and the payment obligations established in the Financing Agreement without any additional payment by the buyers to the Company.

During the time of the Indenture Agreement, the Company must comply with the terms of the agreements, some of which are listed below:

- Prohibition on granting tax on any of its properties or assets of the Company or its Subsidiaries.
- Do not allow any Subsidiary, in one or several transactions to consolidate, merge with or join with any company or grant, yield or transfer all or substantially all of its properties, assets or income to any company (which is not a Subsidiary of the Company) or allow any company (which is not a Subsidiary of the Company) to merge with or in it.
- Do not allow the Total Indebtedness Ratio to EBITDA after four fiscal quarters of which at the moment are the most recently elapsed to exceed 3.50x. The Total Indebtedness Ratio to EBITDA may exceed 3.50x during a period of Eligible Investment or Capital Investment no more than two times during the validity of the Bonds, provided that during this period the Total Indebtedness Ratio to EBITDA does not exceed 4.0x.

If the Company fails to meet the performance or observation of any of the clauses or terms described above, the Trustee shall, at the request of the holders, declare the totality of the bonds immediately due and payable. After the bonds have become immediately due and payable, the Company must pay the Trustee an amount equal to the sum of the amount of the principal of the outstanding bonds, all interest earned thereon, the additional amounts and the amount of restitution (the "Amount of Depreciation for Events of Default"), calculated by the Company and notify the Trustee in writing. For the purposes of the amount of depreciation for events of default, the "Restitution Amount" shall be equal to the difference between (i) the sum of (a) the present value of the future capital and cash flows from interest on expected bonds (less any accrued interest), discounted at an annual rate equal to the yield of the treasury bonds in force at that corresponding time closest to the weighted average life remaining on the bonds calculated at the time of payment of the depreciation for events of default and (b) 0.50 per cent per annum and (ii) the amount of capital of the outstanding bonds.

The Company defers the costs associated with the issuance of long-term debt. These costs include the costs of commissions and other costs such as: legal, registration and stamps. The costs of issuing debt are depreciated based on the period of validity of the debt instrument using the effective interest rate method and is presented net of long-term debt on the Company's statement of financial position.

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15. Trade and other accounts payable.

Trade and other accounts payable are composed of:

	2016	2015
Non current		
Funds to be returned - arbitration of supply contracts	9,700,000	-
Guarantee deposits	5,809,763	6,333,039
Total Trade and Other accounts payable - Non current	<u>15,509,763</u>	<u>6,333,039</u>
Current		
Energy suppliers	125,177,736	73,799,485
Acquisition of goods and services	22,272,266	27,980,005
Government subsidies	-	31,154,368
Guarantee deposits	319,048	346,335
Advances and prepayments received	4,161	3,221
Other accounts payable	4,943,953	2,876,625
Construction contracts	36,500,175	25,791,201
Comissions payable	210,179	215,130
Total Trade and other accounts payable - current	<u>189,427,518</u>	<u>162,166,370</u>
Total trade and other accounts payable	<u>204,937,281</u>	<u>168,499,409</u>

16. Employee benefits

The line item of employee benefits recognized at the cut-off date in assets and liabilities in the statement of financial position, presents the following composition:

	2016		
	Non current	Current	Total
Asset:			
Post-employment benefits	172,499	-	172,499
Liability:			
Post-employment benefits	<u>(382,375)</u>	<u>(38,839)</u>	<u>(421,214)</u>
Total	<u>(209,876)</u>	<u>(38,839)</u>	<u>(248,715)</u>
	2015		
	Non current	Current	Total
Asset:			
Post-employment benefits	39,642	-	39,642
Liability:			
Post-employment benefits	<u>(419,104)</u>	<u>(38,882)</u>	<u>(457,986)</u>
Total	<u>(379,462)</u>	<u>(38,882)</u>	<u>(418,344)</u>

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16.1 Post-employment benefits

Includes the defined benefit plans detailed below:

16.1.1 Defined benefit plans

	Other defined benefits plan		Seniority Premium		Total	
	2016	2015	2016	2015	2016	2015
Present value of obligations due to defined benefits						
Beginning balance	(457,986)	(460,906)	(1,414,860)	(1,295,378)	(1,872,846)	(1,756,284)
Cost of Present service	(25,370)	(7,643)	(141,264)	(73,610)	(166,634)	(81,253)
Income or (expenses) for Interest	-	(17,638)	(59,124)	(55,923)	(59,124)	(73,561)
Assumptions for experience	25,507	(69,437)	(60,319)	(246,435)	(34,812)	(315,872)
Financial assumptions	(1,583)	51,852	5,517	40,706	3,934	92,558
Contributions made to the plan by participants	-	-	-	-	-	-
Payments made by the plan	38,218	45,786	234,939	215,780	273,157	261,566
Other changes	-	-	-	-	-	-
Present value of obligations December 31st	(421,214)	(457,986)	(1,435,111)	(1,414,860)	(1,856,325)	(1,872,846)
Fair value of the Assets of the plan						
Beginning Balance	-	-	1,580,068	2,021,129	1,580,068	2,021,129
Contributions made to the plan	-	-	241,978	247,470	241,978	247,470
Payments made by the plan	-	-	-	(688,531)	-	(688,531)
Fair value of the Assets of the Plan as of December 31st	-	-	1,822,046	1,580,068	1,822,046	1,580,068
Surplus or (Deficit) of the defined benefits plan	-	-	386,935	165,208	(34,279)	(292,778)
Adjustment to the Surplus due to the asset limit	-	-	(214,436)	(125,566)	(214,436)	(125,566)
Total of the defined benefits plan	-	-	172,499	39,642	(248,715)	(418,344)

The Company has three post-employment defined benefit plans:

- Seniority premium and severance payment fund**

According to the Labor Code of the Republic of Panama, upon the termination of a contract for an indefinite time, whatever the cause may be, the worker has the right to a seniority premium at a rate of one week's salary for each year of work, since the start of the employment relationship. The seniority premium represents 1.92% of the wages paid.

