

(FREE ENGLISH LANGUAGE TRANSLATION
FROM SPANISH VERSION)

Elektra Noreste, S.A.

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

Financial Statements for the year ended
December 31, 2017, and the Independent
Auditors' report as of 23 February 2018

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

Elektra Noreste, S.A.

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

Independent Auditors' Report and Financial Statements for 2017.

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(Free English Language Translation from Spanish Version)

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 of December 31, 2017, and the statement of income 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 of December 31, 2017, and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS).

Basis for the opinion

We conducted our audit in accordance with International Standards on Auditing. 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 matters

Key audit matters 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 matters

As described in Note 20, the Company operates in a regulated industry that maintains a pricing system in which the excess or deficiency 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" 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 3.18 and 20 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 to evaluate and assess the Company's ability to continue as a going concern, to reveal when applicable related matters to the ongoing business in progress and to use accounting for the ongoing business situations or unless the administration intends to liquidate the Company or cease operations, or it has no other realistic alternative than to do so.

Government officials 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 security that the financial statements have no material misstatements, whether due to fraud or error, and to issue an auditor's report that includes our opinion. The reasonable security is a high level of security, but it is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a major error when it exists. Errors can arise from fraud or error and are considered important if, individually or cumulatively, they can 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, we exercise professional judgment and maintain professional skepticism throughout the audit. As well as:

- We identify and evaluate the risks of material misstatement in the financial statements due to fraud or error, we design and perform audit procedures in response to these risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a major error resulting from fraud is greater than one that results from error, because fraud may involve collusion, forgery, intentional omissions, misrepresented declarations, or violation of internal controls.
- We obtain an understanding of the internal controls relevant to the audit with the objective of designing audit procedures that are appropriate for the circumstances, but not for 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 business accounting base for a going concern, based on the audit evidence obtained, and whether there is a significant uncertainty regarding events or conditions that may give rise to a doubt about the Company's ability to continue as a going concern. If we conclude that there is significant uncertainty, it is required that we direct our attention in our audit report to related relevant disclosures in the financial statements or, if those disclosures are inadequate, we will modify our opinion. Our findings are based on the audit evidence obtained at the date of our audit report. However, future events or conditions may cause the Company to cease to be a going concern.
- We evaluate the overall presentation, structure, and content of the financial statements, including disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves reasonable presentation.

The Partner on the audit resulting in this independent auditor's report is Ladia Aguilera M.

(Signed) Deloitte

February 23, 2018
Panamá, Rep. of Panamá

Elektra Noreste, S.A.

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

Statement of financial position**December 31, 2017**

(In balboas)

| | Notes | 2017 | 2016 |
|--|--------------|--------------------|--------------------|
| Assets | | | |
| Non current assets | | | |
| Properties, plant and equipment, net | 5 | 502,455,031 | 473,144,961 |
| Investment properties | 6 | 3,162,609 | 2,480,209 |
| Other intangible assets | 7 | 19,875,032 | 20,442,389 |
| Trade and other accounts receivable | 8 | 9,700,000 | 9,700,000 |
| Deferred income tax | 26.4 | 2,813,876 | 1,698,740 |
| Employee benefits | 16 | - | 172,499 |
| Other assets | 9 | 679,162 | 625,407 |
| Total non current assets | | <u>538,685,710</u> | <u>508,264,205</u> |
| Current assets | | | |
| Inventories | 10 | 18,624,213 | 22,931,180 |
| Trade and other accounts receivable | 8 | 107,693,795 | 96,228,584 |
| Current tax assets | | - | 7,653,094 |
| Other assets | 9 | 800,384 | 559,150 |
| Cash and bank balances | 11 | <u>4,558,153</u> | <u>3,620,659</u> |
| Total current assets | | <u>131,676,545</u> | <u>130,992,667</u> |
| Total assets | | <u>670,362,255</u> | <u>639,256,872</u> |
| Balances of regulatory deferred debit accounts | 20 | <u>16,368,097</u> | <u>5,269,828</u> |
| Total assets and debit balances of deferred regulatory accounts | | <u>686,730,352</u> | <u>644,526,700</u> |

(Continued)

Elektra Noreste, S.A.

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

Statement of financial position**December 31, 2017**

(In balboas)

| Equity and liabilities | Notes | 2017 | 2016 |
|--|--------------|--------------------|--------------------|
| Equity | | | |
| Issued capital | 12 | 106,642,962 | 106,642,962 |
| Treasury stocks | 12 | (544,087) | (544,087) |
| Other accumulated comprehensive income (loss) | 13 | (586,915) | (416,369) |
| Retained earnings | | 25,743,192 | 8,658,399 |
| Net profit for the year | | 32,390,063 | 32,164,937 |
| Total equity | | 163,645,215 | 146,505,842 |
| Non-current liabilities | | | |
| Credits and loans | 14 | 181,424,837 | 201,247,440 |
| Creditors and other accounts payable | 15 | 15,145,420 | 15,509,763 |
| Employee benefits | 16 | 626,448 | 382,375 |
| Other liabilities | 18 | 2,621,402 | 2,812,791 |
| Total current liabilities | | 199,818,107 | 219,952,369 |
| Current liabilities | | | |
| Credits and loans | 14 | 128,000,000 | 82,000,000 |
| Creditors and other accounts payable | 15 | 181,034,949 | 189,427,518 |
| Employee benefits | 16 | 37,840 | 38,839 |
| Income tax payable | | 4,003,087 | - |
| Provisions | 17 | 5,280,725 | 5,021,184 |
| Total current liabilities | | 318,356,601 | 276,487,541 |
| Total liabilities | | 518,174,708 | 496,439,910 |
| Deferred tax liabilities related to the balances of deferred regulatory account | 20 | 4,910,429 | 1,580,948 |
| Total liabilities and credit balances of deferred regulatory accounts | | 523,085,137 | 498,020,858 |
| Total equity and liabilities | | 686,730,352 | 644,526,700 |

(Concluded)

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

Elektra Noreste, S.A.

(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, 2017**

(In balboas)

| | Notes | 2017 | 2016 |
|--|--------------|--------------------|--------------------|
| Continuing operations | | | |
| Services rendered | | 626,795,596 | 558,915,624 |
| Other income | | 10,050,522 | 10,574,226 |
| Income from continuing operations | 21 | <u>636,846,118</u> | <u>569,489,850</u> |
| Costs for rendering services | 22 | 549,466,339 | 490,564,881 |
| Administrative expenses | 23 | 21,736,506 | 18,396,003 |
| Impairment of accounts receivable | | 2,628,232 | 1,232,351 |
| Other expenses | 24 | 2,440,461 | 1,006,773 |
| Finance income | 25 | 156,775 | 233,799 |
| Finance costs | 25 | 14,424,365 | 12,773,908 |
| Profit before tax | | <u>46,306,990</u> | <u>45,749,733</u> |
| Income tax expense | 26 | <u>13,916,927</u> | <u>13,584,796</u> |
| Net profit for the year | | <u>32,390,063</u> | <u>32,164,937</u> |
| Other comprehensive income, net of tax | | | |
| Items which will not be reclassified later to profit or loss of the year: | | | |
| Remeasurement of defined benefit obligations | 13 | (243,637) | (147,739) |
| Income tax relating to components which will not be reclassified which will not be reclassified | 13, 26 | <u>73,091</u> | <u>44,322</u> |
| Other comprehensive income, net of tax | | <u>(170,546)</u> | <u>(103,417)</u> |
| Total comprehensive income for the year | | <u>32,219,517</u> | <u>32,061,520</u> |

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

Elektra Noreste, S.A.

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

**Statement of changes in shareholders' equity
for the year ended December 31, 2017**

(In balboas)

| | | | Other comprehensive income accumulated (Notes 13- 16) | Retained earnings | Total |
|---|------|-----------------------------|---|----------------------|--------------|
| | Note | Issued capital (Note 12) | Treasury shares (Note 12) | | |
| Balance at 1 January 2016 | | 106,642,962 | (544,087) | 31,295,275 | 137,081,198 |
| Net profit for the year | | - | - | 32,164,937 | 32,164,937 |
| Other comprehensive income of the year, net of tax | | - | - | - | (103,417) |
| Total comprehensive income for the year | | 106,642,962 | (544,087) | 63,460,212 | 169,142,718 |
| Surpluses or dividends declared | 12 | - | - | (20,000,000) | (20,000,000) |
| Accredited complimentary dividend income tax related to transactions with owners | | - | - | (2,636,876) | (2,636,876) |
| Balance at December 31, 2016 | | 106,642,962 | (544,087) | 40,823,336 | 146,505,842 |
| Balance at December 31, 2016 | | 106,642,962 | (544,087) | 40,823,336 | 146,505,842 |
| Net profit for the year | | - | - | 32,390,063 | 32,390,063 |
| Other comprehensive income of the year, net of tax | | - | - | - | (170,546) |
| Total comprehensive income for the year | | 106,642,962 | (544,087) | 73,213,399 | 178,725,359 |
| Surpluses or dividends declared | 12 | - | - | (15,000,000) | (15,000,000) |
| Accredited complimentary dividend income tax related to transactions with owners | | - | - | (80,144) | (80,144) |
| Balance at December 31, 2017 | | 106,642,962 | (544,087) | 58,133,255 | 163,645,215 |

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

Elektra Noreste, S.A.

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

Statement of cash flows**for the year ended December 31, 2017**

(In balboas)

| | Notes | 2017 | 2016 |
|---|-------|---------------------|---------------------|
| Cash flows from operating activities: | | | |
| Net profit for the year | | 32,390,063 | 32,164,937 |
| Adjustments to reconcile net income of the period to net cash used in operating activities: | | | |
| Depreciation and amortization of property, plant and equipment and intangible assets | 5, 7 | 27,549,703 | 25,434,627 |
| Impairment of financial instruments | | 2,628,232 | 1,232,351 |
| Gain on changes in fair value of investment property | 6 | (291,092) | - |
| Provisions, and defined benefits plan post-employment and long term | | 1,249,395 | 1,270,337 |
| Deferred income tax | | 2,260,746 | 6,308,011 |
| Current income tax | 26.2 | 11,656,181 | 7,276,785 |
| Finance costs | | 14,424,365 | 12,773,908 |
| Profit or loss from disposal of property, plant and equipment | 24 | 2,440,461 | 1,006,773 |
| Other non-cash income and expenses | | 334,337 | 352,704 |
| | | <u>94,642,391</u> | <u>87,820,433</u> |
| Changes in working capital | | | |
| Decrease in inventories | | 4,623,721 | 3,684,276 |
| (Increase) decrease in trade and other receivables | | (14,093,444) | 374,548 |
| (Increase) in deferred regulatory accounts | | (11,098,269) | (24,285,941) |
| (Increase) in other assets | | (294,989) | (321,552) |
| (Decrease) increase in creditors and other accounts payable | | (9,900,012) | 30,439,816 |
| Decrease in provisions | | (989,854) | (272,949) |
| Increase (decrease) in employee benefits | | 171,935 | (317,368) |
| Income tax paid | | - | (40,484,953) |
| | | <u>63,061,479</u> | <u>56,636,310</u> |
| Net cash generated by operating activities | | | |
| Cash flows from investing activities: | | | |
| Purchase of property, plant and equipment | 5 | (58,507,141) | (75,009,790) |
| Other cash flows from investing activities | | 54,535 | 306,269 |
| | | <u>(58,452,606)</u> | <u>(74,703,521)</u> |
| Net cash flows used in investing activities | | | |

(Continued)

Elektra Noreste, S.A.

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

Statement of cash flows**for the year ended December 31, 2017**

(In balboas)

| | Notes | 2017 | 2016 |
|---|--------------|--------------------|--------------------|
| Cash flows from financing activities: | | | |
| Obtaining public credit and treasury funds | | 46,000,000 | 55,000,000 |
| Repayment of long term debt | | (20,000,000) | - |
| Interest paid, including capitalized interest | | (14,591,235) | (12,717,562) |
| Payment of dividends | 12 | (15,000,000) | (20,000,000) |
| Other cash flows from financing activities | | <u>(80,144)</u> | <u>(2,740,677)</u> |
| Net cash flows used in financing activities | | <u>(3,671,379)</u> | <u>19,541,761</u> |
| Net Increase in cash and bank balances | | <u>937,494</u> | <u>1,474,550</u> |
| Cash and bank balances at the beginning of the year | | <u>3,620,659</u> | <u>2,146,109</u> |
| Cash and bank balances at the end of the year | 11 | <u>4,558,153</u> | <u>3,620,659</u> |
| Non-monetary transactions | | | |
| Construction Agreements | | <u>1,519,278</u> | <u>5,591,745</u> |

(Concluded)

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

Elektra Noreste, S.A.

