

## **Free English Language Translation**

### **Elektra Noreste, S.A.**

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

(Panamá, Republic of Panamá)

### **Consolidated Financial Statements for the year ended 31st December 2020, and the Independent Auditors' report.**

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

## **ELEKTRA NORESTE, S. A. & SUBSIDIARY**

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

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## **INDEPENDENT AUDITORS' REPORT**

To,

The Board of Directors,

Elektra Noreste, S.A and subsidiary

### *Opinion*

We have audited the financial statements of Elektra Noreste, S.A. (Hereinafter "ENSA" or the "Group"), which comprise the statement of financial position as of December 31, 2020, and the consolidated 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 and additional explicative information.

In our opinion, the enclosed consolidated financial statements reasonably present, in all material respects, the financial position of the Group as of December 31, 2020, and its consolidated financial performance and consolidated 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 (ISA). 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 Group 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 Panamá, and we have met 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 enough and appropriate to provide a basis for our opinion.

### *Key Audit Issues*

The key issues of the audit are those matters that, according to our professional judgment, have been the most significant issues in our audit of the consolidated financial statements of the current period. These matters have been addressed in the context of our audit of the consolidated financial statements as a whole and in the formation of our opinion on them, and we do not express a separate opinion on these matters.

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Key Audit Issue - Revenue Recognition for services rendered.  
See Notes 2.5 and 25 to the consolidated financial statements

Key Audit Issue:

*How the key issue was addressed in the audit and our procedures for audit included:*

The income from the provision of services amounts to B/.552,531,663 duly recognized in relation to the supply of energy. This service revenue includes unbilled revenue of the value of the energy supplied to customers between the date of the last bill and the end of the year.

The risk of error is that the accounting of the unbilled income of the Group does not adequately reflect the actual underlying supply of electric power and, as a result, the revenues may contain incorrect estimates.

Our audit procedures included:

- We conducted tests on the design and operational effectiveness of the internal controls related to the revenue recognition and the billing system.
- From a sample of customer invoices, we verified that the calculations made by the administration of the unbilled income at the end of the year.
- From a sample of customers, we verified that customer rates were updated correctly in the billing systems and that the rates assigned to customers was correct according to the type of customer.
- From a sample of invoices selected that were pending to paid at the end of the year we verified the amounts of subsequent collections were realized. For those invoices for which payments was not received, alternate revision procedures were performed.
- From a sample of invoices selected at the end of the year (cut off) we verified the amounts of subsequent cash collections. For those invoices for which payments was not received, alternate revision procedures were performed.
- We compared the monthly energy income with the previous year, to identify and investigate any trends or atypical values.

*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.

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In preparing the financial statements, management is responsible to evaluate and assess the Group's ability to continue as an ongoing business, revealing, when applicable, the related matters to the ongoing business and to use accounting for the ongoing business situations or unless the administration intends to liquidate the Group or cease operations, or it has no other realistic alternative than to do so.

Government officials are responsible for overseeing the Group's financial reporting process.

*Auditors' responsibility for audit of the consolidated financial statements*

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

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

AUDITORS' REPORT

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We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is Julio E. Lasso T.

Panamá, República de Panamá  
10th, March 2021

**ELEKTRA NORESTE, S. A. AND SUBSIDIARY**

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

**Statement of Financial position**

For the year ended 31st December 2020

(In balboas)

	<u>Nota</u>	<u>2020</u>	<u>2019</u>
<b>Assets</b>			
<b>Non-Current Assets</b>			
Properties, Plant & Equipment Net	6	551,583,594	548,933,838
Inventories	13	2,838,912	2,583,802
Investment Property	7	3,653,800	3,963,709
Other Intangible Assets	9	23,129,265	22,305,591
Trade and Other Receivables	30	2,390,979	4,331,999
Deferred Income Taxes	20	251,637	35,803
Employee Benefits	11	533,315	1,565,042
Right-of-use Assets	12	1,070,998	900,955
Other Assets		<u>585,452,500</u>	<u>584,620,739</u>
Total Non-Current Assets			
<b>Current Assets</b>			
Inventories	13	18,285,669	18,046,516
Trade and Other Receivables	10	130,760,862	145,778,015
Current Tax assets	30	7,819,349	0
Other Assets	12	1,108,497	1,141,663
Cash & Cash Equivalents	14	<u>54,023,188</u>	<u>25,511,109</u>
Total Current Assets		<u>211,997,565</u>	<u>190,477,303</u>
<b>Total Assets</b>		<u>797,450,065</u>	<u>775,098,042</u>
Balances of regulatory deferred debit accounts	24	223,490	0
Assets (Liabilities) of deferred taxes related with balances of deferred regulatory accounts	24	<u>-67,047</u>	<u>0</u>
<b>Total Assets and debit balances of deferred regulatory accounts</b>		<u><u>797,606,508</u></u>	<u><u>775,098,042</u></u>

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

**ELEKTRA NORESTE, S. A. AND SUBSIDIARY**  
**(A 51% owned subsidiary of Panama Distribution Group, S.A.)**  
**(Panama, Republic of Panamá)**

**Statement of Financial position**

For the year ended 31st December 2020

**(In balboas)**

	<u>Nota</u>	<u>2020</u>	<u>2019</u>
<b>Equity &amp; Liabilities</b>			
Commitments and contingencies	21		
<b>Equity</b>			
Issued Capital	15	106,642,962	106,642,962
Treasury Stocks	15	-574,511	-568,667
Other accumulated comprehensive Income (Loss)	16	-636,662	-662,847
Retained Earnings	15	72,069,409	42,281,707
Net Profit for the year in balances of Deferred Regulatory accounts	15	20,235,417	33,110,400
<b>Total Equity</b>		<u>197,736,615</u>	<u>180,803,555</u>
<b>Non-current Liabilities</b>			
Credit facilities & loans payable	17	179,315,480	282,179,173
Creditors and other accounts payable	18	46,221,114	54,914,944
Other Financial Liabilities	19	292,337	1,396,569
Employee Benefits	20	358,121	323,078
Liability for Deferred Taxes	22	1,913,371	2,089,911
Other Liabilities		<u>228,100,423</u>	<u>340,903,675</u>
<b>Total Non Current Liabilities</b>			
<b>Current Liabilities</b>			
Credit facilities & loans payable	17	103,352,676	25,000,000
Creditors and other accounts payable	18	255,171,677	194,115,781
Other Financial Liabilities	19	242,477	211,872
Employee Benefits	20	22,066	23,625
Current Taxes Payable	30	348,303	22,884,197
Provisions	21	12,468,965	5,511,038
Other Liabilities	22	163,306	173,981
<b>Total Current Liabilities</b>		<u>371,769,470</u>	<u>247,920,494</u>
<b>Total Liabilities</b>		<u>599,869,893</u>	<u>588,824,169</u>
Balances of regulatory deferred credit accounts	24	0	7,814,740
Assets (Liabilities) of deferred taxes related with balances of deferred regulatory accounts	24	0	-2,344,422
<b>Total Liabilities and credit balances of deferred regulatory accounts</b>		<u>599,869,893</u>	<u>594,294,487</u>
<b>Total Liabilities &amp; Equity</b>		<u>797,606,508</u>	<u>775,098,042</u>

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



**ELEKTRA NORESTE, S. A. AND SUBSIDIARY**

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

(Panama, Republic of Panamá)

**Statement of Profit or loss with other comprehensive income**

For the year ended 31st December 2020

(In balboas)

	<b><u>Notes</u></b>	<b><u>2020</u></b>	<b><u>2019</u></b>
Services provided		552,531,663	729,172,720
Sale of Assets		0	144,717
Other income from operations		7,200,865	8,516,116
<b>Total Income from ordinary activities</b>		<u>559,732,528</u>	<u>737,833,553</u>
Other income		1,662,244	2,922,506
<b>Total Income</b>	25	<u>561,394,772</u>	<u>740,756,059</u>
Cost for Services provided and sale of assets	26	485,574,549	601,215,148
Administrative expenses	27	22,601,487	22,820,364
Impairment in Accounts receivable	10	11,732,004	4,229,644
Other expenses	28	1,050,284	1,001,014
Financial Income	29	(512,439)	(218,341)
Financial costs	29	20,698,337	19,196,911
Net Profit for the year before Tax		<u>20,250,550</u>	<u>92,511,319</u>
Income tax for the period	30	5,641,894	29,834,194
<b>Net Profit for the year before net movement in balances in deferred regulatory accounts</b>		14,608,656	62,677,125
Net Movement in balance of regulatory accounts related to Profit and Loss	24	8,038,230	(42,238,178)
Net Movement arising in deferred taxes from balances of regulatory accounts related to profit or loss	24	<u>(2,411,469)</u>	<u>12,671,453</u>
<b>Net Income of the year and the net movement in balances of deferred regulatory accounts</b>		<u>20,235,417</u>	<u>33,110,400</u>
<b>Other comprehensive income (loss) net of tax</b>			
Items that will not be reclassified later to Profit or Loss:			
New measurements of defined benefits plan	16	37,407	(374,226)
Income Tax related to the components that will not be reclassified	16, 30	<u>(11,222)</u>	<u>112,268</u>
Other comprehensive income (loss) net of taxes		<u>26,185</u>	<u>(261,958)</u>
<b>Total Other comprehensive income (loss) for the year</b>		<u>20,261,602</u>	<u>32,848,442</u>

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

**ELEKTRA NORESTE, S. A. AND SUBSIDIARY**

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

(Panama, Republic of Panamá)

**Statement of changes in Shareholders' Equity**

For the year ended 31st December 2020

(In balboas)

	<u>Issued Capital</u>	<u>Treasury Shares</u>	<u>Other Comprehensive Income (loss) Accumulated</u>	<u>Retained Earnings</u>	<u>Total</u>
<b>Balance at 1st January 2019</b>	106,642,962	-544,087	-400,889	64,790,933	170,488,919
<b>Total Comprehensive Income (loss) for the Year</b>					
Net profit for the year and net movement in deferred regulatory account balances	0	0	0	33,110,400	33,110,400
Other comprehensive income (loss) net of Income Tax	0	0	-261,958	0	-261,958
<b>Total comprehensive income (loss) for the year</b>	<u>0</u>	<u>0</u>	<u>-261,958</u>	<u>33,110,400</u>	<u>32,848,442</u>
<b>Transactions with the owners of the Group</b>					
<b>Contributions and Distributions</b>					
Dividends Declared	0	0	0	-23,422,919	-23,422,919
Re-acquisition of Shares	0	-24,580	0	0	-24,580
Income tax related to transactions with owners	0	0	0	913,693	913,693
<b>Total transactions with the owners of the Group</b>	<u>0</u>	<u>-24,580</u>	<u>0</u>	<u>-22,509,226</u>	<u>-22,533,806</u>
<b>Balance as of December 31, 2019</b>	<u>106,642,962</u>	<u>-568,667</u>	<u>-662,847</u>	<u>75,392,107</u>	<u>180,803,555</u>
<b>Balance at 1st January 2020</b>	106,642,962	-568,667	-662,847	75,392,107	180,803,555
<b>Total Comprehensive Income (loss) for the Year</b>					
Net profit for the year and net movement in deferred regulatory account balances	0	0	0	20,235,417	20,235,417
Other comprehensive income (loss) net of Income Tax	0	0	26,185	0	26,185
<b>Total comprehensive income (loss) for the year</b>	<u>0</u>	<u>0</u>	<u>26,185</u>	<u>20,235,417</u>	<u>20,261,602</u>
<b>Transactions with the owners of the Group</b>					
<b>Contributions and Distributions</b>					
Re-acquisition of Shares	0	-5,844	0	0	-5,844
Income tax related to transactions with owners	0	0	0	-3,322,698	-3,322,698
<b>Total transactions with the owners of the Group</b>	<u>0</u>	<u>-5,844</u>	<u>0</u>	<u>-3,322,698</u>	<u>-3,328,542</u>
<b>Balance as of December 31, 2020</b>	<u>106,642,962</u>	<u>-574,511</u>	<u>-636,662</u>	<u>92,304,826</u>	<u>197,736,615</u>

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

**ELEKTRA NORESTE, S. A. AND SUBSIDIARY**

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

(Panama, Republic of Panamá)

**Statement of Cash Flows**

For the year ended 31st December 2020

(In balboas)