The Labor Code, amended by Act No. 44 of August 12, 1995, specifies that employers shall establish an unemployment fund to cover the seniority premium and compensation for unjustified dismissal or justified resignation. The Company maintains a trust through an authorized entity called ProFuturo, S.A., which acts as trustee to ensure liabilities for the unemployment fund.

- Discount on the electricity billing to a group of IRHE retirees**

The benefit grants a 50% discount on the billing for electrical services to a closed group of former employees of the IRHE, regardless of the service provider that these may use.

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• Retirement bonus

Current employees of the Company have the benefit of a B/.2,000.00 bonus when they apply for the retirement by age program granted by the Social Security Fund.

The weighted average of the duration in years for obligations from defined benefit plans at the cut-off date is from 2017 to 2058.

The Company made contributions for defined benefits during the period for B/.241,978 (2015: B/.247,470) and expects to make contributions in the next annual period for B/.304,956.

The plan's assets, managed by ProFuturo, invest mainly in fixed deposits and bonds as regulated in Executive Decree No. 106 of 1995. The maximum fair value of the asset is the amount contributed by the Company (the employees do not make contributions), the proceeds from the change in the market value of the investments correspond to the administrator of the Fund.

The principal actuarial assumptions used to determine the obligations for the defined benefit plans are the following:

Assumptions	Concept	
	2016	2015
Discount rate seniority premium (%)	4.35	4.39
Annual salary - increase rate (%)	4	4
Survival tables	Mortality table for the urban population of the Republic of Panamá 2010-2015	

The following table reflects the effect of a variation of plus or minus 1% in the salary increase, the discount rate and the benefit increase on the obligation due to defined post-employment benefits plans:

Assumptions	Rise in the Discount Rate +1%	Decrease in the Discount Rate -1%	Rise in Salary Increase +1%	Decrease in Salary increase -1%	Rise in the benefit increase +1%	Decrease in the benefit increase -1%
Seniority Premium	(137,490)	166,292	151,636	(127,956)	-	-
Subsidy - Public Service	(20,053)	22,577	-	-	21,412	(19,361)
Retirement Bonus	(6,483)	7,567	-	-	-	-
Total Post-Employment Benefits	(164,026)	196,436	151,636	(127,956)	21,412	(19,361)

There have been no changes in the methods and assumptions used to prepare the sensitivity analysis of the prior period and the current period.

The defined benefit plans expose ENSA to actuarial risks such as investment risk, longevity and salary risk.

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Investment risk:

Currently, the seniority premium plan's assets have relatively balanced investments, mainly in time deposits, and debt securities and instruments.

Longevity risk:

The present value of the liabilities from discount on electricity is calculated based on the best estimate of the mortality of the plan's participants. An increase in life expectancy of the plan's participants will increase the plan's liabilities.

Salary risk:

The current value of seniority premium liability is estimated considering the future salaries of the plan's participants. Thus, an increase in the salary of the plan's participants would increase the plan's liabilities.

17. Provisions, contingent assets and liabilities**17.1 Provisions**

2016	Disassembling and restoration	Litigations	Others	Total
Initial Balance	178,117	425,132	3,420,547	4,023,796
Acquisitions	2,846	3,519	1,569,830	1,576,195
Utilizations (-)	-	-	(272,949)	(272,949)
Reversals and amount not utilized (-)	-	(305,858)	-	(305,858)
Closing Balance	180,963	122,793	4,717,428	5,021,184
Non current	-	116,683	-	116,683
Current	180,963	6,110	4,717,428	4,904,501
Total	180,963	122,793	4,717,428	5,021,184

2015	Disassembling and restoration	Litigations	Others	Total
Initial Balance	175,315	485,293	1,315,372	1,975,980
Acquisitions	2,802	10,848	3,049,023	3,062,673
Utilizations (-)	-	(5,000)	(913,480)	(918,480)
Reversals and amount not utilized (-)	-	(66,009)	(30,368)	(96,377)
Closing Balance	178,117	425,132	3,420,547	4,023,796
Non current	-	425,132	-	425,132
Current	178,117	-	3,420,547	3,598,664
Total	178,117	425,132	3,420,547	4,023,796

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To lessen the uncertainty that may arise with respect to the estimated payment date and the estimated value to be paid in a litigation deemed probable, the Company with respect to the estimated payment date assesses each case with its external legal advisors for which the average duration of similar processes is considered. The estimated value to be paid of a litigation rated as probable is determined based on the amount of the plaintiff's claim and an analysis of the specific condition that motivates the claim to determine the recognition of a possible injury judgement. For this, we have the appreciation of external legal advisors of the Company and, in certain cases, the support of insurance advisers in case it requires an actuarial valuation.

17.1.1 Disassembling

The Company is required to incur disassembling or restoration costs of its facilities and assets related to transformers where it has been confirmed or is deemed to contain poly-chlorinated Bi-Fenol ("PCB") whether it is in use or out of service. The Company is committed to the disassembling of these assets from 2002 to 2025, the maximum term indicated by the Stockholm Convention. The provision is recognized by the present value of the expected costs to cancel the obligation using estimated cash flows. The cash flows are discounted at a rate before taxes, which is the average rate of indebtedness of the Company. The main assumptions considered in the calculation of the provision are:

- a) It was determined that 34 transformers should be discarded for being suspected of PCB content.
- b) The present value of the obligation was determined by using a discount rate of 1.598% which is the rate of return extrapolated for 2015 Global Bonds of the Republic of Panama.
- c) The legal obligation (implicit) of disassembling the transformers appears for the first time in ENSA in 2002 with the subscription of the Republic of Panama to the Rotterdam Convention.