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

Notes to the financial statements for the year ended December 31, 2017 (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”). 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. At present, Panama Distribution Group, S.A. (“PDG”) owns 51% of authorized common shares issued and outstanding shares from the Company, while the Panamanian Government and former IRHE employees own 48.25% and 0.43%, respectively. The remaining stocks are held as treasury stocks.

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 voltage transformation, the delivery of electric energy to end consumers, meter reading, invoicing and collections. The Company is also responsible for installing, operating, and maintaining public lighting in the concession area. Additionally, the Company is authorized to engage in energy generation activities 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 approved between 1996 and 1998. This framework created an independent regulator called the Autoridad Nacional de los Servicios Públicos (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. Decrees the regulatory and institutional framework to render public electric service. The Law establishes a regime to which the distribution, generation, transmission and commercialization activities of the electric power are to be subject.
- 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 purchases 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 “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.

Elektra Noreste, S.A.

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

Notes to the financial statements for the year ended December 31, 2017

(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 with the purpose of guaranteeing 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 the energy matrix with greater and more varied renewable and clean resources (wind power, gas, among others).
- “Autoridad Nacional de los Servicios Públicos”: established pursuant to the Law of Public Utilities Regulating Entity of 1996. This is an autonomous Government entity responsible of regulating, controlling and overseeing the supply of water and sewerage, telecommunications, radio and television, electricity and natural gas.

On February 22, 2006, through Decree Law 10, the “Ente Regulador de los Servicios Públicos” (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 had, however, 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 sector, one for the telecommunications sector, and one for the customer care support sector. 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 expansion plans in reference 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 utilities companies are requested to prepare and present their expansion plans to ETESA.
- “Centro Nacional de Despacho” (CND): is operated by ETESA. Plans, oversees and controls the integrated operation of the “Sistema Interconectado Nacional” (National Interconnected System). It also receives offers from the electricity-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.
- “Oficina de Electrificación Rural (OER)”: 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 the exclusivity for the distribution and commercialization of electric energy to customers located in the Eastern geographic area of Panama East, Colon, the Bay of Panama, the Guna Yala Reservation, and Darien. The exclusivity of 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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Notes to the financial statements for the year ended December 31, 2017

(In balboas)

The concession agreement was signed on October 22, 1998 and is in force for 15 years. On October 22, 2012, the regulator issued a notice to tender for a free open bidding process for the sale of the majority package of the Company's shares. The current owner, Panama Distribution Group, S. A. ("PDG"), is empowered 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 package. 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 package, and is required to send technical and financial information periodically to ASEP, in compliance with the technical quality standards, (quality standards, metering standards and operation regulations from the "Centro Nacional de Despacho" (CND), the payment of the control, surveillance and oversight 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, external audit is set as a control mechanism, which aims at examining the accounting information in general and the financial statements, as well as to render an independent audit opinion regarding the reasonableness that the statements indicate of the financial situation of the Company at the cutoff date of each accounting period.

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

2.1 Standards and interpretations new and implemented

In the current year, the Company has implemented the amendments to the IFRS issued by the International Accounting Standards Board (IASB) that are mandatory for the accounting period beginning on January 1, 2017.

IAS 7 - Cash flows

The amendment to IAS 7, issued in January 2016, defines that liabilities arising from financing activities as liabilities "for which the cash flows were or will be classified in the Statement of cash flows as the cash flows from financing activities". It also emphasizes that new disclosure requirements, are also related to changes in financial assets if they meet the same definition.

The amendment requests new disclosures about changes in liabilities derived from financing activities, such as: changes in financing cash flows, changes resulting from obtaining or losing control of subsidiaries or other businesses, the effect of Changes in foreign exchange rates, changes in fair value and other changes. It also establishes that changes in liabilities derived from financing activities must be disclosed separately from changes in other assets and liabilities and includes a reconciliation between the initial and final balances in the Statement of financial position, for liabilities derived from financing activities. Early adoption is allowed.

Elektra Noreste, S.A.

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Notes to the financial statements for the year ended December 31, 2017

(In balboas)

The Company evaluated and concluded that these amendments have no material impact on the financial statements and are described in greater detail in Note 19 - Changes in liabilities for financing activities, where comparative information is presented with the previous period.

IAS 12 - Income tax

The amendment to IAS 12, issued in January 2016, does not change the underlying principles for the recognition of deferred tax assets, it presents the following clarifications:

- Unrealized losses on debt instruments measured at fair value in financial instruments, but at cost for tax purposes may give rise to deductible temporary differences.
- When an entity assesses whether taxable profits against which a temporary deductible difference may be available, it will consider whether the current tax legislation restricts the sources of taxable profits against which it can make deductions at the time of the reversal of that temporary deductible difference. If the tax legislation does not impose these restrictions, an entity will evaluate a temporary deductible difference in combination with all others. However, if the current tax legislation restricts the use of losses to be deducted against income of a specific type, a temporary deductible difference will be evaluated in combination only with those of the appropriate type.
- The Entity must confirm whether it has sufficient fiscal profits in future periods, comparing temporary deductible differences with future tax profits that exclude tax deductions from the reversal of such temporary deductible differences. This comparison shows the extent to which the future fiscal profit will be sufficient for the entity to deduct the amounts from the reversal of temporary deductible differences.
- Possible future taxable profits could include the recovery of some assets of the entity for an amount greater than their book value if there is sufficient evidence that the entity is likely to comply. That is, in the case of an asset when measured at fair value, the entity must verify if it is certain that the recovery of the asset is likely to exceed the book value, as in the case of maintaining a fixed-rate debt instrument and collecting the contractual cash flows.

IFRS 12 - Disclosure of interests in other entities

The amendment to IFRS 12, which is part of the annual improvements to the IFRS 2014-2016 Cycle standards issued in December 2016, clarifies the scope of the standard, adding the indication that the requirements of this IFRS apply to the interest of subsidiaries, joint arrangements, associates and non-consolidated structured entities that are classified (or classified) as held for sale or discontinued operations in accordance with IFRS 5 - Non-current assets held for sale and discontinued operations, conserves the exception of revealing information about them, and is in agreement according to paragraph B17 of the standard.

These amendments have no material impact on the financial statements.

Elektra Noreste, S.A.

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**Notes to the financial statements
for the year ended December 31, 2017**

(In balboas)

2.2 Standards and interpretations new and / or revised but are not yet effective

The new standards and amendments to the IFRS, as well as the interpretations (IFRIC) that have been published in the period, but that have not yet been implemented by the Company, are detailed below:

| Standard | Mandatory application date | Type of change |
|---|-----------------------------------|-----------------------|
| IFRIC 23 - Uncertainty in the Treatment of Income Taxes | January 1, 2019 | New |
| IFRIC 22 - Transactions in foreign currency and early consideration | January 1, 2018 | New |
| IFRS 15 - Revenue from Ordinary Activities Coming from Contracts with Customers | January 1, 2018 | New |
| IFRS 16 - Leases | January 1, 2019 | New |
| IFRS 9 - Financial Instruments | January 1, 2018 | Modification |
| IAS 40 - Investment Properties (Transfers in Investment Properties) | January 1, 2018 | Modification |
| IFRS 9 -Financial instruments - (Characteristics of early cancellation with negative compensation) | January 1, 2019 | Modification |
| IAS 12 Income Tax (Annual Improvements to IFRS Standards 2015-2017 Cycle - Consequences of income tax, of payments in financial instruments classified as equity) | January 1, 2019 | Modification |
| IAS 23 Costs for loans (Annual Improvements to IFRS Standards 2015-2017 Cycle - Costs for loans subject to capitalization) | January 1, 2019 | Modification |

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IFRIC 23 - Uncertainty over income tax treatments

Issued in June 2017, this Interpretation attempts to resolve the problem of how to reflect in the financial statements, the uncertainty that arises from whether an accounting treatment applied in the tax returns is accepted by the tax authority or not. In the face of such uncertainty, the accounting treatment is considered an "uncertain accounting treatment" to which it is evaluated, whether it is probable that the tax authority accepts it. If accepted, the accounting tax position consistent with the tax treatment used or planned to be used in the income tax returns of the entity must be determined, and if not, the effect of the uncertainty in the determination of the tax must be reflected, to its related accounting tax position. In the latter case, the effect of the uncertainty must be estimated, using either the most probable quantity or the expected value method, depending on which method best predicts the solution of the uncertainty.

The Interpretation allows to apply any of the following approaches for the transition:

- Full retrospective approach: this approach can be used only if possible without the use of hindsight. The application of the new interpretation will be accounted for in accordance with IAS 8, which means that comparative information will have to be reissued; or
- Modified retrospective approach: the reissuance of comparative information is not required or allowed according to this approach. The cumulative effect of applying the Interpretation initially will be recognized in the opening equity at the date of the initial application, being the beginning of the annual reporting period in which the entity first applies the Interpretation.

The Company is evaluating the impacts that the application of this interpretation could generate.

The interpretation will be mandatory for annual periods beginning on or after January 1, 2019. Early application is permitted.

IFRIC 22 - Transactions in foreign currency and advance consideration

Issued in December 2016, this Interpretation deals with how to determine the date of the transaction to define the exchange rate that will be used in the initial recognition of assets, expenses, or income (or part of it), in the disposal of a non-monetary asset or non-monetary liability resulting from the payment or receipt of an advance in foreign currency. In this regard, the IFRS Interpretations Committee reached the following conclusion: the date of the transaction, for purposes of determining the exchange rate, is the date of the initial recognition of the non-monetary advance payment asset or the income liability deferred. If there are several payments or receipts in advance, a transaction date is established for each payment or receipt. It does not apply when an entity measures the related asset, expense or income on the initial recognition at its fair value or at the fair value of the consideration paid or received on a date other than the date of the initial recognition of the non-monetary asset or the non-monetary liability derived from the monetary value of the anticipated consideration (for example, the measurement of goodwill in accordance with IFRS 3 - Business combinations). It also does not apply to income tax and insurance contracts.

These modifications have no impact on the financial statements, since they coincide with the current practice of the Company.

The interpretation will be mandatory for annual periods beginning on or after January 1, 2018. Early application is permitted.

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IFRS 15 - Revenue from contracts with customers

Issued in May 2014, it is a new standard applicable to all income agreements for ordinary activities arising from contracts with customers, except for leases, financial instruments and insurance contracts that are regulated by their respective regulations. It is a joint project with the Financial Accounting Standards Board - FASB to eliminate differences in revenue recognition between IFRS and US GAAP.

The clarifications made in April 2016 to IFRS 15 include the following aspects:

a. Identification of the action as principal or agent.

When a third party is involved in providing goods or services to a customer, the Company will determine whether the nature of its commitment is a performance obligation consisting of providing the goods or services specified by itself (that is, acting as a principal) or in arranging for the third party the supply of those goods or services (that is, acting as an agent).

b. Variable consideration:

It is any amount that is variable according to the contract. The amount of the consideration may vary due to discounts, refunds, compensations, reimbursements, credits, price reductions, incentives, performance bonuses, penalties, or other similar elements. The agreed compensation can also vary if the right of an entity to receive it depends on whether a future event occurs. For example, a consideration amount would be variable if a product with a right of return was sold or a fixed amount is promised as a performance premium at the time of achieving a specified milestone.

c. Application methods:

The standard allows the use of two methods for initial application as follows: Full retrospective method and the modified method. In the Company, this rule is applied following the modified method.

Modified method: With the modified approach, the cumulative effect of the initial application shall be recognized as an adjustment to the opening balance of retained earnings (or other component of equity, as applicable) of the annual reporting period that includes the initial application date. Under this transition method, an entity applies this Standard retroactively only to contracts that are not completed on the date of initial application (for example, January 1, 2018 for an entity with December 31 as the end of the year).

For submission periods that include the initial application date, an entity shall provide all the following additional disclosure information:

a) The amount for which each line item in the financial statements is affected in the current reporting period by the application of this Standard compared to IAS 11 and IAS 18 and related Interpretations that were in effect prior to the change; and

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b) An explanation of the reasons for the significant changes identified. This new standard aims to improve the inconsistencies and weaknesses of IAS 18 and provide a model that will facilitate the comparability of companies from different industries and regions. It provides a new model for revenue recognition and more detailed requirements for contracts with multiple elements. In addition, it requires more detailed disclosures.

The basic principle of IFRS 15 is that an entity recognizes revenues from ordinary activities in a way that represents the transfer of goods or services committed to customers in exchange for an amount that reflects the consideration to which the entity expects to be entitled for said change of goods or services.