	<b>Notes</b>	<b>2020</b>	<b>2019</b>
<b>Cash flows from the operation's activities:</b>			
Net income for the period and net movement of in balances of deferred regulatory accounts		20,235,417	33,110,400
Adjustments for			
Depreciation and amortization of property, plant and equipment			
intangible assets and right-of-use assets	6, 9, 11	34,566,756	30,331,417
Impairment of financial instruments	10	11,732,004	4,229,644
Gain on changes in fair value of investment property	7	309,909	50,600
Income Tax	30.3	5,641,894	29,834,194
Financial costs Net		20,185,898	18,978,570
Profit or loss from disposal of property, plant and equipment, and right-of-use assets		1,415,491	3,027,625
Provisions	21	7,682,474	1,382,784
		<u>101,769,843</u>	<u>120,945,234</u>
<b>Changes in:</b>			
Inventories		(255,060)	(5,133,520)
Trade receivables and Other accounts receivables		3,285,149	(7,628,225)
Other Assets		35,137	(397,161)
Creditors and other accounts payable		51,192,231	(34,587,017)
Employee Benefits		(338,443)	(628,018)
Provisions		(515,140)	(2,387,135)
Other Liabilities		(187,215)	(175,330)
		<u>154,986,502</u>	<u>70,008,828</u>
Interest paid		(19,528,502)	(19,196,911)
Income Tax Paid		(34,067,339)	(265,399)
<b>Cash flows from operating activities:</b>			
<b>before net changes in balances of deferred regulatory accounts</b>		<b>101,390,661</b>	<b>50,546,518</b>
Changes in Deferred regulatory accounts		<u>(5,626,761)</u>	<u>29,566,725</u>
<b>Net cash flows generated by activities of the operation and</b>			
<b>Net changes in balances of deferred regulatory accounts</b>		<b><u>95,763,900</u></b>	<b><u>80,113,243</u></b>
<b>Cash flows from investing activities:</b>			
Interest received	29	512,439	218,341
Purchase of property, plant and equipment	6, 9	(39,302,545)	(51,163,758)
Inventories Net		(255,110)	(445,565)
Severance Payment Fund		(172,014)	(163,540)
<b>Net cash generated by operating activities</b>		<b><u>(39,217,230)</u></b>	<b><u>(51,554,522)</u></b>
<b>Cash flows from financing activities:</b>			
Finance Obtained	23	72,488,983	181,455,120
Repayment of Long term debt	23	(97,000,000)	(168,000,000)
Dividends paid	23	0	-23,422,919
Income tax related to transactions with owners	23	(3,322,698)	913,693
Repurchase of Shares	23	(5,844)	(24,580)
Payment of Lease Liabilities	23	(195,032)	(180,338)
<b>Net cash flows generated (used) by financing activities</b>		<b><u>(28,034,591)</u></b>	<b><u>(9,259,024)</u></b>
Net Increase in cash and bank balances		28,512,079	19,299,697
Cash and bank balances at the end of the year		<u>25,511,109</u>	<u>6,211,412</u>
<b>Cash and bank balances at the end of the year</b>	<b>14</b>	<b><u>54,023,188</u></b>	<b><u>25,511,109</u></b>

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

## **ELEKTRA NORESTE, S. A. & SUBSIDIARY**

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

(Panamá, Republic of Panamá)

### **Notes to the consolidated financial statements for the year ended 31st December 2020.**

(In balboas)

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#### **(1) Reporting entity: General Information.**

Elektra Noreste, S.A. (hereinafter "ENSA or the "Group") is a corporation created because of the privatization of the Institute for Hydraulic Resources and Electricity ("IRHE"). The Group was incorporated by means of Public Deed No.143, dated January 19, 1998, and began operations in January 1998, whose owner is Panamá Distribution Group, S.A. ("PDG"). The authorized share capital of the Group consists of fifty million common shares without par value. At present, Panamá Distribution Group, S.A. ("PDG") owns 51% of authorized common shares issued and outstanding shares from the Group, while the Panamánian Government and former IRHE employees own 48.25% and 0.43%, respectively. The remaining stocks are held as treasury stocks. These consolidated financial statements include the Group and its subsidiary, collectively referred to as "the Group".

The activities of the Group include the purchase of energy in blocks and its transportation to customers through the distribution network. In addition, the Group performs voltage transformation, the delivery of electric energy to end consumers, meter reading, invoicing, and collections. The Group is also responsible for installing, operating, and maintaining public lighting in the concession area. Additionally, the Group is authorized to engage in energy generation activities to a limit of 15% of the peak demand and energy in the concession area. Additionally, the Group also provides technical, commercial and any other complementary services for public service.

ENSA Servicios, S. A., (the "Subsidiary") was incorporated by means of Public Deed No. 19,217 of November 29, 2017 and commenced operations in March 2018, as a fully owned subsidiary of Elektra Noreste, S. A. The authorized share capital of the Subsidiary consists of five hundred common shares with no par value.

The purpose of this subsidiary is the provision of technical, commercial and any other services complementary to the provision of electricity service, including other similar, related and / or compatible services that constitute an added value to the activities described.

The Group's consolidated financial statements for December 31, 2020, were authorized by the Board of Directors for publication on 10<sup>th</sup>, March 2021.

#### ***1.1 Legal and regulatory framework***

Panamá'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.

## **ELEKTRA NORESTE, S. A. & SUBSIDIARY**

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### **Notes to the consolidated financial statements for the year ended 31st December 2020.**

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The regulatory regime is comprised mainly by the following regulations:

- Law No. 6 of February 3, 1997. Dictates 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 Group.
- 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.

The regulatory regime is mainly composed of the following standards:

#### **1.2 Regulatory entities**

Some of the main regulating entities for the energy sector in Panamá 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 Group “Empresa de Transmisión Eléctrica, S.A.” (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” (ASEP): 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 Panamá 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

## **ELEKTRA NORESTE, S. A. & SUBSIDIARY**

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

(Panamá, Republic of Panamá)

### **Notes to the consolidated financial statements for the year ended 31st December 2020.**

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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 Contracts**

According to the concession contract, the Group has the exclusivity for the distribution and commercialization of electric energy to customers located in the Eastern geographic area of Panamá, Colon, the Bay of Panamá, 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.

On August 9, 2013 bids were presented and PDG won the concession contract for 15 more years. Said concession period began on October 22, 2013.

The concession contract stipulates provisions in connection 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.

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#### **(2) Summary of Significant accounting policies**

The Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements, except as indicated in note 2.21.3

##### **2.1 Basis for the preparation of the financial statements**

The financial statements of the Group are prepared in accordance with the International Financial Reporting Standards (hereinafter "IFRS") issued by the International Accounting Standards Board (hereinafter "IASB"), as well as the interpretations issued by the Interpretations Committee (hereinafter IFRIC).

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 3 Significant Accounting Judgments, Estimates, and causes of uncertainty in the preparation of the financial statements.

ENSA and its subsidiary present separate or individual financial statements, as appropriate, for compliance with external control entities and for the purpose of internal administrative monitoring and to provide 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 Panamá, in which the Group is incorporated and operates, and their figures are expressed in units. The Balboa has been maintained at the same par value of the US dollar, which circulates freely in Panamá. The Republic of Panamá does not issue paper money and instead uses the dollar as legal tender.

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#### **2.2 Basis of Consolidation**

The consolidated financial statements include the financial statements of Elektra Noreste, S. A., and its subsidiary, over which it exercises control. Using the global integration method, ENSA consolidates the financial results of the Group over which it exercises control.

The control is obtained when the Group controls the relevant activities of the subsidiary, which are generally operating and financing activities, is exposed, or has rights, to the variable returns of the subsidiary and could use its power over the subsidiary to influence their performance.

The financial statements of the subsidiary are prepared under the Group's accounting policies and are included in the consolidated financial statements from the date of incorporation until the date on which the Group loses its control.

Assets, liabilities, equity, income, costs, expenses, and intra-group cash flows are eliminated in the preparation of the consolidated financial statements; that is, those related to transactions between companies, including internal results not made, which are eliminated in their entirety.

The consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ends when the Group loses control of the subsidiary. Specifically, the income and expenses of a subsidiary acquired or sold during the year are included in the consolidated statement of income and other comprehensive income from the date on which the Group obtains control until the date on which it no longer controls the subsidiary.

When the Group loses control over a subsidiary it derecognizes the assets (including goodwill), liabilities, non-controlling interests, and other components of the net assets. Any remaining residual interest is measured at fair value, gains or losses arising from this measurement are recognized in the statement of profit or loss of the period.

#### **2.3 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 Group 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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#### **2.4 Cash and bank balances**

Cash and bank balances in the consolidated statement of financial situation and in the consolidated 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 Group's cash represent a component of the cash and the cash equivalents in the cash flow statement.

#### **2.5 Income from ordinary activities deriving from contracts with clients.**

Revenue from ordinary activities basically corresponds to the development of the Group's main activity, which is the providing electricity distribution and marketing services, as well as providing any technical and commercial services, complementary to the providing of electricity service, and they are recognized when the service is provided or when the goods are delivered, to the extent that the Group's performance obligations are met. Income is measured at the value of the consideration received or to be received, excluding taxes or other obligations. Discounts, compensations to the client for quality of service and financial components that are granted, are recorded as an adjustment to the value of income. Note 2.19.2 displays information on the Group's accounting policies for contracts with customers and its effect of the initial application.

#### **2.6 Financial Income**

For financial instruments measured at amortized cost, interest earned or lost is recorded using the effective interest rate method, which is the interest rate that accurately discounts the future cash flow and payment collections throughout life. expected from the financial instrument, or an appropriate shorter period with respect to the net book value of the financial asset or liability. Interest earned are recognized at the time of accrual and is included in financial income in the consolidated statement of income and other comprehensive income.

#### **2.7 Government Grants & Subsidies**

Government grants & subsidies are recognized at fair value when there is certainty that all conditions attached to them will be received and will be met. The subsidies that are intended to offset costs and expenses, already incurred, without subsequent related costs, are recognized in the statement of profit or loss for the year in which they become due. When the subsidy is related to an asset, it is recorded as deferred income and recognized in the consolidated statement of profit or loss for the period on a systematic basis over the estimated useful life of the corresponding asset.

#### **2.8 Taxes**

The tax structure of the country, the regulatory framework, and its operations makes the Group 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 regulations are met.

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

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#### 2.8.1 Income Tax

##### 2.8.1.1 Current Taxes

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.

##### 2.8.1.2 Deferred Taxes.

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 enough 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.

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Deferred current income tax assets and liabilities are also offset if they are related to the same tax authority and there is an intention to settle them at net value or to realize the asset and to 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.

For measuring the deferred tax liabilities and deferred tax assets for investment property that are measured using the fair value model, the carrying amount of those properties is presumed to be fully recovered through the sale, unless the presumption is rebottled. The presumption is rebutted when the investment property is depreciable and is maintained within a business model whose objective is to consume substantially all the economic benefits that the investment property generates over time, and not through the sale.

#### **2.8.2 Transfer of Goods and Services Tax (ITBMS in Spanish)**

The Group is responsible of the regime since it sells taxed goods and services. In general, this means that ITBMS taxpayers are businesspersons, producers and industrial companies who transfer goods, and are professionals and lessors of goods and service providers in general in the Republic of Panamá, but with a limited monthly and annual income level. Currently in Panamá energy services, are exempt from this tax.

#### **2.9 *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 Group, 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.

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The Group 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 Group. 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.

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:

	<b><u>Useful life estimated. in years</u></b>
Plants, ducts, and tunnels	
Civil works	35 years
Equipment	12 to 30 years
Networks, lines, and cables	
Power distribution grid	12 to 30 years
Buildings	50 years
Communication and computer equipment	5 to 25 years
Equipment and machinery	8 to 25 years
Furniture, fixtures, and office equipment	5 to 20 years

The estimated useful life is 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. Land is not depreciated.

The Group 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.

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Property, Plant & equipment temporarily classified outside of use continue to be depreciated and is tested for impairment within the cash generating unit to which they are assigned.

Residual values, useful lives, and methods of depreciation of assets are reviewed, and adjusted prospectively at the closing of each year, in case it is required.

#### **2.10 Leases**

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.

On the date of commencement of the lease, the Group acting as lessee recognizes an asset for right of use and a liability for leasing, except for leases with a duration of less than 12 months or those whose new value of the underlying asset is less than 15 (fifteen) current legal minimum wages (CLMW).

The Group acting as lessor classifies the lease as financial or operating. 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.

##### **2.10.1 ENSA as a lessee:**

Right-of-use assets are recognized and presented as assets in the consolidated statement of financial position at the start of the lease, at cost. The corresponding liability is included in the statement of financial position as a lease liability.

Right-of-use assets are amortized over the useful life of the asset using the straight-line method, if at the end of the contract the ownership of the underlying asset is transferred or if a purchase option is exercised. If ownership of the underlying asset is not transferred at the end of the lease term or if no purchase option to exercise the asset is exercised, the asset is amortized only until the end of the useful life or lease term, whichever comes first.

Lease payments are divided between finance costs and debt amortization. Financial charges are recognized in profit or loss unless they can be directly attributed to qualifying assets, in which case they are capitalized in accordance with the Group's policy for borrowing costs. Variable lease payments, which depend on an index or a rate, are included in the valuation of the lease liability. Leases with a duration of less than 12 months or those whose new value of the underlying asset is less than 15 (fifteen) CLMW are recognized as operating leases in the result of the period throughout the term of the lease.

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Until December 2018, the Group as lessee classified the leases as financial or operational, using the transfer of risks and benefits on the leased asset as a criterion. The financial lease gave rise to the recognition of an asset and a liability for the lower of the present value of the minimum royalties and the fair value of the asset. The operating lease was recognized as an expense for the period.

#### **2.10.2 ENSA as lessor**

Assets leased under finance leases are not presented as property, plant and equipment since the risks associated with the property have been transferred to the lessee, and the account receivable is recognized instead for an amount equal to the net investment in the lease.

When a lease contract includes components of land and buildings together, the Group evaluates the classification of each component separately as a financial or operating lease. If the payments for the lease cannot be reliably distributed between these two components, the entire lease is classified as a finance lease unless both components are operating leases, in which case the entire lease will be classified as operating.