17.1.2 Litigations

This provision covers the probable estimated losses related to labor, administrative, civil and fiscal litigations (administrative and governmental procedures) that arise from operations. The main assumptions considered in the calculation of the provision are:

- a. Cases are reviewed by the legal advisers to determine, according to their development, the likelihood of incurring an outflow of resources.
- b. The legal advisers provide the best estimate for the litigations reserve.
- c. The estimated payment date is provided by the legal technicians.

The following are the recognized litigations:

Claims	Value
Ordinary civil process for the development of the Llano Bonito substation	116,693
Ordinary civil process for the discount applied in the services invoiced	6,110
	<u>122,803</u>

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17.1.3 Other provisions

The Company maintains other provisions to cover compensations to customers that occur due to possible breaches in standards regulated by the Nation Public Service Authority (ASEP). The amounts of these compensations are provided by the technical area of the Company which makes calculations based on indicators provided by the system.

Estimated payments

The date estimate in which the Company deems that it must deal with the payments related to provisions included in the statement of financial position at the cut-off date, is as follows:

<u>Estimated payments</u>	<u>Disassembling or restorations</u>	<u>Litigations</u>	<u>Others</u>	<u>Total</u>
2017	180,963	6,110	4,717,428	4,904,501
2018	-	116,683	-	116,683
Total	<u>180,963</u>	<u>122,793</u>	<u>4,717,428</u>	<u>5,021,184</u>

17.2 Contingent liabilities

<u>Type of contingency</u>	<u>Contingent liabilities</u>
Litigations	8,236,156
Guarantees	<u>77,858,085</u>
Total	<u>86,094,241</u>

The ASEP through Resolution AN No. 9075-Elec of September 7, 2015, orders the Company to apply a tariff reduction for the non-compliance of the service quality standards for the sum of B/.7,060,063 associated with the interruptions registered over the years 2012, 2013 and 2014. As per the resolution, the amount previously indicated must be applied every six months, in a period of eight (8) years from the first half of 2016, totaling sixteen (16) semiannual installments. The Company believes that the calculated sum and criteria applied by the Regulator to fix the amounts are not correct, which is why an appeal for reconsideration was filed before the ASEP against the resolution, which has not been resolved. At the same time, the Company filed with the Supreme Court of Justice, 33 guarantee applications with which the effect of AN Resolution No. 9075-Elec of September 7, 2015 was suspended, until they are resolved in full.

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The main litigations pending resolution and judicial and extrajudicial disputes in which the Company is a party at the cut-off date are listed below:

Contingent liabilities:

Lawsuit claims	Value
For not complying with the quality standard of technical service	7,060,063
Civil lawsuit for damages due to contract cancellations	760,342
Lawsuit for damages and compensation	410,824
Consumer protection process for the lawsuit of billing error	4,927
Total contingent liabilities	8,236,156

The Company has granted the following guarantees:

Third parties	Lawsuit claims	Value
Autoridad Nacional de los Servicios Públicos	Performance bond to guarantee compliance with the obligation contracted in the Concession Agreement	15,000,000
Generating Companies	Performance bond to provide credit assurance and compliance with the obligations contracted in the Power Purchase Agreements.	59,354,649
Empresa de Transmisión Eléctrica, S.A.	Bank guarantee to assure the payment of one month of billing of the Transmission System.	1,255,120
Empresa de Transmisión Eléctrica, S.A.	Letter of credit as payment guarantee of the power purchase costs in the spot market.	1,824,552
Regulator Operating Entity El Salvador	Letter of credit as payment guarantee of the power purchase costs in the spot market.	
		423,764
Total guarantees granted		77,858,085

Amounts in Balboas

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17.3 Commitments

The purchase rules for the contracts market, established by Resolution AN No. 991-Elec of July 11, 2007 and its amendments, establish minimum contracting obligations in the medium and long term, both in wattage and energy to the distribution companies. The wattage must be contracted to cover the Company's maximum generation demand and the energy must be contracted as per the Associated Energy Required. ETESA must call for the Acts of Concurrence to supply the wattage and energy needs of the end users of the electric distribution companies and to ensure that the calls comply with the minimum contracting levels of the electric distribution companies. The Company routinely celebrates purchase contracts that have different quantity and duration requirements as part of its obligation to distribute and sell electricity to its regulated customers. ENSA must recover costs related to these obligations at future rates to customers. In addition, all energy supply contracts entered into by the Company are to meet its obligations to distribute energy to customers.

In compliance with the Electricity Law of 1997, the Company negotiated the purchase of long-term energy purchase with power generating companies. This purchase covers most of its regulated customers' contribution to total peak electricity demand and works to limit any associated energy costs.

The Electric Transmission Company, S.A. (ETESA) is responsible for preparing biddings for the purchase of energy by the distribution companies. The offers are received, assessed and awarded by ETESA. They are then assigned to each distribution company based on their requirements. Distribution companies are obliged to sign contracts based on the bids awarded.

The Company has several unconditional long-term contractual obligations related to the purchase of energy capacity. The incremental amounts of payments required for such obligations are presented below:

Year	Payment obligations
2016	123,332,063
2017	139,748,658
2018	125,732,403
2019	170,843,228
Hereinafter	2,549,206,019
Total	3,108,862,371

As at December 31, 2016, the Company made payments for B/.123,332,063 (2015: B/.154,066,430), in long-term unconditional contracts.