An entity recognizes revenue from ordinary activities in accordance with that basic principle through the application of the following steps:

Stage 1: Identify the contract (or contracts) with the client

Stage 2: Identify performance obligations in the contract

Stage 3: Determine the price of the transaction

Stage 4: Assign the price of the transaction between the performance obligations of the contract

Stage 5: Recognize revenue from ordinary activities when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognizes revenue when an obligation is satisfied, for example, when the "control" of the goods or services underlying the execution of the particular obligation are transferred to the customer. More specific guidelines have been added to the standard to handle specific scenarios. Additionally, further disclosures are required.

It will replace the IAS 18 - Income, IAS 11 - Construction contracts, IFRIC 13 - Customer loyalty programs, IFRIC 15 - Agreements for the construction of real estate, IFRIC 18 - Transfers of assets from customers and SIC 31 - Transactions of barter that include advertising services.

The Company continues to evaluate the new standard with special emphasis on the identification of performance obligations included in contracts with customers and the evaluation of methods to estimate the amount and timing of variable consideration. Although the impact remains subject to review, the Company does not consider that the adoption of IFRS 15 has a material impact on the financial statements.

The amendments will be mandatory for annual periods beginning on or after January 1, 2018. Early application is permitted.

IFRS 16 - Leases:

Issued in January 2016, this new standard introduces an integral model for the identification of lease agreements and accounting treatments for Property owners and tenants. It will replace the current standards for the accounting treatment of the leases included in IAS 17 Leases and the related interpretations.

To make the distinction between leases and service contracts is based on the control of the client over the identified asset. For the lessee, the distinction between operating leases (off balance sheet) and finance leases (in the balance sheet) is eliminated and replaced by a model in which an asset must be recognized (right of use) and its corresponding liability for all leases (that is, everything in the balance sheet), except for short-term leases and leases of low-value assets.

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The asset (right of use) is initially measured at cost and subsequently measured at cost (with certain exceptions) less accumulated depreciation and impairment losses, adjusted for any reassessment of the lease liability. The present value of future lease payments initially measures the lease liability. Subsequently, the lease liability is adjusted to the interest and lease payments, as well as the impact of the lease modifications, among others.

In addition, the classification of cash flows will also be affected since operating lease payments under IAS 17 are presented as operating cash flows; while in IFRS 16, lease payments will be divided into capital amortization and a portion of interest that will be presented as cash flow from financing and operation, respectively.

In contrast to the lessee's accounting, IFRS 16 includes as accounting requirements for the lessor the same as those included in IAS 17, that is, it continues to require a lessor to classify a lease as an operating lease or a finance lease.

This new standard requires more detail in the disclosures. The Company is evaluating the impact that the application of this new standard could generate.

IFRS 9 - Financial instruments

IFRS 9 and its amendment issued in July 2014, establishes that financial assets are classified in their initial recognition in three categories, according to the business model, and the characteristics of the cash flows, in which it can be given, that they are maintained to collect the cash flows and are held until maturity (they are valued at amortized cost), which are held until maturity but can be sold sporadically (at fair value with changes in other comprehensive income), and those that are for sale in a systematic way (at fair value with changes in results).

In equity instruments, IFRS 9 applies whenever there is no significant influence (IAS 28 Investments in associates), joint control (IFRS 11 - Joint arrangements) or control (IFRS 10 - Consolidation), so that it is generally a question of holdings. shares in other entities with voting rights of less than 20%. If they are held for trading purposes, they are classified at fair value through profit or loss, but if they are held for some strategy, they can be irrevocably designated at fair value with changes in the ORI and cannot be modified.

With respect to the impairment of financial assets, the model of loss incurred is transferred to the model of expected credit losses. According to the impairment approach in IFRS 9, it is no longer necessary for an event related to the credit to occur before the credit losses are recognized. Instead, an entity will always account for expected credit losses, as well as changes in expected credit losses. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition and, therefore, more timely information is provided on expected credit losses.

Because the expected credit loss model was developed for financial entities, the standard allows for the application of more simplified models for non-financial entities, such as the provisions matrix. The company implemented a statistical model, "uncollectible matrix" as a practical resource, and allows the application of the simplified model (the total expected life of the financial asset).

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With respect to hedge accounting, IFRS 9 establishes three types of coverage: for cash flow, fair value, and investments in foreign businesses. The relevant change is that the limits established for the evaluation of the retrospective effectiveness of the coverage are eliminated and are more aligned with the risk management activities, that is, the evaluation of the effectiveness is aligned with the risk management through qualitative principles instead of quantitative rules; only an evaluation of the effectiveness of the coverage will be necessary at the beginning and then later, but with a prospective nature, its retrospective evaluation will no longer be a requirement. Likewise, it does not require compliance with established quantitative limits; however, the inefficiency of the coverage at the end of each year must continue to be measured and recognized. Previous coverage had to be highly effective, both prospectively and retroactively.

IFRS 9 with respect to coverages establishes that:

- The qualification of the coverage is based on qualitative factors and the prospective evaluation of effectiveness. If the effectiveness was not what was expected, the hedge relationship can be re-balanced, without the need to discontinue hedge accounting, unless it is not expected to be effective in the future.

Voluntary termination of the coverage relationship is not allowed.

- It is necessary to ensure that the relationship of the coverage is properly designated and documented, specifying the objectives and risk management strategies and how the effectiveness will be evaluated, the causes of ineffectiveness and how the coverage ratio will be calculated.
- The posting of the temporary value of the options in the hedging relationships whether cash flow or fair value whose change in fair value may be deferred under certain rules as a cost of coverage is modified. With IAS 39 this component leads to inefficient results.

The amendments will be mandatory for annual periods beginning on or after January 1, 2018. Early application of this standard is permitted.

IAS 40 - Investment properties

This amendment that was made in December 2016 has an effect on transfers of investment properties (reclassifications) motivated by the "change in their use", extending the latter term: a change in use occurs when the property meets, or fails to meet, the definition of investment property and there is evidence of change in use. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use. To this end, we continue with the examples provided by the standard in paragraphs 57 and 58 (not substantially modified). Paragraphs 84C to 84E and 85G were added to define the transitional provisions when making transfers of investment properties.

The Company is evaluating the impacts that the application of this new changes in the standard could generate. Modifications will be mandatory for annual periods beginning on or after January 1, 2018.

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IFRS 9 - Financial instruments

The amendments to IFRS 9, related to prepaid characteristics with negative compensation, allow companies to measure financial assets, prepaid with negative compensation at amortized cost or fair value, through other comprehensive income if a specific condition is met; instead of at fair value with profit or loss.

The Company is evaluating the impact that the application of this modification could generate. Modifications will be mandatory for annual periods beginning on or after January 1, 2019.

IAS 12 - Income tax

The amendment to IAS 12, which is part of the annual improvements to the IFRS 2015-2017 cycle rules issued in December 2017, clarifies that all the consequences of income tax on dividends (distribution of benefits) must be recognized in results, other comprehensive income, or equity, depending on the initial recognition of the transaction. Specifically, it establishes that an entity will recognize the consequences of dividend income tax as defined in IFRS 9 when it recognizes a liability to pay a dividend. The consequences of income tax on dividends are more directly linked to past transactions or events that generated distributable profits, than to distributions made to owners. Therefore, an entity recognizes the consequences of dividends on income tax in profit or loss, other comprehensive income or equity depending on where the entity originally recognized those transactions or past events.

The Company is evaluating the impact that the application of this modification could generate. Modifications will be mandatory for annual periods beginning on or after January 1, 2019. Early application of the Standard is permitted.

IAS 23 - Loan costs

The amendment to IAS 23, which forms part of the annual improvements to IFRS 2015-2017 Cycle Standards issued in December 2017, establishes that to the extent that the funds of an entity come from generic loans and use them to obtain an Asset eligible, this will determine the amount of the capitalization costs applicable by applying a capitalization rate to the disbursements made in said asset. The capitalization rate will be the weighted average of the borrowing costs applicable to all loans received by the entity pending during the period. However, an entity shall exclude from this calculation the borrowing costs applicable to loans specifically agreed to finance an eligible asset until substantially all the activities necessary to prepare that asset for its intended use or sale are completed. The amount of borrowing costs that an entity capitalizes during the period will not exceed the total borrowing costs incurred during the same period.

The Company is evaluating the impacts that the application of this modification could generate. Modifications will be mandatory for annual periods beginning on or after January 1, 2019. Early application of the Standard is permitted.

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3. Summary of significant accounting policies

3.1 Basis for the preparation of the financial statements

The financial statements of the Company are prepared in accordance with International Financial Reporting Standards (hereinafter "IFRS") issued by the International Accounting Standards Board (hereinafter "IASB").

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

The presentation of financial statements in accordance with IFRS 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 IFRS, 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 internal administrative follow-up and provides information to investors.

Assets and liabilities are measured at cost or amortized cost, except for the investment properties which are measured at fair value.

The financial statements are expressed in Balboas, the monetary unit of the Republic of Panama, in which the Company is incorporated and operates, and their figures are expressed in units. As at December 31, 2017 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 money and instead uses the dollar as legal tender.

3.2 Classification of current and non-current assets and liabilities

An asset is classified as a current asset when held primarily 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 in cash and cash equivalents that are not subject to restrictions for their exchange or use in the cancellation of a liability 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 held primarily for trading purposes or are expected to be liquidated in a term no greater than a year after the period which is 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 evaluation of the facts and circumstances (i.e. underlying cash flows contracts):

- 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 in a consistent manner with the cash flows of the host contract.
- Derivative instruments that are designated as hedging instruments and are effective are classified consistent with the classification of the underlying hedged item. The derivative instrument is divided into a current portion and another non-current portion only if such allocation can be done reliably.

3.3 Cash and bank balances

Cash and bank balances in the statement of financial situation and in the cash flows statement include cash at hand and banks and highly liquid investments, easily convertible into a certain amount of cash and are 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 administration of the Company's cash represent a component of the cash and the cash equivalents in the cash flow statement.

3.4 Revenue recognition

3.4.1 Ordinary income

Ordinary income corresponds to the development of the main activity the Company that is providing the services of distribution and commercialization of power, these are recognized when the service is provided 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 are recorded using the method of effective interest rate 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 at the time of its causation and included in the financial income in the statement of income or loss and other comprehensive income.

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3.4.3 Rental income

Income arising from operating leases on investment properties is recorded on a linear basis over the lease term and are recognized once the service has been provided 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 method of degree of advancement, depending on the proportion representing the costs accrued for the work done to date and the total cost estimates until its completion.

Cost incurred includes costs, borrowing costs, directly related to the contract, until the work has been completed. Administrative costs are recognized in the income statements for the period.

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

Payments received from the customer until 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 profit and loss statement and billing is presented as an asset in the statement of financial situation called trade receivables and other receivables, or as a liability known as 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 profit and loss statement of the period in which they become enforceable. When the subsidy relates to an asset, it is recorded as deferred income and recognized in the income statement of the period on a systematic basis over the estimated useful life of the relevant asset. The benefit of a loan from the State at an interest rate below-market 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 tax structure of the country, the regulatory framework and its operations makes the Company subject to taxes, rates, and contributions. Obligations arise from the Nation, 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.

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3.7.1 Income tax

3.7.1.1 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 carried out between tax revenues and the income or accounting loss affected by the income tax rate in compliance with the tax regulations of the country. Rates and fiscal regulations used to compute these values are those that are enacted or substantially approved at the end of the reporting period.

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

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

3.7.1.2 Deferred

Deferred income tax is recognized using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying values. The deferred tax liability is generally recognized for all taxable temporary differences, and the deferred tax asset is recognized for all deductible temporary 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 is 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 rules that were approved at the filing date, or whose approval procedure is near to be completed at such date.

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

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 it is intended to settle them by the net value or to realize the asset and settle the liability simultaneously.

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

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

The Company is responsible to comply with regime since it sells taxed goods and services. In general, this means that ITBMS taxpayers are business persons, producers and industrial companies who 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.

3.8 *Property, plant and equipment*

Property, plant, and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, if any as 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 provided 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 use are complied with and if the criteria for recognition for a provision are met.

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, loans capitalize costs. These constructions in progress are classified in the appropriate categories property, plant, and equipment at the time of its 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 additions or improvements as higher value of assets that are 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 and loss and other comprehensive loss as incurred therein.

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.

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

| | Useful life estimated in years |
|--|---|
| Plants, ducts y tunnels | |
| Civil work | 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 others, technical specifications of the manufacturer, knowledge of the technicians who operate and maintain assets, geographic location, and the conditions to which they are exposed.

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

A component of properties, plant and equipment and any significant part initially recognized is written off at its disposal or when it is not expected to obtain the future economic benefits from its use or disposal. The profit or loss at the time of writing off 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 and loss and other comprehensive loss.