Variable lease income, which is dependent on an index or rate, is included in the valuation of the net lease investment.

Initial direct costs such as: commissions, fees, legal and internal costs that are incremental and directly attributable to the negotiation and contracting of the lease, are included in the measurement of the net investment in the lease at the beginning and is reflected in the calculation of the implicit interest rate.

#### **2.11 *Borrowing Costs on Loans***

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period to get ready for their intended use or sale, are capitalized as part of the cost of the respective asset until the asset is ready for its intended use.

Income 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 Group in relation to the borrowing of funds.

To the extent that the funds come from generic loans and are used to obtain a qualified asset, the value of the capitalization costs is determined by applying a capitalization rate (weighted average of the borrowing costs applicable to the general loans outstanding during the period) to the disbursements made in said asset.

The capitalization of borrowing costs begins on the date on which the following conditions are met:

- Disbursements are incurred in relation to the asset.

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- Loan costs are incurred, and
- The necessary activities are carried out to prepare the asset for the use to which it is destined or for its sale.

The capitalization of borrowing costs is suspended during the periods in which the development of activities of a qualified asset is interrupted for periods longer than one year. However, the capitalization of borrowing costs during a period is not interrupted if important technical or administrative actions are being carried out. Neither is the capitalization of costs for loans suspended when a temporary delay is necessary as part of the preparation process of a qualified asset for its use or sale.

The capitalization of borrowing costs is completed when all the activities necessary to prepare the qualified asset for its use or sale have been substantially completed. When the asset has components that can be used separately while construction continues, the capitalization of borrowing costs on such components is suspended.

#### ***2.12 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 results of the period 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 become an investment property, it shall be accounted for at fair value, the difference between the fair value and the book value will be recorded as a revaluation applying IAS 16 Property, plant, and equipment.

#### ***2.13 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

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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. 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.

The useful lives of intangible assets are:

	<u>Useful life estimated. in years</u>
Software & technological applications	5 to 15 years
Licenses	5 years
Legal Rights	3 to 5 years
Easements	Indefinite

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.

#### 2.13.1 Research and Development Costs

Research & development costs are accounted for as expenses as incurred. Disbursements for development in an individual project are recognized as an intangible asset when the Group can demonstrate:



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- The technical feasibility of finalizing the intangible asset so that it is available for use or sale.
- The Group's intention to finalize the asset and its ability to use or sell the asset.
- How the asset will generate future economic benefits, considering, among others, the existence of a market for the production that generates the intangible asset or for the asset itself, or the utility of the asset for the Group.
- The availability of technical and financial resources to finalize the asset and to use and sell it.
- The ability to reliably measure disbursement during development.

In the financial statements the disbursements for assets under development are recognized from the moment in which the asset meets the conditions for recognition established above and are accounted for at cost less accumulated amortization and accumulated impairment losses.

When the development of an intangible asset related to a power generation project begins, costs are accumulated as construction in progress.

The amortization of the asset begins when the development has been completed and it is available for use. It is amortized over the period of its expected future economic benefit. During the development period the asset is tested annually to determine if there is impairment of its value.

Research costs and development costs that do not qualify for capitalization, are recorded as expenses in the results of the period.

#### **2.13.2 Other Intangible Assets**

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

#### **2.14 *Financial Instruments***

A financial instrument is a contract that gives rise to a financial asset in one entity and, simultaneously, a financial liability or capital instrument in another entity.

Financial assets and financial liabilities are recognized in the statement of financial position when the Group 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

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results are recognized immediately in the statement of profit & loss and other comprehensive income of the period.

#### *2.14.1 Financial Assets*

The Group classifies at the moment of the initial recognition of its financial assets for the subsequent measurement at amortized cost or at fair value depending on the Group's business model to manage the financial assets and the characteristics of the contractual cash flows of the Instrument.

A financial asset is subsequently measured at amortized cost, using the effective interest rate if the asset is held within a business model whose objective is to maintain them to obtain the contractual cash flows and the contractual terms granted within on specific dates, cash flows that are only payments of the principal and interest on the value of the outstanding principal. Notwithstanding the foregoing, the Group may designate a financial asset irrevocably as measured at fair value through the statement of profit or loss.

#### *2.14.2 Impairment of Financial Assets*

On each presentation date, the Group recognizes value adjustments for expected credit losses on financial assets that are measured at amortized cost or at fair value with changes in other comprehensive income.

Expected credit losses are estimated considering the probability that a bad debt loss may or may not occur and are recognized as a gain or loss in the period result against less value of the financial asset. The Group evaluates the credit risk of accounts receivable on a monthly basis.

For financial assets at amortized cost, impairment is evaluated at the reporting date, if there is evidence of impairment. When there is objective evidence that an impairment loss has been incurred in the value of financial assets at amortized cost, the value of the loss is measured as the difference between the book value of the asset and the present value of future cash flows. estimated, discounted at the original effective interest rate of the investment. Impairment losses are recognized in the consolidated statement of income and other comprehensive income.

The Group first evaluates whether there is objective individual evidence of impairment for financial assets or collectively for financial assets that are not individually significant or when there is no objective evidence of impairment for a financial asset that has been individually assessed. When the collective assessment of impairment is carried out, the accounts receivables are grouped by similar credit risk characteristics, which allow identifying the debtor's ability to pay, in accordance with the contractual terms of negotiation of the account receivable.

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The Group determines that the credit risk of a client increases significantly when there is a default in the financial agreements by the counterparty, or when the internal information or obtained from external sources indicate that the payment of the debtor is improbable, without considering the guarantees maintained.

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.
- 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.

Impaired financial assets may continue to be subject to collection enforcement activities under the Group's recovery procedures, taking legal collection into account when appropriate. Recoveries made are recognized in profit or loss for the period.

#### 2.14.3 *Financial Liabilities*

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

Financial liabilities at fair value through the statement of 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 Group 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) for the period being reported.

#### 2.14.4 *Derecognition of financial assets and liabilities*

A financial liability or a part of it is written off from the statement of financial situation when contractual obligation has been liquidated or has expired or the Group loses control over the contractual rights or on the cash flows of the instrument.

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

On the 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 the statement of profit or loss. On a write off of a financial asset other than in its entirety (e.g., when the Group retains an option to repurchase part of a transferred asset), the Group 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 profit (loss) is allocated between the part that continues to be recognized and the part that is no longer recognized based on 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 Group 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 Group recognizes its participation in the asset and the associated obligation for the amounts it would have to pay. If the Group 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 profit (loss).

#### **2.14.5 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

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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.

#### **2.15 *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 also 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.

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.

#### **2.16 *Impairment of non-financial assets:***

At each date of presentation, the Group assesses whether there is any indication that a tangible or intangible asset can be damaged in its value. The Group 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 of 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

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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 Group 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.

#### **2.17 Provisions**

The provisions are recorded when the Group has a present obligation, legal or implied, because of a past event, it is likely that the Group 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 Group 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.

Provisions are measured by the administration's best estimate of the disbursements required to settle the current obligation, at the end of the reporting period, considering the corresponding risks and uncertainties. Provisions are determined by discounting the expected future cash flows using a pre-tax rate that reflects the evaluations corresponding to the time value of the money that the market quotes, as well as the specific risk of the corresponding liability.

The expense corresponding to any provision is presented in the statement of comprehensive income (loss) in the result section of the period net of any reimbursement. An increase in the provision due to the passage of time is recognized as a financial expense.

##### **2.17.1 Provision for dismantling**

The Group 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 Group 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

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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 profit or loss of the period.

#### **2.17.2 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 Group, 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.

#### **2.17.3 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 Group, 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.

### **2.18 *Pensions and other post-employment benefits***

#### **2.18.1 Defined contribution plans.**

Contributions to defined contribution plans are recognized as expenses in the consolidated statement of income and other comprehensive income (loss) in the results section of the period at the time when the employee has rendered the rights to make contributions.

#### **2.18.2 Defined benefits plans.**

These are post-employment benefits plans, those in which the Group 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

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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 and is recognized in the statement of profit or loss and other comprehensive loss for the period.

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 Group 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 Group recognizes the short-term benefits now in which the employee has rendered his services as follows:

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 Group has entrusted the provision of certain determined services.

The Group classifies as long-term employee benefits those obligations that it expects to settle after the twelve months following the close of the accounting year or the period in which the employees provide the related services, that is, from month thirteen onwards; they are different from short-term benefits, post-employment benefits and termination benefits.



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The Group 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 Group 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 Group 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 Group has delivered them in its entirety.

The Group recognizes as benefits for termination, the considerations granted to employees, payable because of the Group's decision to terminate the employment contract to an employee before the normal retirement date or the decision of an employee to accept the voluntary resignation. in exchange for those benefits.

#### **2.19 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 Group 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 consolidated 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 Group 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).

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- Based on internal valuation techniques of discounted cash flows or other valuation models, using non-observable estimated variables by the Group for the asset or liability, in the absence of variables observed in the market (level 3).

In Note 34, 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.

#### **2.20 Cash dividends distributed to the Group's shareholders.**

The Group recognizes a liability to make distributions to the Group shareholders in cash when the distribution is authorized and is no longer at the Group's discretion. The corresponding amount is recognized directly in equity.

#### **2.21 Changes in estimates, accounting policies and errors**

##### **2.21.1 Changes in accounting estimates**

As of 31<sup>st</sup> December, 2020, the Group revised its accounting estimates, with no significant change in the current or future periods. There are no significant changes in accounting estimates to report.

##### **2.21.2 Changes in Accounting Policies**

As of December 31, 2020, the accounting policies applied in the consolidated financial statements are consistent with those of 2019, except for the following changes:

##### **2.21.3 New standards implemented.**

During 2020 the Group implemented the changes in IFRS (new standards, amendments, or interpretations), issued by the International Accounting Standards Board (IASB), which are mandatory for the annual period beginning on or after January 1, 2020.

#### **IFRS 3 - Business combinations.**

The amendment to IFRS 3, issued in October 2018, clarifies the definition of a business, in order to help determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The new business definition is as follows: Integrated set of activities and assets that can be directed and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interests), or generating other income from ordinary activities.

Additionally, this amendment clarifies that, to be considered a business, a set of activities or assets must include at least one input and a substantive process that together contribute significantly to the ability to create products. The assessment of whether market participants can replace any missing input or process and continue to produce products is removed, and an optional concentration test is included allowing for a simplified assessment of whether an acquired set of activities and assets is not a business.

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The Group does not present any impact due to this modification, since these events or conditions have not occurred.

#### **IAS 1 - Presentation of financial statements and IAS 8 Accounting policies, changes in accounting estimates and errors.**

This amendment, issued in October 2018, modifies the definition of materiality. The new definition of materiality is as follows: Information is material if its omission, inaccuracy, or concealment can reasonably influence the decisions made by the primary users of the general-purpose financial statements, based on these, which provide financial information on a specific reporting entity. Additionally, some examples of circumstances that may cause important information to be hidden are included.

The Group considered the new definition of materiality in its financial reporting process.

#### **IBOR Interest Rate Benchmark Reform – (Amendments to IFRS 9, IAS 39, IFRS 7,)**

This amendment, issued in September 2019, is intended to provide relief from the highly probable and prospective assessments required by IFRS 9 and IAS 39 for hedging relationships that are affected by the uncertainties of the IBOR reform. With the same objective, the amendment provides relief from retrospective evaluation under IAS 39. The exceptions described in the amendment apply only to those hedging relationships directly affected by uncertainties in the IBOR reform, including interest rate swaps between currencies (for the affected interest component).

This amendment had no impact on the Group, since in the existing hedging relationships they mirror the underlying asset and, therefore, are not affected by the uncertainty of the change in the reference rate being used.

#### **IFRS 16 - Covid-19 Concessions in Rental Agreements**

It is a non-mandatory application guide, the amendment of which is intended to make it easier for tenants to account for the leases on which concessions or benefits related to COVID-19 were granted, such as grace periods on the payment of rent or temporary rent reductions.

The amendment will apply for annual periods beginning on June 1, 2020. Early application is permitted.

The amendment basically contemplates:

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- Provide the tenant, as a practical solution, the possibility of not evaluating whether the rent reduction is a modification of the lease.

- To apply the practical solution, it must be observed that the change in the lease payments gives rise to a review of the consideration that is substantially the same or less; any reduction in lease payments affects only payments originally due through June 30, 2021; and there is no material change in the other terms and conditions of the lease.

- If a lessee applies the practical solution provided by the amendment, it must disclose the nature of the contracts to which it is applied, and the value recognized directly in profit or loss statement for the period being reported.

The application of the amendment to IFRS 16 - Leases entitled "IFRS 16 - Covid-19 Concessions in leases" did not bring significant impacts for the Group, because no concessions or benefits were requested or granted to payments for their leases.