18. Other liabilities

The breakdown of other liabilities is as follows:

	2016	2015
Non current		
Income received in Advance	614,472	711,520
Government Subsidies	2,198,319	2,303,914
Total	2,812,791	3,015,434

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18.1 The breakdown of government subsidies at the cut-off date was

	2016	2015
Initial balance	2,303,914	2,409,510
Recognized in the year's results	<u>(105,595)</u>	<u>(105,596)</u>
Closing balance	<u>2,198,319</u>	<u>2,303,914</u>

19. Deferred regulatory accounts

The Company is subject to regulation by the ASEP. This entity is responsible for regulating and setting the final rates that the Company invoices to their customers. The Company maintains its accounting records in accordance with the uniform system of accounts established by the ASEP for electricity companies.

The regulated system under which the Company operates allows any surplus or deficit between the estimated energy cost considered in the rate and the actual cost incurred by the Company to be included as a compensatory adjustment, to be recovered from or returned to the customers in the next tariff review. Any surplus in the energy cost charged to customers is accumulated as credit balance in a deferred regulatory account in the statement of financial position of the Company and leads to a reduction in the next tariff review to be applied to clients. In the same way, any deficit in the energy cost charged to customers is accumulated as debit balance into a deferred regulatory account in the statement of financial position of the Company and leads to an increase in the next tariff review to be recovered from the customers.

The deferred regulatory accounts with debit balance represent probable future revenues associated with certain costs which are expected to be recovered from the customers through the billing process. The deferred regulatory accounts with credit balance represent a probable decrease in future income associated with amounts that are expected to be credited to the customers through the billing process.

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The movement of the regulatory accounts is the following:

	Assets (liabilities)	
	2016	2015
Initial balance	(19,016,113)	11,105,450
Recognized in profit or loss of the year	<u>24,285,941</u>	<u>(30,121,563)</u>
Closing balance	<u>5,269,828</u>	<u>(19,016,113)</u>

The movement of the deferred tax associated with the regulatory accounts is as follows:

Deferred Tax associated with regulatory accounts	Assets (liabilities)	
	2016	2015
Initial balance	5,704,834	(3,331,635)
Recognized in the year's results	<u>(7,285,782)</u>	<u>9,036,469</u>
Closing balance	<u>(1,580,948)</u>	<u>5,704,834</u>

The balances associated with the deferred regulatory accounts according to the regulation must be recovered or returned in the following two semesters.

20. Income from continuing operations

	2016	2015
Sale of goods		
Services rendered		
Energy service	<u>558,915,624</u>	<u>592,556,635</u>
Total services rendered	<u>558,915,624</u>	<u>592,556,635</u>
Other income		
Professional fees	<u>4,089,881</u>	<u>4,083,379</u>
Other income	<u>6,484,345</u>	<u>7,029,533</u>
Total other income	<u>10,574,226</u>	<u>11,112,912</u>
Total Income from continuing operations	<u>569,489,850</u>	<u>603,669,547</u>

The Company has no pledged ordinary income, nor does it have set commitments with customers, for the provision of services in the future.

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21. Costs of rendering services

The breakdown of the costs of rendering services is as follows:

	2016	2015
Cost of purchase of energy for public service	432,704,413	467,837,798
Salaries and personnel expenses	7,053,326	6,847,107
Maintenance and repairs	2,234,977	2,187,807
Operating leases	1,434,511	1,312,755
General expenses	2,375,750	733,749
Taxes, contributions and rates	1,431,403	1,202,548
Orders and contracts for other services	17,403,250	17,480,109
Depreciation	22,214,521	20,175,796
Regulatory penalties	2,016,088	3,556,210
Others	1,696,642	1,347,897
Total costs for rendering services	<u>490,564,881</u>	<u>522,681,776</u>

22. Administrative expenses

The breakdown of the administrative expenses is as follows:

	2016	2015
Personnel expenses:		
Salaries and wages	5,253,532	4,733,495
Social security expenses	749,079	734,657
Collective agreement benefits	<u>72,416</u>	<u>1,130,236</u>
Total personnel expenses:	<u>6,075,027</u>	<u>6,598,388</u>
General expenses:		
Taxes, contributions and rates	1,712,912	1,613,511
Commissions, fees and services	2,777,249	2,889,784
Operating Leases	724,689	731,502
Maintenance	2,046,003	1,961,770
Depreciation	3,220,106	3,203,765
Provision for contingencies	(302,339)	(60,227)
Others	<u>2,142,356</u>	<u>3,010,739</u>
Total general expenses	<u>12,320,976</u>	<u>13,350,844</u>
Total	<u>18,396,003</u>	<u>19,949,232</u>

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The Company signed a non-revocable operating lease agreement for seven years, whose validity began in May 2007, for the use of the offices and operating facilities. In October 2013 an automatic extension was requested for an additional three years to the lease contract leaving its expiration in April 2017.

At the cut-off date, the minimum future payments from the operating lease, not to be canceled, are distributed as follows:

	2016	2015
	Operating Leases that cannot be cancelled	
Up to one year	181,414	538,957
Over one year and up to five years	-	181,414
Total leases	181,414	720,371

The quotas of operating lease recognized as period expenses are B/.2,159,199 (2015: B/.2,044,257).