Residual values, useful lives, and methods of depreciation of assets are reviewed, and adjusted prospectively at each end of year, if it is required.

3.9 Leasing

The determination of whether an agreement is or contains a lease is based on the essence of the agreement at its starting date, if the implementation of the agreement depends on the use of an asset or specific assets, or if the agreement grants a right of use of the asset.

Leases are classified as finance and operating leases. A lease is classified as 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.

3.9.1 ENSA as lessee

Payments for operating leases, including incentives received are recognized as expenses in the statement of comprehensive Income (loss) on a linear basis over the term of the lease, unless another systematic basis results to be more representative of another systematic base of allotment to reflect more adequately the temporal pattern of the benefits of the leasing for the user.

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3.9.2 *ENSA as lessor*

Land and buildings delivered under operating leases are presented as investment properties and assets given under operating lease are presented as property, plant, and equipment. 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 distributed 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.

3.10 *Borrowing costs on loans*

Borrowing costs for loans 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 perceived by the temporary investment in specific outstanding loans to be consumed in qualified assets is deducted from borrowing costs eligible for capitalization. All other costs on loans are recorded as expenses in the period in which they are incurred. Loan costs consist of interest and other costs incurred by the Company in relation to the borrowing of funds.

3.11 *Investment properties*

Investment properties are those maintained for rentals and/or revaluations of capital (including the investment properties in construction for such purposes). Investment properties are measured initially 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 and loss and other comprehensive income (loss) in the period in which they arise.

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

Transfers are made to or from the investment properties, only when there is a change in its use. In the case of a transfer from an investment property to a property, plant and equipment, the cost considered for later counting 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.

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3.12 Intangible assets

Intangible assets acquired separately are measured initially at their cost. After initial recognition, intangible assets are accounted for at cost less any accumulated depreciation and any accumulated loss due to a drop-in value. 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 between the research phase from the development phase, disbursements should be reflected in the statement of profit or loss and other comprehensive loss in the period in which they were incurred.

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

The useful lives of intangible assets are:

| | |
|------------------------------------|--------------|
| Software and computer applications | 5 a 15 years |
| Licenses | 5 years |
| Easements | Indefinite |

Intangible assets with finite useful lives are amortized over their useful economic life in a linear manner and are evaluated to determine if they had any deterioration in value, provided there are indications that the intangible asset might have suffered such damage. The amortization period and the amortization 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 and loss and other comprehensive loss of the period in the expenditure item line that is consistent with the function of the intangible asset.

Intangible assets with indefinite useful life are not amortized but are subject to annual testing to determine if they suffered a deterioration in value, either individually or at the cash-generating unit level. The evaluation 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 of indefinite to finite is performed in a prospective way.

An intangible asset is written-off 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 by the difference between the value obtained in the provision and the carrying value of the asset and is recognized in the statement of profit and loss and other comprehensive loss 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.

3.12.1 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.

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3.13 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 measured initially 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 with change in the results) 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 with changes in the results are recognized immediately in the results of the period.

3.14 Financial assets

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 measured initially 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 with change in the results) 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 with changes in the results are recognized immediately in the results of the period.

3.14.1 Impairment of financial instruments

For assets at an amortized cost, the deterioration of value is evaluated at the date of the period in which it is reported, if there is evidence of deterioration. When there is objective evidence that there has been an impairment loss in the value of 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 at the financial asset's original effective interest rate. The impairment losses are recognized in profit or loss of the period.

The Company first evaluates whether there is any objective evidence of individual deterioration of value for 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 assessment of deterioration 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 deteriorated 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;

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- It is likely that the borrower will enter bankruptcy or in another form of financial reorganization;
- 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 related objectively 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 is reversed does not exceed what the amortized cost would have been determined if the impairment loss had the impairment not been recognized. The amount of the reversal is recognized in profit or loss of the period.

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

In the category of fair value through results the investments being 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 proper control and in market conditions.

3.14.2 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 the derivatives. The gains or losses for liabilities held for trading are recognized in the statement of profit or loss and other comprehensive loss. 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 comprehensive Income (loss) and other comprehensive Income (loss) when the liabilities are written off, as well as through the amortization process under the method of the effective interest rate, which is included as a financial cost in the statement of profit or loss and other comprehensive Income (loss).

3.14.3 Derecognition of financial assets and liabilities

A financial liability or a part of it is derecognized from the statement of financial situation when contractual obligation has been liquidated or has expired or the Company loses control over the contractual rights or on 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.

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On derecognition of a financial asset in its entirety, the difference between the asset's carrying value and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive loss 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 loss is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive loss 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.

The financial liability or a part of it is written off from the statement of financial position when the contractual obligation has been settled or has expired. If the entity does not transfer or substantially retain all the risks and advantages inherent to the property and continues to retain control of the transferred asset, the entity recognizes its participation in the asset and the associated obligation for the amounts it would have to pay. If the entity retains substantially all the risks and advantages inherent in the ownership of a transferred financial asset, the entity will continue to recognize the financial asset and recognize a collateral secured loan for the income received.

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 modified substantially, 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 loss.

3.14.4 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.

3.14.5 Inventories

Inventories are classified as the 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.

The 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.

The 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.

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The 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.

3.14.6 Impairment of non-financial assets

At each date of presentation, the Company assesses whether there is any indication that a tangible or intangible asset can be damaged in its value. The Company estimates the recoverable value of the asset or a cash generating unit, at the time at which it detects an indication of deterioration, or annually (as at the 31 of December) for intangible assets with indefinite useful life and those who are not yet in use.

The recoverable amount of an asset is the higher value between the fair value less the sale costs, 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 this case the asset should be grouped to a cash-generating unit. When the carrying value of an asset or a cash-generating unit exceeds its recoverable value, the asset is considered deteriorated and its value is reduced to its recoverable amount.

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. To determine the fair value less the sale costs an appropriate valuation model is used.

Impairment losses of continuing operations are recognized in the statement of profit or loss and other comprehensive loss in those expenditure categories that correspond to the function of the deteriorated 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.

For assets in general, on each date of presentation an assessment is carried out of 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 carries out an estimate of the recoverable value of the asset or a cash-generating unit. An impairment loss previously recognized can only be reverted if there was a change in the assumptions used to determine the recoverable amount of an asset from the last time in which the last impairment loss was acknowledged. The reversion is limited so that the carrying value of the asset does not exceed its recoverable amount, nor exceeds the value in books that would have been determined, net of depreciation, if an impairment loss had not been recognized for the asset in previous years.

3.15 *Provisions*

The 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 is reimbursed in whole or in part, the reimbursement is recognized as a separate asset, but only in cases where such reimbursement is virtually certain, and the amount of the asset can be measured with reliability.

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The best estimate measures the provisions, 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 flow to settle the present obligation, its carrying value corresponds to the present value of the cash flow, using for the discount a rate calculated with reference 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 loss in the item line for other expenses. The increase in the provision due to the passage of time is recognized as a financial expense.

3.15.1 Provision for dismantling

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

The present value of the expected costs recognizes the cost of dismantling or restoration 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 dismantling or restoration are reviewed annually. The changes in the estimated costs of the future, 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 result 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 loss of the period.

3.15.2 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 loss. An onerous contract is considered to exist where 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.

3.15.3 Contingent liabilities

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 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 revealed as contingent liabilities.

3.15.4 Contingent assets

Due to the nature of possible 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, are not recognized in the statement of financial position, but instead are revealed as contingent assets when their occurrence is probable. When the contingent fact is true, the asset and the associated entry in the result of the period is recognized.

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3.16 Pensions and other post-employment benefits

3.16.1 Defined benefit plans

These are post-employment benefits plans, 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 situation. 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 prices on the market 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 effect of the asset ceiling, excluding the values included in the net interest over liabilities (asset) of net defined benefits, are recognized in the other comprehensive loss. 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, costs for interest for the defined benefit obligation and interests for the ceiling effect of 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 loss in the period in which they arise.

The Company classifies as short-term employee benefits those obligations with the employees, they hope to liquidate at the end of the 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 labor legislation in force, 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 has rendered his services as a liability, for the value that will be paid to the employee, deducting the values previously paid, and its counterpart entry as an expense of the period, to unless another chapter requires or allows payments to be included 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, these will be capitalized to that asset. In accordance with the foregoing, the accounting recognition of the short-term benefits is made at the time the transactions occur, regardless of when the employee is paid or third parties to whom the Company has entrusted the provision of certain services. In agreement with the policy mentioned before, the accounting recognition of the short-term benefits is done when the transactions occur, regardless of when the employee or third parties are paid, 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 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; are different from the short-term benefits, post-employment benefits and benefits for contract termination.

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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 the 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.

3.17 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 to 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 considers the characteristics of the asset or liability if market participants consider these characteristics when assessing the asset or liability to 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 date of presentation of the financial statements, for recognition or disclosure in the notes to the financial statements.

The fair value is determined:

- Based on prices quoted in assets markets for assets or liabilities that are identical to those that the Company can access on the date of the measurement (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 variables observed in the market (level 3).

In Note 30 measurement of fair value, an analysis is provided of the fair values of financial instruments, nonfinancial assets and liabilities and with greater detail of its measurement.

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3.17.1 Changes in estimates, accounting policies and errors

3.17.1.1 Changes in accounting estimates

During 2017, the Company revised its accounting estimates, with no significant change in the current or future period. There are no significant changes in accounting estimates to report.

3.17.1.2 Changes in accounting policies

There were no changes in accounting policies.

3.18 *Deferred Regulatory Accounts*

The Company is subject to regulation by the ASEP ("Autoridad Nacional de los Servicios Públicos"). 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 ratemaking process. Regulatory liabilities represent probable reductions in future earnings associated with amounts that are expected to be credited to customers through the ratemaking process. The standard allowed the Company as the entity 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 write-off the balances of the accounts of deferrals for regulated activities. The Company, in accordance with these requirements, presents the balances of the deferred accounts 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 Balances of the deferred accounts of regulated activities in accordance with this standard.

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 based on the best information available on the facts analyzed to 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 of other sources. The Company evaluates its estimates on a regular basis. Actual results may differ from these estimates.

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

4.1 *Evaluation of the existence of deterioration indicators of value for the assets and asset valuation to determine the existence of impairment loss*

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

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The evaluation of the existence of deterioration 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 sceneries and market conditions; significant changes in the scope or manner in which it is being used or the asset or a cash-generating unit (UGE, in Spanish) is expected to be used and evidence on the obsolescence or physical deterioration of an asset or UGE, 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 The hypotheses used in the actuarial calculation of the post-employment obligations with the 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, 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, processes of refitting, factors of obsolescence, manufacturer recommendations, geographical and climatic conditions and experience from the technicians that are knowledgeable on the assets. For the determination of the residual value aspects are considered 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, includes the qualification of the legal process by the " Expert judgment" of the professionals of the areas, 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 substance of the 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 revealed nor recognized.

4.5 Future expenditures by dismantling obligations and withdrawal of assets

In the assumptions and hypotheses that are used for the determination of future expenditures due to dismantling 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 dismantlement of the assets over which legal or implied obligations have been identified, the initial date of the dismantling or restoration, the estimated completion date and discount rates.

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4.6 Determination of portfolio impairment

The waterfall loss method is used to calculate the portfolio impairment, with which a probability is assigned collectively according to the type of portfolio and its historical behavior. The model uses a window of twelve months, so the probability that an obligation must be provisioned in a certain percentage in that same period is estimated. The model establishes the probability of default based on historical information for the different portfolio categories and different seniority levels. Although the methodology is applied to all accounts with balance, some exclusions must be considered such as: self-consumption and government. With this information, the expected loss (EL) calculation is calculated as follows:

$EL = \sum (PD \times EB)$, where:

Probability of Default (PD): corresponds to the probability that, in a period of twelve months, the debtors of a certain portfolio segment default.

Exposed Balance of the Asset (EB): corresponds to the balance of capital and other current charges of the obligations for a certain portfolio segment.

4.7 The recoverability of deferred tax assets

The deferred tax asset has been generated by the temporary differences, which generate future tax consequences in the financial situation of the Company. These differences are mainly represented in tax assets that exceed the assets under IFRS, and in tax liabilities, lower than liabilities under IFRS, such as the components of pension liabilities, amortized cost of bonds, financial leasing and other diverse provisions and for contingencies.

The deferred tax asset of the Company is recovered in the liquid income taxed on the current income tax generated.