#### **21.4 Standards and interpretations new and / or revised.**

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 Group, are detailed below:

<b>Standard</b>	<b>Mandatory Application date</b>	<b>Types of Changes</b>
IFRS 17 Insurance Contract	1st January 2023	New
IAS 1 – Presentation of financial statements, modification, classification of liabilities as current and non-current.	1st January 2023	Modification
IFRS 3 - Reference to the Conceptual Framework	1st January 2022	Modification
IAS 37 - Onerous contract - Costs of fulfilling a contract.	1st January 2022	Modification
IAS 16 Property, Plant and Equipment - Product Before Intended Use	1st January 2022	Modification
IFRS 1 - Annual cycle 2018-2020 - Adoption for the first time.	1st January 2022	Modification
IFRS 9 - Annual cycle 2018-2020 - Rates of financial instruments in the "10 percent" test for derecognition of financial liabilities.	1st January 2022	Modification

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Standard	Mandatory Application date	Types of Changes
IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 - Phase 2 IBOR - Reform of the Reference Interest Rate.	1st January 2021	Modification

#### **IFRS 17 Insurance Contract.**

Issued in May 2017, replacing IFRS 4, which was addressed as a provisional standard, which was being prepared in phases.

IFRS 17 resolves the comparison disadvantages generated by the application of IFRS 4, given that local regulations and historical values that could be applied in insurance contracts. Now with this new standard, all insurance contracts will be recorded in a consistent manner and at current values, generating more useful information for interest groups, which will allow a better understanding of the financial position and profitability of insurance companies, granting a more uniform presentation and measurement approach for all insurance contracts.

The Group does not anticipate that the application of this Standard will have any effect on its consolidated financial statements.

The amendments will be mandatory for annual periods beginning on January 1, 2021, but at the request of international insurers, the IFRS Foundation extended its application for an additional year, to be enforceable in 2022. Its application is allowed beforehand if IFRS 9 and IFRS 15 are applied.

#### **IAS 1 - Presentation of financial statements, classification of liabilities as current or non-current.**

This amendment, issued in January 2020, clarifies that the classification of liabilities as current or non-current is based on the rights that existed at the end of the reporting period, specifying that the classification as current or non-current liabilities is not affected by the expectations about whether the entity will exercise the right to postpone the settlement of the liability. specifies that the rights exist if at the end of the reporting period, and that the payment agreements were met; Additionally, the amendment clarifies that the settlement of a liability refers to the transfer to the counterpart of cash, equity instruments or other economic resources.

The Group is evaluating the effects of the application of this amendment and how it could impact the presentation of liabilities in the statement of financial position.

The amendment to IAS 1 will be of mandatory application for annual periods beginning on January 1, 2023 retroactively. Early application is permitted.

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#### **IFRS 3 - Reference to the Conceptual Framework.**

This amendment, issued in May 2020, updates the reference to the Conceptual Framework for Financial Reporting, given that IFRS 3 referred to a previous version of the Conceptual Framework, and in turn adds one more exception to the principles of recognition of liabilities and contingent liabilities that require the criteria of IAS 37 or IFRIC 21, respectively, to be applied to determine whether there is a present obligation at the acquisition date; additionally, it prohibits the recognition of contingent assets acquired in a business combination.

The Group is evaluating the impacts that the application of this new standard could generate. Future adoption of this standard is not expected to have a significant impact on the financial statements.

The amendment will be mandatory prospectively for annual periods beginning on or after January 1, 2022. Early application is permitted.

#### **IAS 37 - Onerous Contract - Costs of fulfilling a contract.**

This amendment, issued in May 2020, included in the measurement and recognition rules how to measure an onerous contract in a more reliable way through the directly related cost approach, which includes all the costs that an entity cannot avoid. for the fulfillment of a contract. These direct costs also include the incremental costs of the contract and an allocation of other costs incurred in the activities required to fulfill the incremental cost approach. The previous one contemplated by IAS 37 prior to this amendment - included only the costs that an entity would avoid if it did not have the contract.

The Group is evaluating the effects that the application of this amendment could have on the presentation of liabilities in the consolidated statement of financial position.

The amendment to IAS 37 will be mandatory for annual periods beginning on or after January 1, 2022. Early application of this standard is permitted.

#### **IAS 16 Property, Plant and Equipment - Product Before Intended Use.**

This amendment, issued in May 2020, modifies the elements of analysis for the determination of the cost components of property, plant and equipment, eliminating from paragraph 17 (e) the possibility of “deducting the net values of the sale of any elements produced during the installation and commissioning process of the asset (such as samples produced while the equipment was being tested) ”and including that the income and costs associated with that produced during said installation and commissioning process are recognized directly in the results. of the period in accordance with the applicable regulations.

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The amendment seeks, in a simple and effective way, to eliminate the diversity that may occur in the practice adopted by companies when deciding whether to deduct the value of the product during the installation and commissioning process and in this way improve the homogeneity of financial information.

The Group is evaluating the effects that the application of this amendment could have on the presentation of liabilities in the consolidated statement of financial position.

The amendment to IAS 16 will be mandatory for annual periods beginning on January 1, 2022. Early application of this standard is permitted.

#### **IFRS 1 - Annual cycle 2018-2020 - Adoption for the first time.**

This amendment, issued in May 2020, establishes how the accumulated assets, liabilities and cumulative translation differences should be measured for a subsidiary that becomes an entity that adopts IFRS for the first time after its parent.

The Group is evaluating the impacts that the application of this new standard could generate. Future adoption is not expected to have a significant impact on the financial statements.

The amendment to IFRS 1 will be mandatory for annual periods beginning on January 1, 2022. Early application of this standard is permitted.

#### **IFRS 9 - Annual cycle 2018-2020 - Rates of financial instruments in the "10 percent" test for derecognition of financial liabilities.**

This amendment, issued in May 2020, consists of clarifying the fees that an entity includes when evaluating whether the terms of a new or modified financial liability are substantially different from those of the original financial liability and then defines that a borrower includes only the fees paid or received between the borrower and the lender, including those paid or received by one or the other on behalf of the other.

The Group is evaluating the impacts that the application of this new standard could generate. Future adoption is not expected to have a significant impact on the financial statements.

The amendment to IFRS 9 will be mandatory for annual periods beginning on or after January 1, 2022. Early application is allowed. If an entity applies the amendment for a prior period, it will be required to make the corresponding disclosures.

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#### **IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 - Phase 2 IBOR - Reform of the Reference Interest Rate.**

This amendment, issued in August 2020, which amended IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, added paragraphs 5.4.5 to 5.4.9, 6.8.13, Section 6.9 and the paragraphs 7.2. 43–7.2.46.

The amendments refer to:

- Changes in contractual cash flows: even if there are changes due to the adopted reform, companies will not have to write off accounts or adjust the book value of financial instruments, but rather update the effective interest rate to reflect the change to the alternative reference rate.
- Hedge accounting: Even if the company makes the changes required to adopt the reform, it will not have to discontinue its hedge accounting, if the hedge meets other hedge accounting criteria; and,
- Disclosures: the company must disclose information on the new risks arising from the reform and how it manages the transition to alternative reference rates

The Group is evaluating the effects of the application of this amendment.

The amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 will be mandatory for annual periods beginning on January 1, 2021. Early application is permitted.

#### **2.22 Changes in accounting policies, reclassifications, and correction of errors**

During the year ended December 31, 2020, the Group did not have any changes in accounting policies, reclassifications, or errors.

#### **2.23 Deferred Regulatory accounts**

The Group through ENSA, is subject to regulation by (ASEP) (Autoridad Nacional de los Servicios Públicos). This entity oversees regulating and establishing the rates that the Group bills its customers. Regulated assets represent probable future income associated with certain costs that are expected to be recovered from customers through the tariff process. Regulated liabilities represent probable reductions in future revenues associated with amounts that are expected to be credited to customers through the tariff process. The standard allowed the Group as an entity that adopted the IFRS for the first time to continue using, in its financial statements in accordance with IFRS, its accounting policies according to previous GAAP for the recognition, measurement, impairment of value and derecognition of deferred account balances by regulated activities. In accordance with these requirements, the Group presents the balances of the deferred accounts of regulated activities as separate items in the consolidated statement of financial position, as well as presents the net movements in balances of regulatory accounts, including deferred income tax, as an addition to the net income for the year in the consolidated statement of income and other comprehensive income, as well as the changes in deferred regulatory accounts separately and in addition to the cash flows originated by operating activities in the consolidated statement of cash flows . In addition, that standard requires



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disclosure of specific information to identify the nature and risks associated with the regulation of rates that have led to the recognition of balances of deferred accounts of regulated activities in accordance with this standard.

#### **2.24 Segment information**

An operating segment is a component of the Group that is engaged in business activities from which it can obtain income and incur expenses, including income and expenses that relate to transactions with any of the other components of the Group. All operating results of the operating segments are reviewed regularly by the Chief Executive of the Group to make decisions about the resources that should be assigned to the segment and evaluate their performance, and for which the financial information is available.

The results of the segments reported to the Group's Chief Executive Officer include elements directly attributable to a segment, as well as those that can be reasonably assigned.

#### **2.25 Seasonality Operations**

The Group did not present seasonal operations activity in the reporting period.

### **(3) 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 Group'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 Group evaluates its estimates on a regular basis. Actual results may differ from these estimates.

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

#### ***3.1 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 profit or (loss) & comprehensive income (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 CGU, among others.

The calculation of value in use requires the entity to determine the future cash flows that should arise from the cash-generating units and an appropriate discount rate to calculate the present value. When actual future cash flows are lower than expected, an impairment loss may arise.

#### ***3.2 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.

#### ***3.3 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.

#### ***3.4 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 Group 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 Group will disclose, but will not recognize in the consolidated financial statements, those obligations classified as possible. Obligations classified as remote are not disclosed or recognized.

#### ***3.5 Future expenditures by dismantling obligations and withdrawals 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 Group must incur for the implementation of the activities associated with the dismantlement of the assets

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over which legal or implied obligations have been identified, the initial date of the dismantling or restoration, the estimated completion date and discount rates.

#### **3.6 *Determination of the Impairment of Portfolios***

To calculate the expected credit loss, a calculation is carried out where each obligation according to its type of portfolio is assigned an individual probability of non-payment that is calculated from a probability model that involves variables of the product and its behavior of payment.

The Group has decided to use as a reference the annual growth percentage rate of the Gross Domestic Product (GDP) and the historical unemployment rate, since these indicators have a relationship with the behavior of the portfolio and therefore show a high correlation compared to the loss percentages calculated for the company's accounts receivable portfolio. This in contrast to the correlation indices that were obtained considering other indicators such as the Economic Activity Index (IMAE) published by the National Institute of Statistics and Census (INEC) and the Default Index of the local bank loan portfolio published by the Superintendency of Banks of Panamá (SBP).

Based on the projection of GDP growth and the projected unemployment rate, an expected loss adjustment is calculated based on the regression of historical losses and the historical behavior of macroeconomic indicators, which is applied to the average rate of historical loss which results from the product of the average displacement of each age range. With this information, the expected credit loss (EL) is calculated as follows:

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

Probability of Default (PD): corresponds to the probability of default, that results from the adjustment of the future projection for the product by the historical average loss per range.

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

The amount of the provision is recognized as an expense in the consolidated statement of income and other comprehensive income(loss) in the section of "Impairment of accounts receivable". When recovery is not possible by executive means, coercive jurisdiction or ordinary means, the portfolio write-off operates to recognize the extension of the account receivable in favor of The Group. The write-off of the portfolio does not free The Group from continuing with the collection procedures that are conducive to its recovery. In the event of an eventual recovery, an income from debt recovery is recorded.

#### **3.7 *The recoverability of deferred tax assets.***

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

The deferred tax asset of the Group is recovered in the net income taxed on the current income tax generated.

#### **3.8 Determination of the existence of financial or operating leases based on the transfer of risk and benefits of leased assets.**

The significant assumptions that are considered to determine the existence of a lease include the evaluation of the conditions if the right to control the use of the asset is transmitted for a period of time in exchange for a consideration, that is, the existence of an identified asset; the right to obtain substantially all economic benefits from the use of the asset throughout the period of use; the right to direct how and for what purposes the asset is used throughout the period of use; right to operate the asset throughout the use of the period without changes in the operating instructions.

#### **(4) Dividends.**

For the period 2020 there was no distribution of dividends. The dividends in the period 2019 by the Group correspond to Ordinary shares for B/.23,422,919.

#### **(5) Significant transactions carried out and other relevant aspects that occurred during the period.**

The sector of public services companies and therefore ENSA, are today faced with the crisis of health emergency due to COVID-19, and government measures to manage the pandemic and macroeconomic changes resulting from the volatility of international financial markets.

As a consequence of the COVID-19 pandemic, this generates a risk for the operation of the businesses, which has been affected by the decrease in energy demand and lower income prices from the final consumer.

#### **Government measures in Panamá in 2020 due to the effects of COVID-19**

On March 11, 2020, the World Health Organization declared the Coronavirus COVID-19 outbreak a pandemic, acknowledging its rapid spread around the world. In Panamá, on March 13, 2020, a State of Emergency was declared and later on March 20, the temporary closure of non-essential businesses and companies was decreed for several months. The national government has been monitoring the evolution of the pandemic in Panamá and has made temporary opening or closing decisions based on the evolution of health indicators due to COVID-19. ENSA, due to its ordinary course of business, is an essential company, therefore its operation has not been suspended at any time of the national emergency as a result of the health situation.