23. Other expenses

The breakdown of the other expenditures is as follows:

	2016	2015
Loss on disposal of fixed assets	1,006,773	1,011,940
Total	1,006,773	1,011,940

24. Financial income and costs**24.1 Financial income**

	2016	2015
Interest income:		
Bank deposits	95,089	69,760
Other interest earned	138,710	138,149
Total	233,799	207,909

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24.2 Financial costs

	2016	2015
Interest expense :		
Issuance of bonds	13,351,846	13,063,761
Total interest expense	13,351,846	13,063,761
Total Interest expense expense for financial liabilities which are not measured at fair value		
Less: Interest capitalized in qualified assets	(688,447)	(702,022)
Other financial expenses	110,509	149,118
Total	12,773,908	12,510,857

25. Income tax**25.1 Tax provisions**

The tax provisions applicable and in force, establish the following:

- a) The nominal rate of income tax is 30%.

25.2 Conciliation of the effective interest rate

The conciliation between the applicable taxable rate and the effective interest rate and the composition of expenditure by income tax for 2016 and 2015 periods are as follows:

	2016	%	2015	%
Income before taxes	45,749,734		45,000,656	
Theoretical tax	13,584,796	29.7%	13,705,381	30.5%
Plus items that increase income	5,100,473		80,466,963	
Less items that reduce income	(26,504,830)		(2,807,449)	
Liquid ordinary income for this exercise	24,345,377		122,660,170	
Less exempt income	95,089		69,760	
Taxable liquid Income	24,250,288		122,590,410	
Income tax rate	30%		30%	
Income tax	7,275,086		36,777,123	
Other adjustment for prior year income tax return filing	1,699		136,805	
Income tax current	7,276,785	30%	36,913,928	30%
Breakdown of income tax expense - current and deferred				
Current income tax	7,276,785		36,913,928	
Deferred income tax	6,308,011		(23,208,547)	
Income tax	13,584,796		13,705,381	

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25.3 Income tax recognized in profit or loss

The most significant components of expenditure by income tax at the cut-off date are:

	2016	2015
Current income tax		
Expense (income) for current income tax	7,275,086	36,777,123
Adjustments recognized in the current period related to the current income tax of previous periods	1,699	136,805
Total current income tax	<u>7,276,785</u>	<u>36,913,928</u>
Deferred income tax		
Net expense (income) for deferred tax related to the origin and reversal of temporary differences	<u>6,308,011</u>	<u>(23,208,547)</u>
Total deferred income tax	<u>6,308,011</u>	<u>(23,208,547)</u>
Income tax	<u>13,584,796</u>	<u>13,705,381</u>

25.4 Income tax recognized in other comprehensive loss

The value of the assets or liabilities on the current income tax is as follows:

	2016	2015
Asset or liability for current income tax	134,122	58,217
Income tax	<u>44,322</u>	<u>75,905</u>
Total asset (or liability) income tax	<u>178,444</u>	<u>134,122</u>

The breakdown of the taxable effect corresponding to each component of "other comprehensive income" on the statement of profit or loss and other comprehensive income is as follows:

	2016			2015		
	Gross	Taxable effect	Net	Gross	Taxable effect	Net
New measurements of defined benefits plan	(594,812)	178,444	(416,368)	(447,074)	134,122	(312,952)
Total	<u>(594,812)</u>	<u>178,444</u>	<u>(416,368)</u>	<u>(447,074)</u>	<u>134,122</u>	<u>(312,952)</u>

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25.5 Deferred tax

The breakdown of the deferred tax is as follows:

	Beginning balance	Net changes included in the result	Changes included in OCI	Final balance
Current assets				
Accounts receivable	1,525,576	546,857	-	2,072,433
Inventory	65,421	(18,209)	-	47,212
Non current assets				
Properties, plant and equipment	(1,965,070)	139,578	-	(1,825,492)
Accounts receivable	-	-	-	-
Others	(80,732)	(12,363)	-	(93,095)
Investment properties	(412,567)	-	-	(412,567)
Current liabilities				
Employee benefits	11,665	(13)	-	11,652
Provisions	1,171,626	299,217	-	1,470,843
Other liabilities	220,199	117,902	-	338,101
Liabilities non current				
Employee benefits	140,529	(95,197)	44,321	89,653
Total deferred tax asset/liability tax	676,647	977,772	44,321	1,698,740

26. Earnings per share

The amount of basic earnings per share is calculated by dividing the net profit for the fiscal year attributable to the holders of common equity instruments of the controlling interest by the weighted average of common shares outstanding during the fiscal year. The amount of earnings per diluted share is calculated by dividing the net profit attributable to common shareholders (after the adjustment of interests by the convertible preferred shares) by the weighted average number of common shares outstanding during the period, plus the weighted average of common shares which would be issued through the conversion into common shares of all possible diluted common shares.

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Below is the information on earnings and shares used in the calculations of the earnings per basic and diluted share:

	2016	2015
Net profit (loss) attributed to the holders of common equity instruments of the controlling company due to continuing operations	32,164,937	31,295,275
Net profit (loss) attributed to the holders of common equity instruments of the controlling company, to compute basic profit	32,164,937	31,295,275
Net profit (loss) attributed to the holders of common equity instruments of the controlling company adjusted for the diluted effect	32,164,937	31,295,275
Weighted average of the amount of common shares, attributed to the basic earnings per share	49,839,969	49,839,969
Weighted average of the amount of common shares adjusted by the diluted effect	49,839,969	49,839,969
Basic earnings per share on continuing operations	0.65	0.63

There was no other transactions with common shares or possible common shares between the filing date and the date of issuance of these financial statements.

27. Disclosure of information on related parties

ENSA is a commercial company, whose owners are Panama Distribution Group, S.A. (PDG) owning 51% of the authorized common shares, issued and outstanding; the Panamanian government, and ex-employees of IRHE who possess 48.25% and 0.43%, respectively.

The companies resulting from the restructuring of the electricity segment in Panama are considered related parties to ENSA, in which the Government of Panama and key management personnel have share participation.