5. Property, plant and equipment, net

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

| | 2017 | 2016 |
|---|--------------------|--------------------|
| Cost | 735,461,209 | 689,549,126 |
| Accumulated depreciation and impairment | <u>233,006,178</u> | <u>216,404,165</u> |
| Total | <u>502,455,031</u> | <u>473,144,961</u> |

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

| 2017 | Network lines and cables | Plant, ducts and tunnels | Construction in progress | Land and building | Machinery and equipment | Communication and computer equipment | Furniture fixtures and office equipment | Other property plant and equipment | Total |
|--|--------------------------|--------------------------|--------------------------|-------------------|-------------------------|--------------------------------------|---|------------------------------------|--------------------|
| Beginning 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 |
| Additions | - | - | 60,589,160 | - | - | - | - | - | 60,589,160 |
| Transfers | 28,158,436 | 9,004,644 | (60,931,760) | 6,583,912 | 10,804,333 | 2,299,442 | 3,961,908 | 119,085 | - |
| Disposals and discardsments | (4,198,001) | - | - | (1,172,240) | (5,265,968) | (278,758) | (128,316) | (249,021) | (11,292,304) |
| Other changes | (212,531) | (350,210) | (2,375,803) | (391,308) | - | - | - | (54,921) | (3,384,773) |
| Final balance cost | 371,649,119 | 152,831,077 | 43,553,086 | 58,840,726 | 85,951,722 | 10,549,744 | 5,377,735 | 6,708,000 | 735,461,209 |
| Accumulated depreciation | | | | | | | | | |
| Beginning 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 |
| Depreciation for the period | 12,313,989 | 4,394,764 | - | 922,500 | 5,553,695 | 951,240 | 364,917 | 636,381 | 25,137,486 |
| Disposals and discardsments | (3,838,560) | - | - | (1,172,240) | (2,908,727) | (275,324) | (122,931) | (217,691) | (8,535,473) |
| Final balance accumulated depreciation | 123,679,622 | 65,082,099 | - | 7,938,389 | 26,214,470 | 5,737,272 | 1,264,463 | 3,089,863 | 233,006,178 |
| Total final balance property, plant and equipment net | 247,969,497 | 87,748,978 | 43,553,086 | 50,902,337 | 59,737,252 | 4,812,472 | 4,113,272 | 3,618,137 | 502,455,031 |

| 2016 | Network, lines and cables | Plants, ducts and tunnels | Construction in process | Land and buildings | Machinery and equipment | Communication and computer equipment | Furniture fixtures and office equipment | Other property plant and equipment | Total |
|--|---------------------------|---------------------------|-------------------------|--------------------|-------------------------|--------------------------------------|---|------------------------------------|--------------------|
| Beginning 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 |
| Additions | - | - | 81,899,835 | - | - | - | - | - | 81,899,835 |
| 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 and discardsments | (6,111,899) | (264,795) | - | - | (3,890,150) | (528,949) | (41,272) | (511,841) | (11,348,906) |
| Other changes | 270,896 | (1,569,196) | (3,140,812) | - | - | - | - | - | (4,439,112) |
| Final balance cost | 347,901,215 | 144,176,644 | 46,271,488 | 53,820,362 | 80,413,357 | 8,529,060 | 1,544,143 | 6,892,857 | 689,549,126 |
| Accumulated depreciation | | | | | | | | | |
| Beginning 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 and discardsments | (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 final balance property, plant and equipment net | 232,697,022 | 83,489,309 | 46,271,488 | 45,632,233 | 56,843,855 | 3,467,704 | 521,666 | 4,221,684 | 473,144,961 |

At the end of the periods, a test for impairment of assets was carried out, no impairments were identified for the long-term assets.

The property under construction include capitalization of costs of loans for B/.637,127 (2016: B/.688,447), the average rate used to determine the amount of the costs of loans was 6.3244% (2016: 6.0084%), which is the effective interest rate specifically for this type of loan.

The other properties, plant and equipment include the vehicular fleet and replacement assets.

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The main construction in progress correspond to the following:

| Project | 2017 | 2016 |
|---|-------------------|-------------------|
| Sub stations and high voltage lines | 14,250,682 | 10,392,455 |
| Network growth | 14,232,578 | 15,276,988 |
| Other minor projects | 8,608,784 | 7,194,714 |
| Loss reduction and reliability improvements | 4,177,047 | 5,526,694 |
| ASEP special projects | 2,283,995 | 1,447,380 |
| Corporate Building | - | 6,433,258 |
| | <u>43,553,086</u> | <u>46,271,489</u> |
| Total | | |

6. Investment property

The fair value of investment properties is based on appraisals made by experts with recognized professional capacity and recent experience in the category of real estate investments subject to valuation; this value has been determined by "Panamericana de Avalúos, S.A. and Eco-Ambiente S.A". The fair value of these investment properties is determined by these valuation companies every five years. In order to determine the fair value of investment properties, updated market price assumptions are used. See Note 30 - Measurement of fair value on a recurring and non-recurring basis (Level 2).

| | 2017 | 2016 |
|--|------------------|------------------|
| Balance at the beginning of the year | 2,480,209 | 2,480,209 |
| Net profit or loss for fair value adjustment | 291,092 | - |
| Transfers ¹ | <u>391,308</u> | <u>-</u> |
| Balance at the end of the year | <u>3,162,609</u> | <u>2,480,209</u> |

¹Includes transfers from property, plant and equipment to investment property.

The income from investment property leases for the period, amounted to B/.29,800 (2016: B/.23,400).

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7. Other intangible assets

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

| | 2017 | 2016 |
|--|------------|------------|
| Cost | 35,011,054 | 33,166,194 |
| Accumulated depreciation and impairment in value | 15,136,022 | 12,723,805 |
| Total | 19,875,032 | 20,442,389 |

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

| 2017 | Software & IT applications | Licenses | Easement rights | Total |
|--|----------------------------|------------|-----------------|------------|
| Beginning balance cost | 22,001,281 | 10,045,347 | 1,119,566 | 33,166,194 |
| Additions | 1,165,499 | 679,361 | - | 1,844,860 |
| Final balance at year end cost | 23,166,780 | 10,724,708 | 1,119,566 | 35,011,054 |
| Beginning balance accumulated amortization | 6,191,834 | 6,531,971 | - | 12,723,805 |
| Amortization for the year | 1,872,411 | 539,806 | - | 2,412,217 |
| Final balance year end accumulated | 8,064,245 | 7,071,777 | - | 15,136,022 |
| Net balance for other intangible assets | 15,102,535 | 3,652,931 | 1,119,566 | 19,875,032 |
| 2016 | Software & IT applications | Licenses | Easement rights | Total |
| Beginning balance cost | 19,775,551 | 9,535,864 | 1,119,566 | 30,430,981 |
| Additions | 2,607,580 | 533,232 | - | 3,140,812 |
| Disposals | (381,850) | (23,749) | - | (405,599) |
| Final balance cost | 22,001,281 | 10,045,347 | 1,119,566 | 33,166,194 |
| Beginning cost accumulated amortization | 4,861,636 | 6,006,339 | - | 10,867,975 |
| Amortization for the year | 1,712,048 | 549,381 | - | 2,261,429 |
| Disposals | (381,850) | (23,749) | - | (405,599) |
| Final balance accumulated amortization | 6,191,834 | 6,531,971 | - | 12,723,805 |
| Net final balance for intangible assets | 15,809,447 | 3,513,376 | 1,119,566 | 20,442,389 |

Additions include purchases, capitalized disbursements that meet the recognition criteria.

Amortization of intangibles is recognized as expenses in the profit or loss statement and other comprehensive income.

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

The easements are compensations and indemnities paid by the Company for the passage of its distribution network.

The book value as of December 31, 2017 and the remaining amortization period for the largest assets are:

| | Remaining period for amortization | Book value in 2017 | Book value in 2016 |
|-----------------------|--|-------------------------------|-------------------------------|
| SAP commercial system | 11 years | 12,334,884 | 12,785,212 |
| Maximo system | 8 years | 1,427,116 | 1,539,979 |
| Choice system | 13 years | 1,272,476 | - |
| SCADA system | 6 years | 889,294 | 1,322,779 |
| | | <u>15,923,770</u> | <u>15,647,970</u> |

8. Trade and trade and other receivables

The detail of the trade and other receivable is the following:

| | 2017 | 2016 |
|---|--------------------|--------------------|
| Non current | | |
| Accounts receivable | <u>9,700,000</u> | <u>9,700,000</u> |
| Current: | | |
| Customers - public service | 116,119,021 | 99,662,147 |
| Impairment in the value of public service | (18,484,993) | (15,840,130) |
| Others | <u>10,059,767</u> | <u>12,406,567</u> |
| Total current | <u>107,693,795</u> | <u>96,228,584</u> |
| Total | <u>117,393,795</u> | <u>105,928,584</u> |

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

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As of the cut-off date, the aging analysis of financial is as follows:

| Aging analysis according to date of invoice | Total | Less than 30 days | 31-60 days | 61-90 days | 91-120 days | 121 days or more |
|--|--------------------|--------------------------|-------------------|-------------------|--------------------|-------------------------|
| Public utilities - customers | | | | | | |
| 2017 | 116,119,021 | 56,918,736 | 22,754,850 | 3,132,016 | 2,371,614 | 30,941,805 |
| 2016 | 99,662,147 | 56,526,049 | 14,292,789 | 4,715,439 | 1,112,723 | 23,015,147 |
| Other customers | | | | | | |
| 2017 | 10,049,767 | 6,959,235 | 1,098,487 | 302,015 | 251,113 | 1,438,917 |
| 2016 | 12,406,567 | 7,449,897 | 3,717,926 | 66,119 | 44,967 | 1,127,658 |
| Total accounts receivable | | | | | | |
| 2017 | 126,168,788 | 63,877,971 | 23,853,337 | 3,434,031 | 2,622,727 | 32,380,722 |
| 2016 | 112,068,714 | 63,975,946 | 18,010,715 | 4,781,558 | 1,157,690 | 24,142,805 |

The reconciliation of the impairment losses of the portfolio is:

| | 2017 | 2016 |
|-----------------------------|-------------|-------------|
| Beginning balance | 15,840,130 | 14,434,079 |
| Additions | 2,802,726 | 1,406,051 |
| Write off during the period | (157,863) | - |
| Final balance | 18,484,993 | 15,840,130 |

The Company maintains a provision for impairment of the portfolio. The calculation of this provision relates to a technical assessment to determine the loss contingency or risk for the eventual insolvency of the debtor. It is the policy of the Company monthly to review balances receivable and adjust the provision for doubtful accounts. Each month the status of collectability using the Waterfall Model, which requires 12 months of a minimum historical basis to determine the percentages of loan losses is evaluated. The amount of the provision is recognized under the statement of profit or loss and other comprehensive loss under "Costs of 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 by way of enforcement, coercive authority, or ordinary way, the Company recognizes the extinction of the receivable. The write off does not relieve the Company of responsibility to continue collection efforts upon recovery, a debt recovery income is recorded.

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 maturity March 2, 2018 renewable annually, and with the obligation to be payable as of January 1, 2019, being considered automatically cancelled 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 firm 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 the said resolution is duly executed, to be payable as of January 1, 2019 and ordered Elektra Noreste, S.A. 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 (see Note 15).

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9. Other assets

The detail of other assets at the end of the year is:

| | 2017 | 2016 |
|--|------------------|------------------|
| Non current | | |
| Severence indemnity fund | 283,251 | 310,317 |
| Severence indemnity fund - interest | 213,137 | 131,316 |
| Guarantee deposit | 182,774 | 183,774 |
| Total other assets - non current | <u>679,162</u> | <u>625,407</u> |
| Current | | |
| Advances to vendors | 133,900 | 420 |
| Various insurance | 314,857 | 232,822 |
| Other expenses to amortize | 342,558 | 287,528 |
| Temporary costs of vehicle maintenance | 9,069 | 38,380 |
| Total other assets current | <u>800,384</u> | <u>559,150</u> |
| Total other assets | <u>1,479,546</u> | <u>1,184,557</u> |

The other expenses to be amortized include, among others, maintenance of the IT area and commissions paid in advance that are being amortized according to the period covered.

10. Inventories

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

| | 2017 | 2016 |
|---|-------------------|-------------------|
| Materials for rendering services ¹ | 18,276,188 | 22,417,268 |
| Inventory in transit | <u>348,025</u> | <u>513,912</u> |
| Total inventory at cost or net realisable value which ever is less | <u>18,624,213</u> | <u>22,931,180</u> |

¹ Includes material for internal use and for rendering services.