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On May 21, 2020, the National Public Services Authority issued Resolution N ° AN 16094-ELEC that regulates the provisions of Law 152 of May 4, 2020, for which transitional measures that companies must implement and apply are approved. concessionaires of the public electricity distribution service, which are detailed below: i) during the period from March 1 to June 30, 2020, the distribution companies could not suspend the electricity service due to late payment of their bill to any retired client, with a suspended employment contract, people dismissed or unemployed due to the declaration of the state of emergency, independent, among others, and ii) grant terms within a period of three years for the payment of accumulated consumption in the 4 months without generating any interest rate or impact on the customer's credit history.

On May 21, 2020, the National Public Services Authority issued Resolution No. AN 16095-ELEC, which approves transitory measures that must be implemented and applied by Participants of the Wholesale Electricity Market of Panamá due to the National Emergency decreed for reasons of Covid-19, as detailed below: i) distribution companies must ensure the timely payment of their commitments in the wholesale electricity market (contracts, occasional market and others) and transmission service and charges for the use of networks between market agents; ii) if the distribution companies had a reduction in the collection of income that affected the cash flows resulting from the moratorium, the payment can be reduced proportionally to the deficit in the collection of income without incurring interest for delinquent payments.

#### **Going concern**

ENSA is committed to guaranteeing the continuity and the provision of the service, as well as, in mitigating the impacts that the crisis generates on its finances, for which it has been implementing measures that are summarized in: reduction of operating expenses excluding salaries, investment displacement non-essential, no declaration of dividends in 2020 and biosecurity measures to safeguard the lives of our employees, and to be able to continue with its operation. During the year 2020 the Company has not breached any commitment with its suppliers and has not carried out work suspensions or layoffs to reduce labor costs.

#### **Financial impact**

The effects of the economic situation in general have resulted in a decrease in collection levels, and the consequent increase in the deterioration of accounts receivable from customers and the costs of financing them. Which demanded greater working capital. Likewise, lower income has been generated due to lower energy demand and lower prices charged for public services.

As of December 31, 2020, the most significant effects on the consolidated financial statements of Elektra Noreste, S. A. and Subsidiary are estimated below:

- Lower value in the collection of accounts receivable for B /.24,848,006.
- Higher expense for portfolio impairment for B /.11,353,841.
- Lower income from ordinary activities for B /.178,888,319 due to lower demand and lower prices of public services.
- Lower costs for the provision of services for B /.115,078,057 related to lower demand for public services.

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#### (6) Property, Plant, and equipment – Net.

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

	<u>2020</u>	<u>2019</u>
Cost	858,085,115	827,189,496
Accumulated Depreciation and impairment in value	<u>(306,501,521)</u>	<u>(278,255,658)</u>
Total	<u>551,583,594</u>	<u>548,933,838</u>

The movement of cost, depreciation and impairment of assets is detailed as follows:

	<u>2020</u>	<u>Network Lines &amp; Cables</u>	<u>Plants Ducts &amp; Tunnels</u>	<u>Constructions in Progress</u>	<u>Land &amp; buildings</u>	<u>Machinery &amp; Equipment's</u>	<u>Communications &amp; Computer Equipment's</u>	<u>Furniture Fixtures &amp; office equipment's</u>	<u>Other Property plant &amp; equipment</u>	<u>Total</u>
Beginning Balance Costs		410,248,526	203,092,079	70,484,720	44,657,667	74,360,446	11,748,945	5,728,595	6,868,518	827,189,496
Additions		0	0	39,301,189	0	0	499	857	0	39,302,545
Transfers		28,252,432	12,827,708	(53,606,826)	262,143	10,438,693	1,584,451	196,399	45,000	0
Dispositions & Withdrawals		(3,662,515)	0	0	0	(617,519)	(31,189)	(146,122)	(68,276)	(4,525,621)
Reclassifications		(77,013)	91,281	(3,881,305)	0	(14,268)	0	0	0	(3,881,305)
<b>Final Balance Cost</b>		<u>434,761,430</u>	<u>216,011,068</u>	<u>52,297,778</u>	<u>44,919,810</u>	<u>84,167,352</u>	<u>13,302,706</u>	<u>5,779,729</u>	<u>6,845,242</u>	<u>858,085,115</u>
<b>Accumulated Depreciation</b>										
Beginning Balance Accumulated										
Depreciation		146,259,834	83,037,586	0	6,747,383	28,288,407	7,398,547	2,518,019	4,005,882	278,255,658
Depreciation of the year		15,259,832	6,637,590	0	658,097	6,377,761	1,232,816	610,256	486,976	31,263,328
Dispositions & Withdrawals		(2,489,829)	0	0	0	(294,864)	(31,189)	(143,548)	(58,035)	(3,017,465)
<b>Final Balance Accumulated</b>		<u>159,029,837</u>	<u>89,675,176</u>	<u>0</u>	<u>7,405,480</u>	<u>34,371,304</u>	<u>8,600,174</u>	<u>2,984,727</u>	<u>4,434,823</u>	<u>306,501,521</u>
<b>Total final balance Property Plant &amp; Equipment</b>		<u>275,731,593</u>	<u>126,335,892</u>	<u>52,297,778</u>	<u>37,514,330</u>	<u>49,796,048</u>	<u>4,702,532</u>	<u>2,795,002</u>	<u>2,410,419</u>	<u>551,583,594</u>
	<u>2019</u>	<u>Network Lines &amp; Cables</u>	<u>Plants Ducts &amp; Tunnels</u>	<u>Constructions in Progress</u>	<u>Land &amp; buildings</u>	<u>Machinery &amp; Equipment's</u>	<u>Communications &amp; Computer Equipment's</u>	<u>Furniture Fixtures &amp; office equipment's</u>	<u>Other Property plant &amp; equipment</u>	<u>Total</u>
Beginning Balance Costs		389,445,894	168,391,163	55,730,033	61,279,135	89,342,058	11,522,149	5,402,991	6,608,770	787,722,193
Additions		0	0	51,153,277	0	0	10,481	0	0	51,163,758
Transfers		9,140,530	10,720,728	(29,687,451)	277,972	8,306,675	796,043	76,908	368,595	0
Dispositions & Withdrawals		(2,644,211)	0	(1,608,068)	0	(1,775,913)	(381,862)	(17,404)	(157,539)	(6,584,997)
Reclassifications		14,306,313	23,980,188	(5,103,071)	(16,899,440)	(21,512,374)	(197,866)	266,100	48,692	(5,111,458)
<b>Final Balance Cost</b>		<u>410,248,526</u>	<u>203,092,079</u>	<u>70,484,720</u>	<u>44,657,667</u>	<u>74,360,446</u>	<u>11,748,945</u>	<u>5,728,595</u>	<u>6,868,518</u>	<u>827,189,496</u>
<b>Accumulated Depreciation</b>										
Beginning Balance Accumulated										
Depreciation		133,998,938	69,119,327	0	8,968,492	30,087,979	6,631,509	1,849,975	3,574,816	254,231,036
Depreciation of the year		12,736,782	6,135,078	0	833,982	5,255,643	1,283,335	614,544	550,440	27,409,804
Dispositions & Withdrawals		(2,037,247)	0	0	0	(991,249)	(378,384)	(16,583)	(133,909)	(3,557,372)
<b>Final Balance Accumulated</b>		<u>1,561,361</u>	<u>7,783,181</u>	<u>0</u>	<u>(3,055,091)</u>	<u>(6,063,966)</u>	<u>(137,913)</u>	<u>70,083</u>	<u>14,535</u>	<u>172,190</u>
<b>Total final balance Property Plant &amp; Equipment</b>		<u>146,259,834</u>	<u>83,037,586</u>	<u>0</u>	<u>6,747,383</u>	<u>28,288,407</u>	<u>7,398,547</u>	<u>2,518,019</u>	<u>4,005,882</u>	<u>278,255,658</u>
<b>Total Final Balance of Property Plant &amp; Equipment</b>		<u>263,988,692</u>	<u>120,054,494</u>	<u>70,484,720</u>	<u>37,910,284</u>	<u>46,072,039</u>	<u>4,350,398</u>	<u>3,210,576</u>	<u>2,862,636</u>	<u>548,933,838</u>

Construction in progress includes purchases, capitalized disbursements that meet the recognition criteria and goods received from third parties.

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The reclassifications are the result of the review and update carried out on the categories of fixed assets during the implementation, in 2019, of the SAP System as the Group's financial system.

As of December 31, 2020, an impairment test was performed on the assets related to the CGU, which in turn have intangibles with indefinite useful lives. No signs of impairment were identified in long-lived assets.

As of December 31, 2020, construction in progress includes capitalization of borrowing costs of B/.498,420 (2019: B/.412,444), the average rate used to determine the amount of borrowing costs was 5.5836% (2019: 5.5840%), which is the specific effective interest rate for this type of loan.

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

The constructions in progress correspond to the following:

	<u>2020</u>	<u>2019</u>
<b>Projects</b>		
Sub Stations and High Voltage Lines	6,660,398	7,057,584
Network growth	25,409,686	35,832,075
Other minor projects	8,053,364	18,452,188
Loss reduction and reliability improvements	3,577,981	1,413,267
ASEP special projects	2,101,207	1,080,911
Technology application replacement	<u>6,495,142</u>	<u>6,648,695</u>
Total	<u>52,297,778</u>	<u>70,484,720</u>

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#### (7) Investment Property

(8) The fair value of the 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. The fair value of these investment properties is determined by these valuation companies each year. In order to determine the fair value of the investment properties, updated market price assumptions are used. See Note 34 - Measurement of fair value on a recurring and non-recurring basis (Level 3)

	<u>2020</u>	<u>2019</u>
Beginning Balance	3,963,709	4,014,309
Profit or Loss for Fair value adjustment (Note 25.2)	<u>(309.909)</u>	<u>(50.600)</u>
Balance at the end of the year	<u>3,653.800</u>	<u>3,963.709</u>

The investment properties consist of land that is maintained for the following purposes:

- Land and buildings for commercial use: lots that were acquired from the government and in which investments have been made in infrastructure and buildings in order to generate income in the future as investment properties.

The fair value of the investment property as of December 31, 2020 is B/.3,653,800 (2019: B/.3,963,709) and has been recognized as a fair value of Level 3 based on the inputs used in the valuation techniques. These properties generated a lease income as of December 31, 2020, for B/.7,800 (2019: B/.8,450 (see note 25.2).

The Group carries out a review of the fair value provided by the independent evaluators, through the Finance Department, including:

- Review of the property detail used by the external evaluators, in charge of the Finance Manager.
- Analysis of the reasonableness of the input data used by external evaluators, such as lease fees and property values like the projects developed by the Group.
- Analysis of the change in the fair value of the properties at the date of the study.
- Approval of the results obtained by the Vice President of Finance.

#### *Valuation technique and significant unobservable variables*

The table below shows the valuation technique used to measure the fair value of investment properties, as well as the significant unobservable variables used:



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<u>Valuation Technique</u>	<u>Significant unobservable variables</u>	<u>Interrelation between key unobservable variables and the measurement of fair value.</u>
Comparative method  The comparative method considers the sales of similar or substitute goods, as well as data obtained from the market, and establishes an estimate of value using processes that include comparison. In general, a good that is valued is compared with the sales of similar goods that have been marketed in the open market. Ads and offers can also be considered to get comparative prices.	Homogenization factors: <ul style="list-style-type: none"><li>• Location Factor (between -15% y -3%).</li><li>• Commercialization factor (between 10% y -10%).</li><li>• Influence of the extension of the land (between 10% y -10%).</li><li>• Influence of Market time absorption capacity (between 7% y -3%).</li><li>• Source Influence (between 2% y -5%).</li><li>• Expo Commercial and Access influence I (-5%)</li><li>• Potential development Influence (between 0% y -5%).</li><li>• Improvement's influence (between -15% y -20%).</li></ul>	The estimated fair value would increase (decrease) if: <ul style="list-style-type: none"><li>• The expected growth of the lease quota according to the average inflation rate was higher (lower).</li><li>• The discount rate adjusted for risk was higher (lower).</li><li>•</li></ul>

### (8) Investment in Subsidiaries

The detail of the Group's subsidiary at the date of the reporting period is as follows:

<u>Name of Subsidiary</u>	<u>Location (Country)</u>	<u>Principal Activity</u>	<u>Property percentage and right to vote</u>	
			<u>2020</u>	<u>2019</u>
ENSA Servicios, S.A.	Panamá	Provision of technical commercial and any other complimentary services to the provision of Electrical energy service.	100%	100%

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On 31st December 2020, the financial information of ENSA Servicios is as follows:

<u>Current Assets</u>	<u>Non- Current Assets</u>	<u>Current Liabilities</u>	<u>Non- Current Liabilities</u>	<u>Ordinary Income</u>	<u>Integral Result Total</u>
5,910,683	22,045	2,152,729	2,390	7,185,101	2,086,857

(9) **Other Intangible Assets**

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

	<u>2020</u>	<u>2019</u>
Cost	46,304,594	42,423,289
Accumulated Amortization and impairment in value	<u>(23,175,329)</u>	<u>(20,117,698)</u>
Total	<u>23,129,265</u>	<u>22,305,591</u>