Below is the total value of the transactions carried out by the Company with its related parties during the corresponding period:

	Income	Cost/ expenses	Securities receivable	Securities payable
Other related parties				
2016	64,967,963	239,132,572	11,156,441	43,018,302
2015	86,593,806	237,101,832	14,121,588	39,589,065

Transactions between the Company and its related parties are carried out in conditions equivalent to those that exist in transactions between independent parties, regarding their purpose and conditions.

In the normal course of business, ENSA purchases electricity from the power generating companies and other distribution companies; they sell energy to government institutions and make payments to the distribution Company.

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The Law requires that the Company ensure 100% regulated coverage of its customers' demand through contracts within the following 24 months. The energy purchasing strategy is based on medium and long-term holding contracts to protect customers from strong fluctuations in the generation rate charges. In addition, ENSA pays to Empresa de Transmisión Eléctrica, S.A. (ETESA), a company wholly-owned by the Panamanian State, a regulated rate for the connection and use of its distribution system.

Remuneration for the Board of Directors and the Company's key personnel:

The members of the key management staff in the Company include the general manager, vice-presidents and members of the executive committee of the Company.

	2016	2015
Remuneration of key management staff	<u>1,870,567</u>	<u>1,894,658</u>

The amounts disclosed are those recognized as compensation cost or expense during the reporting period for the key management staff.

28. Capital management

The Company's capital consists of debt (short-term loans, preferential and corporate bonds) and equity (composed of share capital, other comprehensive income and retained earnings). The main objective of the Company's capital management is to ensure that a strong credit rating and healthy capital ratios are maintained in order to support the sustainability of the business and maximize the return for shareholders.

The Company manages its capital structure and makes adjustments in view of changes in economic conditions and according to the requirements of financial agreements. To maintain or amend the capital structure, the Company may adjust the payment of dividends to shareholders and the return of capital. No changes were made to these objectives during the years ending December 31, 2016 and 2015.

The Company keeps track of the capital by using an indebtedness ratio, which is the total debt divided by the sum of the total operating profit plus depreciation and amortization ("EBITDA" - Earnings before Interest, Tax, Depreciation and Amortization) in accordance with the requirements of the financial agreements. On May 31, 2016, the Company filed with the Superintendency of Securities Market (hereinafter "SMV") an application for the registration of certain terms and conditions of corporate bonds that were issued and sold in a public offering for an amount totaling one hundred million dollars' legal tender of the United States of America. The proposed amendment was made with the specific purpose of (i) increasing the debt to EBITDA ratio included in Section 4.16 (iii) of the Indenture Agreement from 3.5 to 1.0 and (ii) making other changes to the Indenture Agreement to incorporate greater consistency between the terms of the Indenture Agreement and the terms of other Issuer debt instruments. The holders of the corporate bonds from the issuance were duly informed of the proposed amendment by ENSA and notified their consent to them. By resolution No. SMV-803-16 of December 16, 2016, the SMV of Panama duly approved the registration of all amendments to the terms and conditions of the corporate bonds issued for one hundred million dollars. The Company's policy is to ensure that the debt ratio will not exceed 3.50 times its EBITDA.

To achieve this overall objective, the Company's capital management, among other things, aims to ensure that it complies with the financial agreements of its debt issuances which are part of the requirements of its capital structure. The violation of the financial clauses would allow bondholders to immediately call for their cancellation. There have been no breaches of the financial clauses of the bond issues in the current period or earlier.

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	2016	2015
Short term debt	82,000,000	27,000,000
Preferred bonds 2021	101,986,005	101,764,850
Corporate bonds 2018	20,198,886	20,223,889
Preferred bonds 2027	79,062,549	78,987,236
Cash and cash equivalents	(3,620,659)	(2,146,109)
Total net debt	279,626,781	225,829,866
Common shares	106,098,875	106,098,875
Comprehensive profit or loss	(416,369)	(312,952)
Retained earnings	40,823,336	31,295,275
Total equity	146,505,842	137,081,198
Total capital	426,132,623	362,911,064
Debt ratio	191%	165%
Debt total to EBITDA	3.38x	2.82x

29. Financial risk management objectives and policies

The Company is exposed to financial risk, which is defined as the possibility of the occurrence of an event that adversely affects the financial results, within which the market risk, interest rate risk, liquidity risk and credit risk are found.

The Company is exposed to financial risks that are part of the normal course of business. There is a policy aimed at establishing what the financial risks are that could negatively impact the performance of the business. The Company's policy contemplates, among other things, the development of a risk matrix in which the parameters of measurement, impact and monitoring are established which will allow taking the necessary prevention and control measures when facing a risk situation. The risks are reviewed by Management periodically with the purpose of updating the status of the same and addressing any eventuality in a timely manner.

29.1 Market risk

Market risk is the risk that the fair value of the future cash flows of a financial instrument can fluctuate due to variations in market prices. The Company has determined that it does not have financial instruments significantly affected by market risk. Although the thermal generation contracts involve a price adjustment depending on fluctuations in the price of bunker fuel, which generates variations in expenditures of cash flows, these variations in energy purchase costs by regulatory provisions are transferred in their entirety to the customers through semi-annual adjustments made to the tariff.

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29.2 Interest rate risk

The interest rate risk is the risk that the fair value or future cash flows of a financial instrument may fluctuate as a result of variations in market interest rates. The Company is exposed to interest rate risk due to debt contracted at a floating interest rate. The risk is managed by the Company maintaining a proper balance between contracted fixed and floating interest rates. To minimize the impact of fluctuations in interest rates in its cash flows, the Company has established the practice of negotiating the margins with its preferred banking institutions. In recent years, it has been able to reduce the margins of its uncollateralized credit lines. Historically, it has not used interest swaps and similar derivatives to cover its exposure to interest rate risk. It is the Company's policy to invest the surplus funds of its operations in demand deposits with first-rate financial entities in Panama.