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Inventories of B/.770,416 (2016: B/.1,214,340) were recognized as expenses for the provision of the service during the period. The decrease on the value of inventories were recognized as an expense during the period amounted to B/.250,111 (2016: B/.147,691) There were no write down value reversals for 2017 and for 2016 the reversals of write down value reductions amounted to B/.87,733. The circumstances leading to the reversal of the value reduction were because 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:

| | 2017 | 2016 |
|--|-----------|-----------|
| Cash at hand and banks balances | 4,558,153 | 3,620,659 |
| Total cash at hand and banks presented in the Statement of financial position | 4,558,153 | 3,620,659 |

12. Equity

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

| | Valor | | Número de acciones | |
|-----------------------------|-------------|-------------|--------------------|------------|
| | 2017 | 2016 | 2017 | 2016 |
| Authorized capital | 106,642,962 | 106,642,962 | 50,000,000 | 50,000,000 |
| Treasury shares | (544,087) | (544,087) | (160,031) | (160,031) |
| Subscribed and paid capital | 106,098,875 | 106,098,875 | 49,839,969 | 49,839,969 |

By minutes of the board of directors dated December 1, 2017 a dividend distribution of B/.15,000,000 (2016: B/.20,000,000) was approved corresponding to the earnings of 2016 and 2015.

13. Components of other accumulated comprehensive income

The detail of each component of the other comprehensive loss of the separate statement of financial position and the corresponding tax effect is the following:

| | 2017 | | | 2016 | | |
|---|---------|---------------|---------|---------|---------------|---------|
| | Gross | Efect net tax | Net | Gross | Efect net tax | Net |
| New measures for defined Benefits plan | 838,450 | 251,535 | 586,915 | 594,813 | 178,444 | 416,369 |

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For each component of the comprehensive loss a reconciliation of the opening and closing balances to the cutoff 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 assets of the plan and the changes in the ceiling effect of the asset, excluding the values included in the net interest on liabilities (asset) of defined net benefits. The net value of the new measurements is transferred to the accumulated earnings and not reclassified to the results of the period.

| | 2017 | 2016 |
|---|-----------------|-----------------|
| Balance at the beginning of the year | 416,369 | 312,952 |
| Results of the year for new measures done to defined benefits plan | 243,637 | 147,739 |
| Income tax associated | <u>(73,091)</u> | <u>(44,322)</u> |
| Total | <u>586,915</u> | <u>416,369</u> |

14. Credits and loans

The detail of the facilities and long-term debt to the cut-off date is the following:

| | 2017 | 2016 |
|-----------------------------|--------------------|--------------------|
| Non current | | |
| Bonds and securities issued | <u>181,424,837</u> | <u>201,247,440</u> |
| Current: | | |
| Commercial bank loans | <u>128,000,000</u> | <u>82,000,000</u> |

As of December 31, 2017 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 value of B/.330,000,000 (2016: B/.280,000,000), with LIBOR annual interest rates between one (1) to three (3) or six (6) months, plus a margin between 0.3% to 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 that does not exceed 3.50 of its EBITDA.

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By entity, the long-term debt detail is the following:

| Long term bonds | 2017 | | 2016 | |
|----------------------|-------|-------------|-------|-------------|
| | IRR | Value | IRR | Value |
| Corporate bonds 2018 | | - | 3.46% | 20,198,886 |
| Preferred bonds 2021 | 8.16% | 102,283,242 | 8.16% | 101,986,005 |
| Preferred bonds 2027 | 4.96% | 79,141,595 | 4.96% | 79,062,549 |
| Total | | 181,424,837 | | 201,247,440 |

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 signed and issued with Banco General, S. A., which correspond to these bonds. The bonds have a "pari passu" order of preference with other company obligations not guaranteed and not subordinated. The bonds will yield a Libor interest rate plus 2.375% annual, payable quarterly. The payment to capital is performed on the due date. The product of the offering of the Bonds was 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 since the date of offer.

On October 20, 2017, the corporate bonds issued and outstanding are redeemed in advance, paying the capital at a price equal to 100% plus interest.

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 capital is performed at maturity. 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 expiration provided they meet certain conditions that include the payment of a premium.

On May 31, 2017, the Company requested the Superintendence of the Securities Market to register changes to the terms and conditions of the bonds for B/.100,000,000. The significant change corresponds to the limit of indebtedness that does not exceed 3.50 times of its EBITDA, as previously the limit of indebtedness was 3.25 times of its EBITDA. On December 16, 2017, the Superintendence of the Securities Market issued resolution SMV-803-16 in which it approved to register the modifications in terms and conditions requested by the Company.

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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 assets, 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 ratio Index after four consecutive fiscal quarters to exceed 3.50x. 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 capital 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 notified to the Trustee in writing. For the purposes of the amount of depreciation for events of default, the "Sum of Restitution" shall be equal to the difference between (i) the sum of (a) the present value of the future capital and cash flows by 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 bonds in circulation.

Preferred bonds 2027

On December 6, 2012, the Company signed an Agreement for the Purchase of Promissory Notes 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 dated of December 11, 2012.

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With reference to the Agreement of Purchase of Notes and the Indenture Agreement the Company signed on December 13, 2012 a Bridge Financing Agreement where the Company agrees to issue promises of payment, free of taxes "Bridge Notes", to the order of each of the buyers for a total of B/.80,000,000. Each Buyer severally agrees to the transfer the corresponding respective funds to 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 date of the transfer 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 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 facilities of credit lines along with their cash equivalents by an amount more than the amount to cancel due to the termination of this Agreement.

On January 17, 2013, the closure of the Purchase Agreement of Notes was carried out whereupon 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 purchase agreement of notes that have been met, to satisfaction, and the Company is released of its obligations of the payment 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 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 assets, 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 ratio to exceed 3.50X for four consecutive fiscal quarters. 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.

In the event of a default event in the terms and conditions of the Issuance Contract, the Trustee, at the request of the holders of the bonds that maintain not less than 25% in principal amount and foreseen that said event of default is maintained, will declare all bonds immediately due and payable, for which purpose he shall pay the Trustee an amount equal to the sum of the principal amount of the outstanding bonds, all interest accrued thereon, the additional amounts and the sum of restitution (the "Amount of Amortization for Events of Default"), calculated by the Company and notified to the Trustee in writing. For the purposes of the amortization amount for default events, the "Sum of Restitution" will be equal to the difference between (i) the sum of (a) the current value of the future capital and the cash flows from interest on the bonds expected (less any accrued interest), discounted at an annual rate equal to the yield of the current treasury bonds at that corresponding time closest to the remaining weighted average life of the bonds calculated at the time of payment of the amortization for events of default and (b) 0.50% per annum and (ii) the principal amount of the outstanding bonds.

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The Company defers the costs associated with the issuance of long-term debt. These costs include the costs of commission and other costs such as: legal, registration and stamps. The costs of issuing debt are depreciated based on the term of validity of the debt instrument using the effective interest method and is presented net of long-term debt on the balance sheet of the Company.

15. Creditors and other accounts payable

The creditors and other accounts payable are composed of:

| | 2017 | 2016 |
|---|-------------|-------------|
| Non Current | | |
| Funds to be returned - arbitration of supply contracts | 9,700,000 | 9,700,000 |
| Deposits received in guarantee | 5,047,231 | 5,809,763 |
| Acquisition of goods and services | 398,189 | - |
| Total of creditors and other accounts payable - non current | 15,145,420 | 15,509,763 |
| Current | | |
| Energy vendors | 111,110,507 | 125,177,736 |
| Acquisition of goods and services | 15,174,193 | 22,272,266 |
| Deposits received in guarantee | 1,230,741 | 319,048 |
| Advances and prepayments received | 5,238 | 4,161 |
| Other accounts payable | 4,484,082 | 4,943,953 |
| Construction contracts | 48,827,352 | 36,500,175 |
| Commissions payable | 202,836 | 210,179 |
| Total of creditors and other accounts payable current | 181,034,949 | 189,427,518 |
| Total of creditors and other accounts payable | 196,180,369 | 204,937,281 |

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16. Employee benefits

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

| | 2017 | | |
|--------------------------|-------------|----------|-----------|
| | Non current | Current | Total |
| Liability | | | |
| Post-employment benefits | (626,448) | (37,840) | (664,288) |
| | | | |
| | 2016 | | |
| | Non current | Current | Total |
| Assets: | | | |
| Post-employment benefits | 172,499 | - | 172,499 |
| Liability | | | |
| Post-employment benefits | (382,375) | (38,839) | (421,214) |
| Total | (209,876) | (38,839) | (248,715) |

16.1 Post-employment benefits

Includes the defined benefit plans detailed below:

| | Other defined benefits plan | | Seniority premium | | Total | |
|---|-----------------------------|------------------|--------------------|--------------------|--------------------|--------------------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Present value of obligations due to defined benefits | | | | | | |
| Beginning balance | (421,214) | (457,986) | (1,435,111) | (1,414,860) | (1,856,325) | (1,872,846) |
| Cost of present service | (21,860) | (25,370) | (119,264) | (141,264) | (141,124) | (166,634) |
| Income or expense for interest | - | - | (61,732) | (59,124) | (61,732) | (59,124) |
| Assumptions for experience | (3,978) | 25,507 | (98,574) | (60,319) | (102,552) | (34,812) |
| Financial assumptions | (47,998) | (1,583) | (307,523) | 5,517 | (355,521) | 3,934 |
| Payments made by the plan | 39,193 | 38,218 | 150,650 | 234,939 | 189,843 | 273,157 |
| Present value of obligations at December 31 | (455,857) | (421,214) | (1,871,554) | (1,435,111) | (2,327,411) | (1,856,325) |
| Fair value of the assets of the plan | | | | | | |
| Beginning balance | - | - | 1,822,046 | 1,580,068 | 1,822,046 | 1,580,068 |
| Contributions made to the plan | - | - | 256,981 | 241,978 | 256,981 | 241,978 |
| Payments made by the plan | - | - | (415,904) | - | (415,904) | - |
| Present value of the assets of the plan at December 31 | - | - | 1,663,123 | 1,822,046 | 1,663,123 | 1,822,046 |
| Surplus or (deficit) of the benefits plan defined | (455,857) | (421,214) | (208,431) | 386,935 | (664,288) | (34,279) |
| Adjustment of the surplus due to the asset limit | - | - | - | (214,436) | - | (214,436) |
| Total of defined benefits | (455,857) | (421,214) | (208,431) | 172,499 | (664,288) | (248,715) |

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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 Pro Futuro, 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 collaborators of the IRHE, regardless of the service provider that these may use.

- **Retirement bonus**

Current employees of the Company have the benefit of a B/.2,000 bonus when they benefit from their retirement by age granted by the Social Insurance 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/.256,981 (2016: B/.241,978) and expects to make contributions for the next annual period for B/.218,600.

The assets of the plan, managed by Pro Futuro, S.A. invests 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 perform contributions), the proceeds from the change of 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 | |
|---------------------------------------|---|-------------|
| | 2017 | 2016 |
| Discount rate - seniority premium (%) | 3.84 | 4.35 |
| Annual salary - increase rate (%) | 5 | 4 |
| Survival tables | Mortality table for the urban population of the Republic of Panama 2010-2015 (adjusted) | |

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

| Assumptions | Increase in the discount rate +1% | Reduction in the discount rate -1% | Rise in salary increase in +1% | Reduction in salary increase in - 1% | Rise in the increase of the benefit for +1% | Reduction in increase of the benefit in -1% |
|---------------------------------|---|---|--------------------------------------|---|--|--|
| Seniority premium | (207,464) | 254,170 | 215,855 | (181,521) | - | - |
| Subsidy public services | (24,950) | 28,294 | - | - | 22,957 | (20,766) |
| Retirement bonus | (7,674) | 9,057 | - | - | - | - |
| Total benefits post- employment | (240,088) | 291,521 | 215,855 | (181,521) | 22,957 | (20,766) |

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

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

Investment risk:

Currently, the assets of the seniority premium plan have relatively balanced investments mainly in fixed-term deposits, securities and debt securities.

Longevity risk:

The present value of the liabilities from discount on electricity is calculated by reference to 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.

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17. Provisions, contingent assets, and liabilities

17.1 Provisions

| | Dismantling & restoration | Litigations | Others | Total |
|---------------------------------------|--|--------------------|------------------|------------------|
| 2017 | | | | |
| Beginning balance | 180,963 | 122,793 | 4,717,428 | 5,021,184 |
| Additions | - | 109,816 | 1,290,042 | 1,399,858 |
| Utilizations (-) | - | - | (989,854) | (989,854) |
| Reversals and amount not utilized (-) | (2,846) | (2,815) | (144,802) | (150,463) |
| Final balance | 178,117 | 229,794 | 4,872,814 | 5,280,725 |
| | | | | |
| | Dismantling & restoration | Litigations | Others | Total |
| 2016 | | | | |
| Beginning balance | 178,117 | 425,132 | 3,420,547 | 4,023,796 |
| Additions | 2,846 | 3,519 | 1,569,830 | 1,576,195 |
| Utilizations (-) | - | - | (272,949) | (272,949) |
| Reversals and amount not utilized (-) | - | (305,858) | - | (305,858) |
| Final balance | 180,963 | 122,793 | 4,717,428 | 5,021,184 |

To reduce the uncertainty that may arise with respect to the estimated date of payment and the estimated value to be paid in a litigation deemed as probable, the Company with respect to the estimated date of payment evaluates 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 advisers of the Company and in certain cases the support of insurance advisers in case it requires an actuarial valuation.