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

<u>2020</u>	<u>Software &amp; IT Applications</u>	<u>Licenses</u>	<u>Easement Rights</u>	<u>Total</u>
Beginning Balance Cost	33,686,393	6,794,957	1,941,939	42,423,289
Additions	<u>3,457,095</u>	<u>424,210</u>	<u>0</u>	<u>3,881,305</u>
Ending Balance Cost	<u>37,143,488</u>	<u>7,219,167</u>	<u>1,941,939</u>	<u>46,304,594</u>
Beginning Balance Accumulated Amortization	16,376,498	3,741,200	0	20,117,698
Amortization for the year	<u>2,518,519</u>	<u>539,112</u>	<u>0</u>	<u>3,057,631</u>
Ending Balance Accumulated Amortization	<u>18,895,017</u>	<u>4,280,312</u>	<u>0</u>	<u>23,175,329</u>
Final Balance Net Intangible Assets	<u>18,248,471</u>	<u>2,938,855</u>	<u>1,941,939</u>	<u>23,129,265</u>

<u>2019</u>	<u>Software &amp; IT Applications</u>	<u>Licenses</u>	<u>Easement Rights</u>	<u>Total</u>
Beginning Balance Cost	24,231,962	11,137,930	1,941,939	37,311,831
Additions	5,032,675	78,783	0	5,111,458
Reclassifications	<u>4,421,756</u>	<u>(4,421,756)</u>	<u>0</u>	<u>0</u>
Ending Balance Cost	<u>33,686,393</u>	<u>6,794,957</u>	<u>1,941,939</u>	<u>42,423,289</u>
Beginning Balance Accumulated Amortization	9,907,260	7,684,752	0	17,592,012
Amortization for the year	2,072,824	625,052	0	2,697,876
Reclassifications	<u>4,396,414</u>	<u>(4,568,604)</u>	<u>0</u>	<u>(172,190)</u>
Ending Balance Accumulated Amortization	<u>16,376,498</u>	<u>3,741,200</u>	<u>0</u>	<u>20,117,698</u>
Final Balance Net Intangible Assets	<u>17,309,895</u>	<u>3,053,757</u>	<u>1,941,939</u>	<u>22,305,591</u>

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

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As of December 31st, 2020, impairment tests were carried out on the assets for having intangible assets with an indefinite useful life. No signs of deterioration were identified in long-life assets.

The amortization of intangible assets is recognized as costs and expenses in the statement of comprehensive income (loss), section of the income statement profit for the period.

The book value as of December 31, 2020 y 2019 and the remaining amortization period for the largest assets are:

	Useful Life	Remaining Period for amortization	Book Value 2020	Book Value 2019
SAP Commercial System	Definite	9 years	9,812,701	10,310,905
Maximo System	Definite	6 years	972,908	1,128,569
Choice System	Definite	11 years	909,944	989,954
SCADA system	Definite	4 years	96,375	127,111
SAP ERP System	Definite	15 years	3,841,964	4,133,759
Sistema Field Service	Definite	15 years	1,411,769	0
Other Software's and Licenses	Definite	1 a 12 years	4,141,665	3,673,354
Easement Rights	Indefinite		1,941,939	1,941,939
			<u>23,129,265</u>	<u>22,305,591</u>

An easement right is the real right, perpetual or temporary on another property, under which the Group or a person can make use of it, or exercise certain rights of disposal, or prevent the owner from exercising some of their property rights. In the Group, easements are not treated individually, since they are constituted for public service projects, where the general interest prevails over the individual, considering that the objective is to improve the quality of life of the community; the aforementioned projects do not have a definite temporality, that is why they are constituted in supported perpetuity in their use.

#### **(10) Trade and Other Receivables**

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

	<u>2020</u>	<u>2019</u>
<b>Current:</b>		
Customers Public Service	142,189,823	144,744,560
Impairment in value Public Services	(23,793,456)	(12,061,452)
Others	<u>12,364,495</u>	<u>13,094,907</u>
Total Current	<u>130,760,862</u>	<u>145,778,015</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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#### **Impairment of the Portfolio**

The Group maintains a provision for impairment of the portfolio. The calculation of this provision corresponds to an acknowledgment of the expected credit losses (ECL) projected by the probability of default (non-payment) in a period of one year.

Each obligation is assigned an individual probability of non-payment that is calculated from a probability model that involves variables of the product and its payment behavior. The model calculates a percentage of historical loss by the type of portfolio, which is related to a macroeconomic data looking for a correlation to project a behavior according to the best estimate of the economic growth of the country.

The projection will be applied to the product of the averages of displacement by portfolio range according to the historical default which reflects the evolution of the behavior of the balances of the portfolio of clients and allows to establish the percentages of loss on historical events.

The amount of the provision is recognized as an expense in the consolidated statement of income and other comprehensive income under the heading "Impairment of accounts receivable". When the recovery is not possible through the executive channel, coercive jurisdiction or ordinary route, the portfolio punishment operates to recognize the extinction of the account receivable in favor of the Group. The write-off of the portfolio does not release the Group from continuing with the collection procedures that are conducive to its recovery. Faced with a possible recovery, an income is recorded for debt recovery.

As of the filing date, the aging analysis of accounts receivable is as follows:

	<u>2020</u>		<u>2019</u>	
		<u>Value Expected Credit Losses during its Lifetime</u>		
	<u>Gross Value in Books</u>		<u>Gross Value in Books</u>	<u>Value losses incurred</u>
<b>Public Utilities Customers</b>				
Current	105,205,524	5,159,180	112,694,160	329,941
Less than 30 days	14,742,232	1,452,560	17,559,521	383,594
30-60 days	5,922,675	1,326,865	4,075,430	372,387
61-90 days	3,231,381	1,378,814	1,524,171	486,352
91-120 days	2,217,895	1,270,949	409,248	388,731
121-180 days	875,495	644,640	1,049,972	840,195
181 or more	9,994,621	10,486,910	7,432,058	7,731,223
<b>Total Public Utilities - Customers</b>	<u>142,189,823</u>	<u>21,719,918</u>	<u>144,744,560</u>	<u>10,532,423</u>
<b>Other receivables</b>				
Current	7,703,929	219,528	7,234,875	0
Less than 30 days	2,179,346	128,381	3,026,431	119,668
30-60 days	197,309	23,614	762,225	71,011
61-90 days	204,569	38,026	294,606	52,480
91-120 days	160,911	44,112	321,303	88,973
121-180 days	258,772	114,981	356,942	145,988
181 or more	1,659,659	1,504,896	1,098,525	1,050,909
<b>Total Other receivables</b>	<u>12,364,495</u>	<u>2,073,538</u>	<u>13,094,907</u>	<u>1,529,029</u>
<b>Total Accounts Receivables</b>	<u>154,554,318</u>	<u>23,793,456</u>	<u>157,839,467</u>	<u>12,061,452</u>

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The reconciliation of the impairment losses of the portfolio is:

	<u>Note</u>	<u>2020</u>	<u>2019</u>
Beginning Balance at the start of the year		12,061,452	10,831,414
Impairment in Accounts receivable	3.6	11,732,004	4,229,644
Charges against the provision		<u>0</u>	<u>(2,999,606)</u>
Ending Balance at the end of the year		<u>23,793,456</u>	<u>12,061,452</u>

The Group charges against the impairment value recognized in a corrective account, the values of impaired financial assets when the accounts have been finalized in the field, and in the billing system after cutting off supply due to the outstanding debt; and having applied the guaranteed deposit (count on it if available) to the last invoice after completing them.

## 11. Operating Leases

### 11.1 *Leases that originate from assets by right of use as lessee.*

At the date of presentation, the value of right of use Assets is as follows:

	<u>2020</u>	<u>2019</u>
	<u>Right of Use for</u>	<u>Right of Use for</u>
	<u>Buildings</u>	<u>Buildings</u>
<b>Cost</b>		
Beginning Cost Balance	1,788,779	1,685,396
Additions	47,796	103,383
Modifications to Contracts	<u>(1,303,260)</u>	<u>0</u>
Ending Cost Balance	<u>533,315</u>	<u>1,788,779</u>
<b>Accumulated Amortization</b>		
Beginning Balance Amortization	(223,737)	0
Amortization for the period	(245,797)	(223,737)
Retirements	<u>469,534</u>	<u>0</u>
Ending Amortization Balance	<u>0</u>	<u>(223,737)</u>
<b>Total Ending Balance Net</b>	<u>533,315</u>	<u>1,565,042</u>

At the cut-off date, the minimum future payments and the present value of the minimum lease payments are distributed as follows:

	<u>2020</u>	
<u>Financial Leases</u>	<u>Minimum Payments</u>	<u>Present Value of</u>
		<u>Minimum Payments</u>
Up to one year	259,185	256,619
More than one year and up to 5 years	<u>300,135</u>	<u>296,083</u>
Total Financial Leases	559,320	552,702
Less: Value of unearned Interest	<u>62,196</u>	<u>61,580</u>
<b>Present value of minimum payments for</b>		
<b>Financial Leases.</b>	<u>497,124</u>	<u>491,122</u>

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<u>Financial Leases</u>	<u>2019</u> <u>Minimum Payments</u>	<u>Present Value of</u> <u>Minimum Payments</u>
Up to one year	252,270	232,822
More than one year and up to 5 years	<u>326,557</u>	<u>79,662</u>
Total Financial Leases	578,827	312,484
Less: Value of unearned Interest	<u>68,595</u>	<u>67,250</u>
<b>Present value of minimum payments for Financial Leases.</b>	<u>510,232</u>	<u>245,234</u>

The most significant Operating lease agreements are three locations that the Group maintains as customer service branches:

- Los Andes, effective from December 1, 2011 to November 30, 2020. Payments must be made within 30 days of each month. Contract lease payments are updated annually. The contract can be terminated due to non-payment of two (2) monthly payments of the rental fee, or of any expense stipulated in the contract without prejudice to the landlord's right to request compensation for damages caused. As of January 1, 2013, the lessee may terminate the contract giving notice to the lessor ninety (90) days before the effective date of termination with the obligation to pay the lessor the monthly payments for the period in which the lessee used or owned the premises. This contract does not have an option to purchase clause.
- Plaza Toledano, effective from June 5, 2010 to June 4, 2023. The contract lease payments are updated annually. The period of the contract can be extended if both the lessor and the lessee agree by a written notification document before the expiration of the contract. The contract may be terminated by the lessor for: a) non-payment of the price within the term of the contract for two (2) consecutive monthly payments; b) the destination of the property for illicit purposes or contrary to good custom business practices or that the property rented represent a danger to the property or the health of its inhabitants; c) when the property must be rebuilt or repaired with necessary construction that cannot be carried out without the use of property due to its condition of demolition for the new major construction project. On the part of the lessee if: a) the property is expropriated, confiscated or in any other way intervened by any legal action ordered by any authority; b) if the lessor is declared in a state of liquidation, bankruptcy or suspension of payment; c) if the property cannot be used by the Group for reasons attributable to the lessor or by fortuitous event or acts of God for a period equal to or greater than one (1) month. This contract does not contain a purchase option clause.

In 2020, addendum 4 of the rental agreement was signed in which, by mutual agreement, both parties agree to adjust the rental fee by lowering the amount to be paid per year from January 5, 2021 to June 4, 2023.

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- Los Pueblos, effective from July 1, 2010 to June 30, 2020. The contract maintains an option to renew it, which will be renegotiated by the parties with four (4) months in advance, the new terms and rental rate before the expiration date of the contract that would be applicable. The lessor may terminate the contract before its expiration giving notice to the lessee ninety (90) days before the effective date of termination in which case it will return to the lessee the amount equivalent to the deposit and an additional lease fee as compensation.

In the event of a breach of the contract, the lessor may terminate it before its expiration, without any payment in favor of the lessee. This contract does not contain a purchase option clause. The lessee may terminate the contract for just cause or for breach of the contract by the lessor without compensation.

- Las Cumbres, effective from March 1, 2019 to February 28, 2022. It is established that the rental fee is paid as of March 2019 for a fixed amount during the term of the contract. The contract does not have a purchase option.

In 2020, an amendment to the rental contract was signed due to the current situation in the country in which both parties agreed to pay a lower rental fee compared to the one established in the original contract from July 1, 2020 to February 28, 2022 All other clauses remain in force and without alterations.

Lease liabilities are included in the other financial liabilities section of the consolidated statement of financial position.

The interest that originates from the lease liability amounts to B/.62,196 (see note 29 Financial income and expenses)

The total cash outflow payments for Leases during the period is B/. B/.258,729

#### 11.2 Operating Leases as Lessor.

The Group has an operating lease agreement for a location located in the municipality of Chepo, province of Panamá, with the Directorate of Judicial Investigation (DIJ). This contract may be renewable, and the maintenance fee has not been modified.

The value of the income for Operating leases is:

<u>Operating Leases</u>	<u>2020</u> <u>Operating</u> <u>leases non-</u> <u>cancelable</u>	<u>2019</u> <u>Operating</u> <u>leases non-</u> <u>cancelable</u>
Up to One Year	<u>7,800</u>	<u>8,450</u>
<b>Total Leases</b>	<u><b>7,800</b></u>	<u><b>8,450</b></u>

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#### 11.3 Leases that do not originate assets by right of use.