The Company also has credit lines available with financial institutions that enable it to withstand potential cash deficits to meet its short-term commitments.

As at December 31, 2015, the Company maintains 36% (2015: 20%) of the debt contracted at a floating interest rate and 64% (2015: 80%) at a fixed interest rate. Management's position regarding its financing structure has been to contract most of its debt at a fixed rate within a range of about 85% and at a variable rate of 15%. The financing structure that existed at the end of the 2016 period is circumstantial, given that at present it is practical for the Company to access its credit facilities.

Sensitivity to interest rates analysis

The interest rate for the unsecured and unsubordinated 3-month LIBOR 3-plus margin corporate bonds with maturity on October 20, 2018, is our only significant debt at a variable interest rate.

The following table indicates the sensitivity to a possible reasonable change in interest rates of the corporate bonds, without considering the effect of hedge accounting. Keeping the other variables constant, income before taxes and the Company's equity would be affected by changes in the variable interest rates as follows:

	Increase / decrease in basis points	Financial Effect	
		In the profit or loss before taxes	In the capital
2016			
Interest rate 3M LIBOR + Margin	+ 100	203,333	142,333
Interest rate 3M LIBOR + Margin	- 100	(203,333)	(142,333)
Interest rate 3M LIBOR + Margin	+ 200	406,667	284,667
Interest rate 3M LIBOR + Margin	- 200	(406,667)	(284,667)
2015			
Interest rate 3M LIBOR + Margin	+ 100	(202,778)	(141,945)
Interest rate 3M LIBOR + Margin	- 100	202,778	141,945
Interest rate 3M LIBOR + Margin	+ 200	(405,555)	(283,889)
Interest rate 3M LIBOR + Margin	- 200	405,555	283,889

The Company believes that the sensitivity analysis is representative with regards to its exposure to the interest rate risk.

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29.3 Foreign exchange risk

The foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument may fluctuate as a result of variations in exchange rates. The Company's revenues and loans and other obligations are denominated in US dollars. It does not face any foreign exchange risk due to the adoption of the U.S. dollar as legal tender and functional currency of Panama and the use of the United States dollar by the Company in all its operations and transactions. They do not use Swaps of exchange rates as a hedge against the risk of foreign currency.

29.4 Credit risk

The credit risk is the risk that one of the parties does not meet with the obligations derived from a financial instrument or purchase contract and this will translate into a financial loss. The financial instruments that are potentially subject to credit risk for the Company are mainly cash and cash equivalents, accounts receivable, accounts receivable from related parties and other financial assets.

The financial institutions in which the Company maintains its cash and cash equivalents are recognized institutions and with the appropriate credit ratings. Management does not consider that there are risk exposures by these financial institutions.

Its consumer customers' credit risk is managed in part by requiring the equivalent to the billing for one month as a security deposit for all new customers. Existing customers with good payment history can open additional accounts without paying this security deposit. The Company believes that it has no significant concentration of credit risk with respect to non-governmental accounts.

The concentration of credit risk is limited due to the fact that the Company is exclusively dedicated to the distribution and marketing of electricity to customers located in its concession area. The Company does not believe that there is a risk of significant loss as a result of the concentration of credit, given that a large number of their customers who make up the portfolio are geographically dispersed.

The industrial and commercial customers typically provide deposits or bank guarantees equivalent to one month of the estimated cost of service in order to be able to connect to the electricity services. These deposits or guarantees may be compensated against the overdue debt for this category of customers. The overdue Government accounts may vary depending on the approval processes of the budget of each governmental entity. These accounts tend to be paid after the date of its original maturity, usually due to complications in governmental processes of presentation of accounts for their cancellation. The Company charges interest on late payments. However, once these governmental budgets are approved and the process is complete, the Company generally has the capacity to retrieve all the overdue government accounts receivable.

The Electricity Law of 1997 allows the electricity distribution companies to interrupt service to any customer whose invoice has not been cancelled within 60 days of their billing. The Company's policy is to actively contact the commercial and industrial with due invoices. If a satisfactory agreement is not reached, the service is suspended until the late charge is collected or a satisfactory payment agreement is made. Cuts are routinely carried out for its residential customers after they have been given a notice of termination in a subsequent invoice, a letter of notification, a phone call or any other means of notification at its disposal to inform them of their pending termination of service. Most of the disconnected customers reconnect again after the customer cancels the invoice due or signs a satisfactory financing agreement. The Electricity Law of 1997 allows the distribution companies to charge interest on the overdue debt starting 30 days after the billing date. The Company currently uses a regulated interest rate based on the average rate available in local banks. Service is restored once the payment of the debt and accrued interest is made. Regular monitoring of the accounts receivable and actions related to daily disconnected services are used to limit the risk of giving continuous service to delinquent customers.

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In addition, the Company believes that its potential credit risk is adequately covered by the provision for doubtful accounts.

With regard to credit risk arising from the other financial assets of the Company, which include cash and cash equivalents, other accounts receivable and other financial assets, the Company's exposure to credit risk arises from the breach of the counterpart, with a maximum exposure equal to the carrying value of these instruments. The Company limits the counterparty credit risk in these assets by only dealing commercially with financial institutions with high credit rating.