17.1.1 Dismantling

The Company is obliged to incur in dismantling costs or restoration of its facilities and related assets with transformers where it is 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 dismantling of these assets since 2002 to 2025, 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:

- It was determined that 34 transformers should be discarded for being suspect of containing PCB.
- The present value of the obligation was determined by using a discount rate of 1,598% which is the rate of return extrapolated for Global Bonds 2015 of the Republic of Panama.

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- c. The legal obligation (implicit) of dismantling 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 in the operation. The main assumptions considered in the calculation of the provision are:

- a. The legal advisers review cases to determine, according to their development, the likelihood or not of incurring an outflow of resources.
- b. The legal advisers provide the best estimate for the reserve of litigations.
- c. The legal technicians provide the estimated date of payment.

Recognized litigations as follows:

| <u>Claims</u> | <u>Value</u> |
|---|----------------|
| Civil ordinary process for the development of the Llano Bonito substation | 123,684 |
| Civil ordinary process for the discount applied in the services invoice | 6,110 |
| Civil ordinary process for damages caused by interruption of service | 100,000 |
| | <u>229,794</u> |

17.1.3 Other provisions

The Company maintains other provisions for B/.4,872,814 (2016: B/.4,717,428) to cover compensations to customers that occur due to possible breaches in standards regulated by the "Autoridad Nacional de los Servicios Públicos" (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 estimate of the dates in which the Company deems that it must deal with the payments related to provisions included in the statement of financial position to the cut-off date, is the following:

| <u>Estimated payments</u> | <u>Dismantling or restorations</u> | <u>Litigations</u> | <u>Others</u> | <u>Total</u> |
|---------------------------|------------------------------------|--------------------|---------------|--------------|
| 2018 | 178,117 | 229,794 | 4,872,814 | 5,280,725 |

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17.2 *Contingent liabilities*

| Type of contingency | Contingent liabilities |
|----------------------------|-------------------------------|
| Litigations | 7,835,189 |
| Guarantees | 81,507,388 |
| Total | 89,342,577 |

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.

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

Contingent liabilities:

| Lawsuit claims | Value |
|--|------------------|
| For not complying with the standards of the quality of the service | 7,060,063 |
| Civil lawsuit for damages for cancellation of contract | 600,000 |
| Lawsuit for damages and compensation | 97,000 |
| Protection process to the consumer for the lawsuit of error in billing | 78,126 |
| Total contingent liabilities | 7,835,189 |

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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. | 61,474,534 |
| Empresa de Transmisión Eléctrica, S.A. | Bank guarantee to assure the payment of one month of billing of the transmission system. | 1,565,014 |
| Empresa de Transmisión Eléctrica, S.A. | Letter of credit as payment guarantee of the power purchase costs in the spot market. | 2,798,947 |
| Regulator Operating Entity El Salvador | Letter of credit as payment guarantee of the power purchase costs in the spot market. | 468,893 |
| Empresa Nacional de Autopista, S.A. | Bank guarantee to guarantee payment for work in the national highway. | 200,000 |
| Total guarantees granted | | 81,507,388 |

17.3 *Compromises*

The purchase rules for the contract 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 power and in energy to the distribution companies. The power must be contracted to cover the maximum demand of generation of the Company and the energy must be contracted as per the Associated Energy Required. ETESA must carry out the summoning's of the Acts of Concurrence to supply the need for potency and energy of the final clients of the electric distribution company and ensure that the summoning's that they conduct comply with the minimum contracting levels of the company of electric distribution. 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 generation 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 tenders for the purchase of energy by distribution companies. The offers are received, evaluated 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.

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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 |
|-------------|----------------------------|
| 2018 | 144,066,194 |
| 2019 | 179,281,188 |
| 2020 | 217,917,511 |
| 2021 | 210,275,500 |
| Hereafter | <u>2,125,454,225</u> |
| Total | <u>2,876,994,618</u> |

As of December 31, 2017, the Company made payments for B/.132,929,336 (2016: B/.123,332,063), in long-term unconditional contracts.

18. Other liabilities

The detail of other liabilities is the following:

| | 2017 | 2016 |
|----------------------------|------------------|------------------|
| Non current | | |
| Income received in advance | 528,679 | 614,472 |
| Government subsidies | <u>2,092,723</u> | <u>2,198,319</u> |
| Total | <u>2,621,402</u> | <u>2,812,791</u> |

18.1 The detail of government subsidies to the cut-off date was:

| | 2017 | 2016 |
|----------------------------------|------------------|------------------|
| Beginning balance | 2,198,319 | 2,303,914 |
| Recognized in the year's results | <u>(105,596)</u> | <u>(105,595)</u> |
| Ending balance | <u>2,092,723</u> | <u>2,198,319</u> |

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19. Changes in liabilities from financing activities

The reconciliation of the liabilities arising from the financing activities is as follows:

| Reconciliation of liabilities arising from financial activities 2017 | Beginning balance | Cash flows | Total |
|---|------------------------------|-------------------|--------------------|
| Credits and loans | | | |
| long-term | 201,247,440 | (19,822,603) | 181,424,837 |
| Credits and short | | | |
| term loans | 82,000,000 | 46,000,000 | 128,000,000 |
| Total liabilities for financing activities | 283,247,440 | 26,177,397 | 309,424,837 |

| Reconciliation of liabilities arising from financial activities 2016 | Beginning balance | Cash flows | Total |
|---|------------------------------|-------------------|--------------------|
| Credits and loans | | | |
| long-term | 200,975,975 | 271,465 | 201,247,440 |
| Credits and short | | | |
| term loans | 27,000,000 | 55,000,000 | 82,000,000 |
| Total liabilities for financing activities | 227,975,975 | 55,271,465 | 283,247,440 |

20. 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 the electricity companies.

The regulated system under which the Company operates allows any excess or deficiency between the estimated cost of energy 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 excess in the energy cost charged to customers is accumulated as credit balance in a deferred regulatory account in the balance sheets of the Company and leads to a reduction in the next tariff review to be applied to clients. In the same way, any shortfall in the energy cost charged to customers is accumulated as debit balance into a deferred regulatory account in the balance sheets 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 process of the fare. The deferred regulatory accounts with credit balance represent probable reductions in future income associated with amounts that are expected to be credited to the customers through the process of rates.

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The movement of the regulatory accounts is the following:

| | Assets (liabilities) | |
|---|------------------------------|-------------------|
| | 2017 | 2016 |
| Beginning balance | 5,269,828 | (19,016,113) |
| | <u>11,098,269</u> | <u>24,285,941</u> |
| Recognized in profit or loss for the year | | |
| Ending balance | <u>16,368,097</u> | <u>5,269,828</u> |

The amount of the deferred income tax related to regulatory accounts is as follows:

| Deferred tax associated with regulatory accounts | Assets (liabilities) | |
|---|-------------------------------|--------------------|
| | 2017 | 2016 |
| Beginning balance | (1,580,948) | 5,704,834 |
| Recognized to profit | <u>(3,329,481)</u> | <u>(7,285,782)</u> |
| Ending balance | <u>(4,910,429)</u> | <u>(1,580,948)</u> |

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

21. Income from continuing operations

| | 2017 | 2016 |
|---|--------------------|--------------------|
| Services rendered | | |
| Energy service | <u>626,795,596</u> | <u>558,915,624</u> |
| Other income | | |
| Professional fees | 4,166,488 | 4,089,881 |
| Other income | <u>5,884,034</u> | <u>6,484,345</u> |
| Total other income | <u>10,050,522</u> | <u>10,574,226</u> |
| Total Income from continuing operations | <u>636,846,118</u> | <u>569,489,850</u> |

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

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21.1 Other income

The detail of the other income is as follows:

| | 2017 | 2016 |
|--|------------------|------------------|
| Connection / reconnection | 2,282,745 | 2,652,170 |
| Other income | 1,098,245 | 582,436 |
| Fee for late payments | 1,006,021 | 1,483,881 |
| Fines and penalties | 845,241 | 1,068,942 |
| Professional fees | 360,689 | 696,916 |
| Appraisal valuation of investment properties | 291,092 | - |
| | <hr/> | <hr/> |
| Total other income | 5,884,033 | 6,484,345 |

22. Costs of rendering services

The detail of the costs of rendering services is the following:

| | 2017 | 2016 |
|--|--------------------|--------------------|
| Cost of public goods and services for sale | 492,090,222 | 432,704,413 |
| Depreciation and amortization of intangibles | 23,570,432 | 22,214,521 |
| Orders and contracts for other services | 16,576,708 | 17,403,250 |
| Salaries and personnel expenses | 7,440,948 | 7,053,326 |
| General expenses | 2,248,518 | 2,375,750 |
| Maintenance and repairs | 2,160,985 | 2,234,977 |
| Others | 1,804,013 | 1,696,642 |
| Regulatory penalties | 1,446,543 | 2,016,088 |
| Taxes, contribution & rates | 1,243,171 | 1,431,403 |
| Rentals | 884,799 | 1,434,511 |
| | <hr/> | <hr/> |
| Total cost of rendering services | 549,466,339 | 490,564,881 |

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23. Administrative expenses

Details of the administrative expenses are as follows:

| | 2017 | 2016 |
|--|-------------------|-------------------|
| Personnel expenses | | |
| Wages & salaries | 6,273,449 | 5,253,532 |
| Social security expense | 805,852 | 749,079 |
| Benefits of union collective agreement | 43,482 | 72,416 |
| Total personnel expenses | <u>7,122,783</u> | <u>6,075,027</u> |
| General expenses | | |
| Depreciation & amortization of intangibles | 3,979,272 | 3,220,106 |
| Others | 2,020,763 | 913,617 |
| Commissions, professional fees & services | 2,975,005 | 2,777,249 |
| Taxes contributions and rates | 2,326,363 | 1,712,912 |
| Maintenance | 1,609,487 | 2,046,003 |
| General insurance | 748,950 | 772,577 |
| Public services | 524,483 | 456,162 |
| Rentals | 322,399 | 724,689 |
| Provision for contingencies | 107,001 | (302,339) |
| Total of general expenses | <u>14,613,723</u> | <u>12,320,976</u> |
| Total | <u>21,736,506</u> | <u>18,396,003</u> |

As of December 31, 2017, the Company does not have operating leases that cannot be canceled.

At the cut-off date, the minimum future payments for operating leases, not cancelable, are distributed as follows:

| | 2017 | 2016 |
|----------------|--|----------------|
| | Operating leases that cannot be cancelled | |
| Up to one year | <u>-</u> | <u>181,414</u> |

The quotas of operating lease recognized as the period expenses are B/.1,207,198 (2016: B/.2,159,199).