The most significant operating lease agreements are two locations that the Group maintains as customer service branches:

- Distribuidora Xtra SA, sublease with validity of one (1) year starting from August 15, 2014, automatically renewable for additional successive periods of one (1) year each time unless either party communicates in writing to the other, with at least thirty (30) calendar days prior to the expiration of the original term of the contract or one of its extensions of its intention that the corresponding extension will not occur.

#### (12) Other Assets

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

:

<u>Concept</u>	<u>2020</u>	<u>2019</u>
<b>Non-Current</b>		
Severance Indemnity Fund	390,866	335,275
Severance Indemnity Fund - Interest	515,411	398,988
Guarantee Deposits	<u>164,721</u>	<u>166,692</u>
<b>Total other assets Non-Current</b>	<u>1,070,998</u>	<u>900,955</u>
<b>Current</b>		
Advances to suppliers	98,465	605,183
Insurance – Various	369,691	362,323
Other expenses to amortize	<u>640,341</u>	<u>174,157</u>
<b>Total Other Assets - Current</b>	<u>1,108,497</u>	<u>1,141,663</u>
<b>Total Other Assets</b>	<u>2,179,495</u>	<u>2,042,618</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 they cover.

Advances to suppliers were mainly granted to service providers for contracting crews to cut the provision of services for clients that were not paying.

#### (13) Inventories

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

	<u>2020</u>	<u>2019</u>
<b>Non- current</b>		
Materials for provision of service	<u>2,838,912</u>	<u>2,583,802</u>
<b>Total Current Inventories</b>	<u>2,838,912</u>	<u>2,583,802</u>
<b>Current</b>		
Materials for provision of service <sup>1</sup>	17,690,774	17,738,175
Inventory in transit	<u>594,895</u>	<u>308,341</u>
<b>Total inventories non-current</b>	<u>18,285,669</u>	<u>18,046,516</u>
<b>Total inventories</b>	<u>21,124,581</u>	<u>20,630,318</u>



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- 1 <sup>1</sup> Includes materials for internal use and for the provision of services, are those delivered to contractors who perform activities related to the provision of the service.

During the year ended December 31, 2020, inventories were recognized for B /. 1,322,254 (2019: B /.1,560,005) as cost for the provision of the service during the period. In 2020, B /.18,145 (2019: B /.63,665) have been recognized as an expense due to reductions in the value of inventories. As of December 31, 2020, there were reversals of inventory reductions for B /.2,238 (2019: B /.190,923). The Group has no committed inventories as collateral for its liabilities.

#### (14) Cash & Bank Balances

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

	<u>2020</u>	<u>2019</u>
Cash & Bank Balances	<u>54,023,188</u>	<u>25,511,109</u>
Total Cash & Cash Equivalents presented in the consolidated statement of financial position and statement of cash flows	<u>54,023,188</u>	<u>25,511,109</u>

#### (15) Equity

The capital stock of the Group is comprised of 50,000,000 of common shares authorized and issued without nominal value of which 164,002 shares are in treasury.

	<u>Value</u>		<u>Number of Shares</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Authorized Capital	106,642,962	106,642,962	50,000,000	50,000,000
Treasury Shares	<u>(574,511)</u>	<u>(568,667)</u>	<u>(164,996)</u>	<u>(164,002)</u>
Subscribed and Paid Capital	<u>106,068,451</u>	<u>106,074,295</u>	<u>49,835,004</u>	<u>49,835,998</u>

#### 15.1 Retained Earnings.

<u>Accumulated Retained Earnings</u>	<u>2020</u>	<u>2019</u>
Beginning Balance	75,392,107	64,790,933
Movement of reserves		
Dividends declared	0	(23,422,919)
Other - Income tax con transactions related with owners	<u>(3,322,698)</u>	<u>913,693</u>
	<u>72,069,409</u>	<u>42,281,707</u>
Net Profit for the year and Net movement of the balance of deferred regulatory balances.	<u>20,235,417</u>	<u>33,110,400</u>
<b>Total Accumulated Earnings</b>	<u><b>92,304,826</b></u>	<u><b>75,392,107</b></u>

There were no dividends declared for the period 2020. (2019: B/.23,422,919).

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#### (16) Components of other accumulated comprehensive income (loss).

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

	2020			2019		
	Gross	Net Tax Effect	Net	Gross	Net Tax Effect	Net
New measures for defined Benefit plans	<u>909,517</u>	<u>(272,855)</u>	<u>636,662</u>	<u>946,925</u>	<u>(284,078)</u>	<u>662,847</u>

Following is a reconciliation for each component of the comprehensive results of the opening and closing balances to the cutoff date as presented below.

#### 16.1. 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.

	<u>2020</u>	<u>2019</u>
Beginning Balance	662,847	400,889
Results of the year for new measures done to the defined benefits plan.	(37,407)	374,226
Income tax associated	<u>11,222</u>	<u>(112,268)</u>
Total	<u>636,662</u>	<u>662,847</u>

#### (17) Credit Facilities & Loans

The detail of value in books of credit facilities and Loans measured at amortized cost on the cut-off date is the following:

<u>Credit facilities &amp; Loans</u>	<u>2020</u>	<u>2019</u>
<b>Non-Current</b>		
Bank Commercial Loans	99,936,246	99,914,926
Bonds & Securities issued	<u>79,379,234</u>	<u>182,264,247</u>
Total no Corrientes	<u>179,315,480</u>	<u>282,179,173</u>
<b>Current:</b>		
Bank Commercial Loans	0	25,000,000
Bonds & Securities issued	<u>103,352,676</u>	<u>0</u>
	<u>103,352,676</u>	<u>25,000,000</u>

As of December 31st, 2020, the Group maintains contracts for credit lines facilities for a total value of B/. 352,384,000 (2019: B/.284,884,000). The credit lines are not subject to guarantees and are available for a maximum period of one year. The Group 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 Group. The credit lines include, among other

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provisions, an indicator of debt coverage which sets a limit of indebtedness that does not exceed 3.50 of its EBITDA. (Earnings Before Interest, Taxes, Depreciation, and Amortization).

The detail of short-term credits and loans of the Group is as follows:

Entity	Original Currency	Start Date	Term	Nominal Interest rate	2020 Rate	Nominal Value	Amortized Value Cost	Total Value	2019 Rate	Nominal	Total Value
Banco Bladex	USD	02-dic-19	0.08	0	-	0	0	0	2.11%	10,000,000	10,000,000
Banco Davivienda	USD	11-dic-19	0.25	0	-	0	0	0	2.19%	10,000,000	10,000,000
Banco Davivienda	USD	12-dic-19	0.25	0	-	0	0	0	2.19%	5,000,000	5,000,000
Preferred Bonds 2021	USD	10-Jul-06	15	7.60%	-	100,000,000	3,352,676	103,352,676		0	0
<b>Total</b>						<u>100,000,000</u>	<u>3,352,676</u>	<u>103,352,676</u>		<u>25,000,000</u>	<u>25,000,000</u>

The interest paid for credit facilities was B/.704,711.

The detail of credit facilities and Loans for Long term debt is as follows:

Entity	Type	Original Currency	Start Date	Term	Nominal Interest Rate	2020 Rate	Nominal Value	Amortized Cost Value	Total Value	2019 Rate	Nominal Value	Amortized Cost Value	Total Value
The Bank of Nova Scotia	Loan	USD	3-Oct-18	5	LIBOR + 4.25%	4.25%	100,000,000	(63,754)	99,936,246	4.25%	100,000,000	(85,074)	99,914,926
Preferred Bonds 2021	International Bonds	USD	10-Jul-06	15	-	-	0	0	0	8.16%	100,000,000	2,952,616	102,952,616
Preferred Bonds 2027	International Bonds	USD	13-Dec-12	15	4.73%	3.46%	80,000,000	(620,766)	79,379,234	3.46%	80,000,000	(688,369)	79,311,631
<b>TOTAL</b>							<u>180,000,000</u>	<u>684,520</u>	<u>179,315,480</u>		<u>280,000,000</u>	<u>2,179,173</u>	<u>282,179,173</u>

#### Commercial banking Loan 2023

On October 2, 2018, the Group signed a loan agreement with The Bank of Nova Scotia for a face value of USD100,000,000. The loan has a fixed interest rate of 4.25%, payable monthly, due in 2023. The payment to capital is made at maturity. The Group can partially or fully pay the loan in advance provided that certain conditions stipulated by the bank are met. This credit facility has, at least, the same degree of priority or preference "pari passu" as all other credits that third parties have, except for those credits privileged exclusively by virtue of the Law.

While the loan granted to the Group is current, it must comply with the terms of the contract, some of which are indicated below:

- Prohibition to dissolve, consolidate, merge, split or make changes to shareholder composition.
- Prohibition to sell, assign, lease, exchange or in any way dispose of the assets for an amount that, individually or jointly, exceeds the sum of thirty-five million balboas (B /: 35,000,000).
- Do not allow obtaining loans or credit facilities in the long term with other banking or financial institutions whose guarantees are more favorable than the current ones.

The Group is obliged to maintain its ratio of Total Financial Debt to EBITDA in three point five to one (3.5:1) or less. This condition will be measured annually based on the audited consolidated financial statements.

#### Preferred Bonds 2021

The Group 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 Group can redeem the bonds, in whole or in part, at any time

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prior to its expiration provided they meet certain conditions that include the payment of a premium.

On May 31, 2017, the Group 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, 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 Group.

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

- Prohibition on granting encumbrance any of its properties or assets of the Group or its Subsidiaries.
- Do not allow any Subsidiary, in one or several transactions to consolidate, merge with or join with any Group or grant, yield or transfer all or substantially all its assets, assets or income to any Group (which is not a Subsidiary of the Group) or allow any Group (which is not a Subsidiary of the Group) to merge with or in it.
- Do not allow the Total Indebtedness Ratio to EBITDA of which now are the most recently elapsed after four fiscal quarters exceed the ratio of 3.50. The Total Indebtedness Ratio to EBITDA may exceed the ratio of 3.50 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 the ratio of 4.0.

In the event of a default 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 it is foreseen that said event of default is maintained, will declare all bonds immediately due and payable, for which purpose the Group must 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 Group 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 interest cash flows of 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.

#### **Preferred Bonds 2027.**

On December 6, 2012, the Group signed an Agreement for the Purchase of Promissory Notes with a group of investors that individually agreed to buy from the Group a total of B/.80,000,000 in Preferred Bonds ("Senior Notes"). The bonds were agreed upon with a fixed rate of 4.73%

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payable semiannually, with maturity on December 13, 2027 and were issued pursuant to the Indenture Agreement, signed between the Group and The Bank of New York Mellon in its capacity as fiduciary agent dated of December 11, 2012.

With reference to the Agreement of Purchase of Notes and the Indenture Agreement the Group signed on December 13, 2012 a Bridge Financing Agreement where the Group 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 Group. 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 Group 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 Group and the buyers that the conditions of the purchase agreement of notes that have been met, to satisfaction, and the Group 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 Group.

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

- Prohibition on granting encumbrance on any of its properties or assets of the Group or its Subsidiaries.
- Do not allow any Subsidiary, in one or several transactions to consolidate, merge with or join with any Group or grant, yield or transfer all or substantially all its assets, assets or income to any Group (which is not a Subsidiary of the Group) or allow any Group (which is not a Subsidiary of the Group) to merge with or in it.
- Do not allow the Total Indebtedness Ratio to EBITDA of which now are the most recently elapsed after four fiscal quarters exceed the ratio of 3.50. The Total Indebtedness Ratio to EBITDA may exceed the ratio of 3.50 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 the ratio of 4.0.

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If the Group fails to meet the performance or observation of any of the clauses or terms described above the Trustee shall, at the request of the bond holders who maintain no less than 25% of the principal amount and it is foreseen that said event of default will maintain, will declare the totality of the bonds immediately due and payable. After the bonds have become immediately due and payable the Group 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 Group 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.

The Group 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 statement of financial position of the Group.

As of December 31, 2020, the result of the (Covenant) Debt / EBITDA indicator is 3.37 times. For the measurement of EBITDA, and consistent with the current accounting policy, since the bonds were issued, the Group considers the year's profit including the net movement of regulatory accounts related to gains and losses, as presented below:

	<u>2020</u>	<u>2019</u>
<b>Net Profit of the year before any movement of the balances of deferred regulatory accounts</b>	14,608,656	62,677,125
Net Movement on balances of deferred regulatory accounts with profit & loss	8,038,230	(42,238,178)
Net movement on deferred taxes that that come from balances with deferred regulatory accounts related to profit or loss	<u>(2,411,469)</u>	<u>12,671,453</u>
<b>Net Profit on the net movement of balances of deferred regulatory accounts</b>	20,235,417	33,110,400
Depreciation & Amortization	34,566,756	30,331,417
Financial Expenses	20,185,898	18,978,570
Income Tax	<u>8,053,363</u>	<u>17,162,741</u>
<b>EBITDA</b>	<u>83,041,434</u>	<u>99,583,128</u>
<b>Contract Debt</b>		
Debt Short term	0	25,000,000

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Debt Long Term	100,000,000	100,000,000
Preferred Bonds 2021	100,000,000	100,000,000
Preferred Bonds 2027	<u>80,000,000</u>	<u>80,000,000</u>
<b>Total Contract Debt</b>	<b><u>280,000,000</u></b>	<b><u>305,000,000</u></b>
Debt to EBITDA (times)	3.37	3.06

During 2020, the Group has not failed to pay principal and interest on its loans.