The Company believes that the value that best represents their exposure to credit risk at the end of the period without considering any warranty taken or other credit improvements is:

	2016	2015
Restricted cash and cash equivalents	3,620,659	2,146,109
Accounts receivable	15,641,518	14,301,115
Other accounts receivable	198,612	132,964
Deposits and guarantees	<u>625,407</u>	<u>501,047</u>
Maximum exposure to credit risk	<u>20,086,196</u>	<u>17,081,235</u>

29.5 *Liquidity risk*

Liquidity risk

Liquidity risk is the risk that the Company finds itself having difficulty in meeting obligations associated with financial liabilities that are settled by delivery of cash or another financial asset. The Company monitors its risk to the shortage of funds by assessing its debt index and the expiration dates of their existing debt and of the other accounts payable.

The Company has adopted practices for the management of liquidity risk whose purpose is to maintain sufficient cash and liquid financial assets. The Company holds short-term credit lines with first-rate financial entities in Panama that provide us with the operational flexibility required to meet its energy purchases and other obligations. Due to the fact that the Company invests its operation funds to support the annual investment program, it does not keep significant amounts of cash surplus for additional investments. The main sources of liquidity are the funds generated by its operations, and to a lesser extent, by the short-term credit lines. The Company considers that its sources of liquidity are sufficient to meet the needs.

The concentration of liquidity risk is managed by the Company negotiating credit facilities with various financial institutions in Panama that allow them to access funds expeditiously and reliably.

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The following table shows the remaining contractual maturity analysis for non-derivative financial liabilities:

	Average effective interest rate	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	More than 4 years	Total contractual obligation
2016							
Non-derivative financial liabilities		195,237,281	-	-	-	-	195,237,281
Financial debt instruments with variable interest rate	3.46%	82,000,000	-	-	-	20,000,000	102,000,000
Financial debt instruments with fixed interest rate	6.56%	-	-	-	-	180,000,000	180,000,000
Total		<u>277,237,281</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>200,000,000</u>	<u>477,237,281</u>
2015							
Non-derivative financial liabilities		168,499,409	-	-	-	-	168,499,409
Financial debt instruments with variable interest rate	3.46%	27,000,000	-	-	-	20,000,000	47,000,000
Financial debt instruments with fixed interest rate	6.56%	-	-	-	-	180,000,000	180,000,000
Total		<u>195,499,409</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>200,000,000</u>	<u>395,499,409</u>

The values listed in the tables above for non-derivative financial assets and liabilities may change with changes in the variable interest rate with respect to the interest rate estimated at the end of the period of time in which it is reported. The Company considers that the cash flows cannot occur earlier than when it is indicated above.

30. Measurement of fair value on a recurring and non-recurring basis

The methodology established in IFRS 13 - *Fair Value Measurement*, specifies a hierarchy in valuation techniques on the basis of whether the variables used in the determination of the fair value are observable or not observable. The Company determines the fair value with a recurring and non-recurring basis, as well as for the purposes of disclosure:

- On the basis of valuation techniques commonly used by market participants that use different variables from the quoted prices that are observable for assets or liabilities, directly or indirectly (level 2).
- Based on internal valuation techniques for discounted cash flows or other valuation models, using variables estimated by the Company that are not observable for the asset or liability, in the absence of observable variables in the market (level 3).

There have been no transfers between hierarchy levels of the fair value, given that there have been no transfers of inputs and outputs.

Valuation techniques and variables used by the Company in the measurement of fair value for recognition and disclosure:

The fair value for long-term debt fixed rate instruments has been determined with level 1 data inputs that use quoted prices in active markets for liabilities which are identical to those that the Company can access at the measurement date.

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The fair value for long-term debt instruments with a variable interest rate has been determined with data inputs in level 3, using a methodology of discounted cash flows on the basis of the information available on the market.

Investment properties measured at fair value for the purposes of recognition: the quoted price is used in a specific appraisal of the investment properties using the comparative method or market value. These items are classified in level 1 of the fair value hierarchy.

Customer accounts receivable, accounts payable, short-term debt and customer deposits: the accumulated amount approximates fair value, because of the short maturity of these instruments.

The valuation techniques used in the current period of market prices, discounted cash flows and appraisals of assets that have not changed with respect to the ones used in prior periods.

The Company used the following significant non-observable variable to determine the level 3 fair value of the fair value hierarchy:

	<u>Valuation techniques</u>	<u>Unobservable variable</u>	<u>Range (weighted average)</u>
Liabilities			
Debt instrument - variable rate	Discounted cash flow	5.5% Discount rate	1.30% -1.40% LIBOR 3M + Margin

The carrying value and the estimated fair value of the assets and liabilities of the Company that are not recognized at fair value in the statement of financial position, but require their disclosure at fair value, at the cut-off date are:

	<u>2016</u>				<u>2015</u>			
	<u>Estimated Fair Value</u>				<u>Estimated Fair Value</u>			
	<u>Value in Books</u>	<u>Level 1</u>	<u>Level 3</u>	<u>Total</u>	<u>Value in Books</u>	<u>Level 1</u>	<u>Level 3</u>	<u>Total</u>
Liabilities								
Debt Instrument - fixed rate	181,048,554	194,573,000		194,573,000	180,752,086	195,472,800	-	195,472,800
Debt Instrument - variable rate	20,198,886	-	19,331,478	19,331,478	20,223,889	-	19,507,679	19,507,679
Total	201,247,440	194,573,000	19,331,478	213,904,478	200,975,975	195,472,800	19,507,679	214,980,479
		91%	9%			91%	9%	

31. Subsequent events

The Company evaluated all events and transactions that took place between the date of the statement of financial situation and the issuance date of the financial statements and determined that no additional disclosures are required.

32. Approval of the financial statements

The financial statements were approved by the Board of Directors and authorized for their issuance on February 15, 2017.

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