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24. Other expenses

The detail of the other expenses is the following:

| | 2017 | 2016 |
|------------------------|------------------|------------------|
| Loss on sale of assets | <u>2,440,461</u> | <u>1,006,773</u> |

25. Financial income and expenses

25.1 Financial income

| | 2017 | 2016 |
|-----------------------|----------------|----------------|
| Income for interest | | |
| Bank fixed deposits | 92,646 | 95,089 |
| Other interest earned | <u>64,129</u> | <u>138,710</u> |
| Total | <u>156,775</u> | <u>233,799</u> |

25.2 Financial expenses

| | 2017 | 2016 |
|--|-------------------|-------------------|
| Interest expense | | |
| Interest on loans and bonds | 14,957,442 | 13,351,846 |
| Total expense for interest on financial liabilities that is not measured at fair value with changes in results | | |
| Less interest capitalized on appropriate assets | (637,127) | (688,447) |
| Other financial expenses | <u>104,050</u> | <u>110,509</u> |
| Total | <u>14,424,365</u> | <u>12,773,908</u> |

26. Income tax

26.1 Tax provisions

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

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

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26.2 Reconciliation of the effective tax rate

The conciliation between the applicable taxable rate and the effective rate and the composition of expenditure by income tax for 2017 and 2016 periods are as follows:

| | 2017 | % | 2016 | % |
|--|--------------|-------|--------------|-------|
| Results before taxes | 46,306,990 | | 45,749,734 | |
| Tax in theory | 13,916,927 | 30.1% | 13,584,796 | 29.7% |
| Plus items that increase tax | 6,231,143 | | 5,100,473 | |
| Less items that reduce tax | (13,594,509) | | (26,504,830) | |
| Liquid ordinary income for this exercise | 38,943,624 | | 24,345,377 | |
| Less exempt Income | 92,645 | | 95,089 | |
| Taxable liquid Income | 38,850,979 | | 24,250,288 | |
| Income tax rate | 30% | | 30% | |
| Income tax | 11,655,294 | | 7,275,086 | |
| Other adjustment prior year income tax adjustment | 887 | | 1,699 | |
| Income tax current | 11,656,181 | 30% | 7,276,785 | 30% |
| Detail of income tax expense current and deferred | | | | |
| Income tax current | 11,656,181 | | 7,276,785 | |
| Income tax deferred | 2,260,746 | | 6,308,011 | |
| Income tax for the period | 13,916,927 | | 13,584,796 | |

26.3 Income tax recognized in profits or losses

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

| | 2017 | 2016 |
|---|---------|---------|
| Asset or liability for income tax current portion | 178,444 | 134,122 |
| Income tax | 73,091 | 44,322 |
| Total asset or (liability) for income tax | 251,535 | 178,444 |

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26.4 Deferred Income Tax

The deferred tax item recognized at the cut-off date in the assets of the statement of financial position has the following composition:

| | Beginning balance | Net changes included in the result | Changes included in OCI | Final balance |
|---|----------------------|--|-------------------------------|------------------|
| Current assets: | | | | |
| Accounts receivables | 2,072,433 | 673,704 | - | 2,746,137 |
| Inventories | 47,212 | 58,397 | - | 105,609 |
| Non current assets: | | | | |
| Properties, plant and equipment | (1,825,492) | 135,801 | - | (1,689,691) |
| Others | (93,095) | 8,120 | - | (84,975) |
| Investment properties | (412,567) | (87,327) | - | (499,894) |
| Current liabilities: | | | | |
| Employee benefits | 11,652 | (300) | - | 11,352 |
| Provisions | 1,470,843 | 77,863 | - | 1,548,706 |
| Other liabilities | 338,101 | 132,627 | - | 470,728 |
| Non current liabilities | | | | |
| Employee benefits | 89,653 | 43,160 | 73,091 | 205,904 |
| Total deferred tax asset/liability | 1,698,740 | 1,042,045 | 73,091 | 2,813,876 |

27. Disclosure of related parties

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

The following are related parties of ENSA following the restructuring of the electricity sector in Panama, in which the Panamanian government has stake and key management personnel.

Empresas Públicas de Medellín E.S.P. is the owner of 100% of the authorized common stock of Panama Distribution Group, S.A. (PDG) The Company maintained a consulting agreement with EPM for the supervision and adaptation of the construction work, of the ENSA corporate building, the amount of which, B/.34,269 (2016: B/.131,283), is recognized as part of the investment.

On June 20, 2017, ENSA signed with Hidroecológica del Teribe, S.A., a company that belongs to the EPM business group, a legal and computer services contract, as well as a rental lease of a physical space in the corporate building of the Company. As of December 31, 2017, the amount recognized as income is B/.31,461 and the account receivable is B/.7,629 as a product of this agreement.

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

| | <u>Income</u> | <u>Cost / expenses</u> | <u>Securities receivable</u> | <u>Securities payable</u> |
|-------------------------------|---------------|----------------------------|----------------------------------|-------------------------------|
| Other related parties: | | | | |
| 2017 | 77,976,265 | 252,087,293 | 13,357,497 | 41,577,407 |
| 2016 | 64,967,963 | 239,132,572 | 11,156,441 | 43,018,302 |

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 generating companies and other distribution companies; they sell energy to government institutions and make payments to the transmission Company.

The Law obliges the Company to ensure 100% regulated coverage of its client's 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 the strong fluctuations in the charges of generation of the rates. In addition, ENSA pays to Empresa de Transmisión Eléctrica, S.A. (ETESA), a company wholly-owned by the Panamanian State, a rate regulated by the connection and use of the transmission system.

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

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.

| | <u>2017</u> | <u>2016</u> |
|--------------------------------------|-------------|-------------|
| Remuneration of key management staff | 2,383,090 | 1,870,567 |

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

28. Capital management

The capital of the Company consists of debt (short-term loans, preferential and corporate bonds) and equity (composed of share capital, other comprehensive loss 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 to support the sustainability of the business and maximize the return for shareholders.

The Company manages its capital structure and adjusts in view of changes in economic conditions and according to requirements of the financial agreements. To maintain or adjust 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, 2017 and 2016.

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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" by its acronym in English, Earnings before Interest, Tax, Depreciation and Amortization) in accordance to the requirements of the financial agreements. On May 31, 2016, the Company filed with the Securities Market Superintendence (hereinafter "SMV") an application for registration of certain terms and conditions of corporate bonds that were issued and sold in a public offering for an amount Total of 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 Issue Agreement from 3.5 to 1.0 and (ii) making other changes to the Issuance Agreement to incorporate greater consistency between the terms of the Issuance Agreement and the terms of other Issuer debt instruments. The holders of the corporate bonds of the issue 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 all modifications to the terms and conditions of the corporate bonds issued for one hundred million dollars were duly approved. The Company's policy is to maintain that the debt ratio will not exceed 3.50 times its EBITDA.

To achieve this overall objective, the capital management of the Company, among other things, aims to ensure that it complies with the financial agreements of its debt issues that form part of the requirements of its capital structure. The violations 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.

| | 2017 | 2016 |
|------------------------------|--------------------|--------------------|
| Short term debt | 128,000,000 | 82,000,000 |
| Preferred bonds 2021 | 100,000,000 | 100,000,000 |
| Corporate bonds 2018 | - | 20,000,000 |
| Preferred bonds 2027 | 80,000,000 | 80,000,000 |
| Cash & cash equivalents | (4,558,153) | (3,620,659) |
| Total net debt | 303,441,847 | 278,379,341 |
| Common shares | 106,098,875 | 106,098,875 |
| Comprehensive profit or loss | (586,915) | (416,369) |
| Retained earnings | 58,133,255 | 40,823,336 |
| Total capital | 163,645,215 | 146,505,842 |
| Total capital | 467,087,062 | 424,885,183 |
| Debit ratio | 185% | 190% |
| Total debt to EBITDA | 2.04x | 2.39x |

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29. Objectives and policies of financial risk management

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 course of the business. There is a policy aimed at establishing what the financial risks are that could negatively impact the performance of the business. The policy of the Company 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 it in a timely manner when facing an eventuality.

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 the 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 its entirety to customers through semiannual adjustments to the tariff.

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 because 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 rate. To minimize the impact of fluctuations in interest rates in our cash flows, the Company has the practice of negotiating the margins with our banking institutions of preference. In recent years, we have been able to reduce the margins about our lines of credit that not guaranteed. Historically, we have not used interest swaps and similar derivatives to cover our exposure to the risk of interest rate. It is our policy to invest the surplus funds of our operations in sight deposits with first-rate financial entities in Panama.

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

As at December 31, 2017, the Company maintains 41% (2016: 36%) of the debt contracted at a floating interest rate and 59% (2016: 64%) to a fixed interest rate. Management's position regarding its financing structure has been to contract most of its debt to a fixed rate within a range above 60% and to a variable rate of 40%. The financing structure that existed at the end of the 2017 period is circumstantial, given that at present it is practical for the Company to access its credit facilities.

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Sensitivity analysis to interest rates

On October 20, 2017, the long-term debt with a variable interest rate was redeemed in advance. All corporate bonds issued and outstanding at a price equal to 100% plus interest were canceled.

The following table indicates the sensitivity analyses realized at December 31, 2016 facing a possible reasonable change in interest rates of the corporate bonds, without considering the effect of hedge accounting. Keeping the other variables constant, profit 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 |
| 2017 | | | |
| Interest rate 3M LIBOR + Margin | - | - | - |
| Interest rate 3M LIBOR + Margin | - | - | - |
| Interest rate 3M LIBOR + Margin | - | - | - |
| Interest rate 3M LIBOR + Margin | - | - | - |
| 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) |

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

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 because of variations in exchange rates. Our revenues and loans and other obligations are denominated in US dollars. We do 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 our operations and transactions. We 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 partners does not comply 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.

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

Our credit risk of customers 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 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 because 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 because of the concentration of credit, given that many 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 estimated cost of service 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 government 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 client whose invoice is not canceled within the 60 days after their billing. The Company policy is to contact the commercial and industrial customers in an active manner, whose invoices are due. 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 our 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 our 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 from 30 days after the billing date. The Company currently uses a regulated interest rate based on the average rate available in local banks. The service is restored once the payment of the debt and the due interest is made. A 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.

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

Regarding the 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.

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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:

| | 2017 | 2016 |
|--------------------------------------|-------------------|-------------------|
| Restricted cash and cash equivalents | 4,558,153 | 3,620,659 |
| Accounts receivables | 18,401,627 | 15,641,518 |
| Other accounts receivables | 83,366 | 198,612 |
| Deposits and guarantees | 679,162 | 625,407 |
| | <u>23,722,308</u> | <u>20,086,196</u> |
| Maximum exposure to credit risk | <u>23,722,308</u> | <u>20,086,196</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 monitoring 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 that have the intention to maintain sufficient cash and liquid financial assets. The Company maintains lines of short-term financing with first-rate financial entities in Panama that provide us with the operational flexibility required to meet our energy purchase and other obligations. Since the Company invests its operation funds to support the annual investment program, it does not maintain significant amounts of cash surplus for additional investments. The main sources of liquidity are the funds generated by operations, and to a lesser extent, by the lines of short-term financing. 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 in an expeditious and reliable manner when required.

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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 |
|---|--|---------------------|-------------------|-----------------|-----------------|----------------------|------------------------------------|
| 2017 | | | | | | | |
| Non-derivative financial liabilities | | 180,975,049 | 15,145,420 | - | - | - | 196,120,469 |
| Financial debt instruments with variable interest rates | 1.73% | 128,000,000 | - | - | - | - | 128,000,000 |
| Financial debt instruments with fixed interest rates | 6.32% | - | - | - | - | 180,000,000 | 180,000,000 |
| Total | | <u>308,975,049</u> | <u>15,145,420</u> | <u>-</u> | <u>-</u> | <u>180,000,000</u> | <u>504,120,469</u> |
| 2016 | | | | | | | |
| Non-derivative financial liabilities | | 195,237,281 | - | - | - | - | 195,237,281 |
| Financial debt instruments with variable interest rates | 3.46% | 82,000,000 | - | - | - | 20,000,000 | 102,000,000 |
| Financial debt instruments with fixed interest rates | 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> |

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 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 based on 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:

- Based on prices quoted in the assets market for assets or liabilities that are identical to those that the Company can access on the date of the measurement (level 1).
- On the basis of valuation techniques commonly used by market participants that use different variables of 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 variables observed 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.

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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 data from level 1 entry that uses quoted prices in active markets for liabilities which are identical to those that the Company can access on the measurement date.

The fair value for long-term debt instruments with a variable interest rate has been determined with input data of 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 price quoted is used in a specific appraisal of the investment properties using the comparative method or market value. These items are classified in level 2 of the fair value hierarchy.

Accounts receivable customers, accounts payable, short-term debt and customer deposit: 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 the prior period.

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

| | <u>Valuation Techniques</u> | <u>Variable no observable</u> | <u>Rango (media ponderada)</u> |
|----------------------------------|-----------------------------|-------------------------------|--------------------------------|
| Liabilities | | | |
| Debt instruments - variable rate | Discounted cash flows | 5.5% discount rate | 1.30% -1.40% LIBOR 3M + Margin |

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

| | 2017 | | | | 2016 | | | |
|---------------------------------|----------------|----------------------|---------|-------------|----------------|----------------------|------------|-------------|
| | Value in books | Estimated fair value | | | Value in books | Estimated fair value | | |
| | | Level 1 | Level 3 | Total | | Level 1 | Level 3 | Total |
| Liabilities | | | | | | | | |
| Debt instrument - fixed rate | 181,424,837 | 197,577,000 | - | 197,577,000 | 181,048,554 | 194,573,000 | - | 194,573,000 |
| Debt instrument - variable rate | - | - | - | - | 20,198,886 | - | 19,331,478 | 19,331,478 |
| Total | 181,424,837 | 197,577,000 | - | 197,577,000 | 201,247,440 | 194,573,000 | 19,331,478 | 213,904,478 |
| | | 100% | 0% | | | 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 date on which the financial statements were issued 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 to be issued on February 23, 2018.

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