#### (18) Creditors and Other Accounts Payable

The creditors and other accounts payable are composed of:

	<u>2020</u>	<u>2019</u>
<b>Non-Current</b>		
Deposits received as collateral	5,481,326	6,205,555
Construction contracts	40,269,079	48,364,603
Acquisition of goods and services	<u>470,709</u>	<u>344,786</u>
Total non-current financial liabilities	<u>46,221,114</u>	<u>54,914,944</u>
<b>Current</b>		
Energy Suppliers	214,958,616	135,215,824
Acquisition of goods and services	25,692,918	41,939,871
Guarantee deposits	1,186,835	2,224,516
Advance & Prepayments received	5,931	1,911,739
Other accounts payable	6,781,951	6,542,507
Constructions contracts	<u>6,545,426</u>	<u>6,281,324</u>
Total Current financial liabilities	<u>255,171,677</u>	<u>194,115,781</u>

#### (19) Other Financial Liabilities

The Other financial liabilities are composed of:

	<u>2020</u>	<u>2019</u>
<b>Non-Current</b>		
Leases	<u>292,337</u>	<u>1,396,569</u>
Total Financial Liabilities Non-Current	<u>292,337</u>	<u>1,396,569</u>
<b>Current</b>		
Leases	<u>242,477</u>	<u>211,872</u>
Total Financial Liabilities Current	<u>242,477</u>	<u>211,872</u>

#### (20) 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:

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	2020		
	<u>Non-Current</u>	<u>Current</u>	<u>Total</u>
<b>Assets:</b>			
Post-Employment Benefits (Seniority Premium)			
Liability:	251,637	0	251,637
<b>Liability:</b>			
Post-Employment Benefits (Seniority Premium)			
Liability:	(2,390)	0	(2,390)
<b>Liability:</b>			
Post-Employment Benefits (Seniority Premium)			
Liability:	<u>(355,731)</u>	<u>(22,066)</u>	<u>(377,797)</u>
Total	<u>(106,484)</u>	<u>(22,066)</u>	<u>(128,550)</u>
	2019		
	<u>Non-Current</u>	<u>Current</u>	<u>Total</u>
<b>Assets:</b>			
Post-Employment Benefits (Seniority Premium)			
Liability:	35,803	0	35,803
<b>Liability:</b>			
Post-Employment Benefits (Seniority Premium)			
Liability:	(5,101)	0	(5,101)
<b>Liability:</b>			
Post-Employment Benefits (Seniority Premium)			
Liability:	<u>(317,977)</u>	<u>(23,625)</u>	<u>(341,602)</u>
Total	<u>(287,275)</u>	<u>(23,625)</u>	<u>(310,900)</u>

#### 20.1 Post Employee Benefits

Includes the defined benefit plans detailed below:

	Another defined benefits plan		Seniority Premium		Total	
	2020	2019	2020	2019	2020	2019
<b>Defined Benefits Plan</b>						
<b>Present value of obligations for defined benefits</b>						
Beginning Balance	(341,602)	(375,893)	(1,937,882)	(1,573,373)	(2,279,484)	(1,949,266)
Cost of Present services	(10,670)	(13,064)	(290,964)	(283,053)	(301,634)	(296,117)
Income o (expenses) for interest	(10,207)	(14,659)	(7,787)	32,360	(17,994)	17,701
Assumptions for experience	9,629	(8,650)	(32,671)	(196,257)	(23,042)	(204,907)
Financial assumptions	(46,918)	(13,370)	119,289	(188,308)	72,371	(201,678)
Payments made by the Plan.	26,107	84,034	104,276	270,749	130,383	354,782
Other changes that adjust the obligation	(4,136)	0	0	0	(4,136)	0
<b>Present value of obligations for the end of the period.</b>	<u>(377,797)</u>	<u>(341,602)</u>	<u>(2,045,740)</u>	<u>(1,937,882)</u>	<u>(2,423,536)</u>	<u>(2,279,485)</u>
<b>Fair Value of the Assets of the plan.</b>						
Beginning Balance	0	0	1,968,584	1,655,194	1,968,584	1,655,194
Contributions made to the plan	0	0	326,403	313,390	326,403	313,390
<b>Fair Value of the assets of the Plan at the end of the period.</b>	<u>0</u>	<u>0</u>	<u>2,294,987</u>	<u>1,968,584</u>	<u>2,294,987</u>	<u>1,968,584</u>
<b>Surplus or deficit for the defined Benefit plan.</b>	0	(341,602)	249,247	30,702	(128,550)	(310,900)



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Total de defined benefit plan.

(377,797)	(341,602)	249,247	30,702	(128,550)	(310,900)
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The Group has three post-employment defined benefit plans:

**(i) Seniority Premium and severance payment fund**

According to the Labor Code of the Republic of Panamá, 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 Group maintains a trust through an authorized entity called Pro-futuro, S.A., which acts as trustee to ensure liabilities for the unemployment fund.

**(ii) Other Plans of defined benefits**

**a) 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 they may use.

**b) Retirement Bonus**

Current employees of the Group have the benefit of a B/.3,000.00 bonuses when they benefit from their retirement by age granted by the Social Insurance Fund.

The Group made contributions for defined benefits during the period for B/.326,403 (2019: B/.313,390) and expects to make contributions for the next annual period for B/.374,340.

The assets of the plan, managed by Pro-Futuro, 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 Group (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 fair value of the plan of assets is composed as follows:

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

Assumptions	Concept	
	2020	2019
Discount Rate %		
Seniority Premium (%)	2.44	3.31
Retirement Bonus	2.37	3.18
Discount on Light Bill to Retired Clients (%)	1.54	2.60
Electrical Bill Benefit		

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Annual Salary rate increase (%)	3.20	5.00
Incremental Rate on the discount of the electrical Bill benefit (%)	3.41	2.13
Actuarial Tables	Mortality Table for the Urban population of the Republic of Panamá 2010-2015 (adjusted).	

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%	Decrease in the discount rate +1%	Rise in salary increase by +1%	Reduction in salary increase by +1%	Rise in the increase of the benefit in +1%	Reduction in increase of the Benefit in -1%
Seniority premium	(216,457)	263,449	222,329	(188,226)	NA	NA
Subsidized Public Services	16,559	(19,043)	NA	NA	(17,280)	15,382
Retirement Bonus	(11,811)	14,333	NA	NA	NA	NA
Total benefits Post-employment	<u>(211,709)</u>	<u>258,739</u>	<u>222,329</u>	<u>(188,226)</u>	<u>(17,280)</u>	<u>15,382</u>

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.

## (21) Provisions Contingent Assets and Liabilities

### 21.1 Provisions

The reconciliation of provisions is as follows:

<u>2020</u>	<u>Dismantling &amp; Restoration</u>	<u>Litigations</u>	<u>Others</u>	<u>Total</u>
Beginning Balance	178,117	575,038	4,757,883	5,511,038
Additions	7,846	15,562	7,449,659	7,473,067
Utilizations (-)	<u>0</u>	<u>(6,110)</u>	<u>(509,030)</u>	<u>(515,140)</u>
<b>Final Balance</b>	<u>185,963</u>	<u>584,490</u>	<u>11,698,512</u>	<u>12,468,965</u>

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<u>2019</u>	<u>Dismantling &amp; Restoration</u>	<u>Litigations</u>	<u>Others</u>	<u>Total</u>
Beginning Balance	178,117	253,723	6,163,246	6,595,086
Additions	0	321,315	607,546	928,861
Utilizations (-)	0	0	(2,012,909)	(2,012,909)
<b>Final Balance</b>	<u>178,117</u>	<u>575,038</u>	<u>4,757,883</u>	<u>5,511,038</u>

To reduce the uncertainty that may arise with respect to the estimated date of payment and the estimated value to be paid of a litigation qualified as probable, the Group evaluates each case in a particular way together with its external legal advisors. In consideration of the average duration of similar processes. The estimated value to be paid of a litigation qualified 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 loss. For this, the Group has the appreciation of external legal advisors of the Group and, in certain cases, the support of insurance advisors if an actuarial valuation is required.

#### 21.1.1 Dismantling

The Group 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-Phenol ("PCB") whether it is in use or out of service. The Group 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 Group. The main assumptions considered in the calculation of the provision are:

- It was determined that 52 transformers should be discarded for being suspects in PCB content.
- The present value of the obligation was determined by using a discount rate of 1.99% which is the projected rate of inflation of 2020 for Panamá, Republic of Panamá.
- The legal obligation (implicit) of dismantling the transformers appears for the first time in ENSA in 2002 with the subscription of the Republic of Panamá to the Rotterdam Convention.

#### 21.1.2 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:

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

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The following are the lawsuits recognized in 2020:

<u>Claims</u>	<u>Value</u>
Civil ordinary process for the lawsuit and illegality against Res. No. 12581	150,000
Civil ordinary process for the development of the Llano Bonito substation	295,000
Civil ordinary process for damages caused by interruption of service	100,000
Labor demand for solidarity for the payment of acquired rights	<u>39,490</u>
	<u>584,490</u>

#### 21.1.3 Other provisions

The Group maintains other provisions for B/.11,698,512 (2019: B/.4,757,883) to cover compensations to customers that occurred due to possible breaches of regulations regulated by the "Autoridad Nacional de los Servicios Públicos" (ASEP). The amount of these compensations is provided by the technical area of the Group which makes calculations based on indicators provided by the system.

#### **Estimated Payments**

The estimate of the dates in which the Group deems that it must deal with the payments related to provisions included in the statement of financial position as the end of the year, is the following:

<u>Estimated Payments</u>	<u>Dismantling or restoration</u>	<u>Litigations</u>	<u>Others</u>	<u>Total</u>
2020	<u>185,963</u>	<u>584,490</u>	<u>11,698,512</u>	<u>12,468,965</u>
Total	<u>185,963</u>	<u>584,490</u>	<u>11,698,512</u>	<u>12,468,965</u>

#### **21.2 Contingent Liabilities**

The composition of contingent liabilities are as follows:

<u>Type of contingency</u>	<u>Contingent Liabilities</u>
Litigations	465,727
Guarantees	<u>71,653,937</u>
Total	<u>72,119,664</u>

Contingent Liabilities:

<u>Claims</u>	<u>Valor</u>
Civil suit for damages for cancellation of contract.	380,000
Labor Disputes	<u>85,727</u>

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#### Total Contingent Liabilities

465,727

The Group has granted the following guarantees:

<u>Third Party</u>	<u>Claims</u>	<u>Value</u>
Autoridad Nacional de los Servicios Públicos	Bond of compliance to guarantee the fulfillment of the obligations contracted in the Concession Contract.	15,000,000
Generating Companies	Compliance guarantee to provide credit security and compliance with the obligations contracted under energy purchase contracts.	49,823,581
Empresa de Transmisión Eléctrica, S. A.	Bank guarantee to guarantee the payment of one month of billing of the Transmission System.	3,650,306
Empresa de Transmisión Eléctrica, S. A.	Letter of credit to guarantee the payment of energy purchase costs in the occasional market.	2,711,157
Ente Operador Regulador del El Salvador	Letter of credit to guarantee the payment of energy purchase costs in the occasional market.	468,893
<b>Total of Guarantees Given:</b>		<u>71,653,937</u>

### 21.3 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 Group 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 Group and ensure that the summoning's that they conduct comply with the minimum contracting levels of the Group of electric distribution. The Group routinely enters 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 by the Group are to meet its obligations to distribute energy to customers.

In compliance with the Electricity Law of 1997, the Group negotiated the purchase of long-term energy purchase with generation companies.

The Electric Transmission Group, 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 Group based on their requirements. Distribution companies are obliged to sign contracts based on the bids awarded.

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ENSA 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:

<b>Year</b>	<b>Payment Obligations</b>
2021	116,386,703
2022	160,774,023
2023	184,269,520
2024	184,269,520
2025	184,269,520
There after	<u>787,686,946</u>
Total	<u>1,617,656,232</u>

The Group made disbursements for B/.142,153,021 (2019: B/.162,699,093), for unconditional contracts, related to the purchase of long-term energy capacity.

#### (22) Other Liabilities

The composition of other liabilities is the following:

	<b><u>2020</u></b>	<b><u>2019</u></b>
<b>Non-Current</b>		
Income received in Advance	243,029	313,974
Government Subsidies	<u>1,670,342</u>	<u>1,775,937</u>
<b>Total other liabilities non-current</b>	<u>1,913,371</u>	<u>2,089,911</u>
<b>Current</b>		
Income received in advance	57,711	68,385
Government subsidies	<u>105,595</u>	<u>105,596</u>
<b>Total other liabilities current</b>	<u>163,306</u>	<u>173,981</u>
<b>Total Other Liabilities</b>	<u>2,076,677</u>	<u>2,263,892</u>

#### 22.1 The movement of Income received in advance is the following:

	<b><u>2020</u></b>	<b><u>2019</u></b>
Beginning Balance	382,359	452,094
Recognized in the profit or loss of the year	<u>(81,619)</u>	<u>(69,735)</u>
Ending Balance	<u>300,740</u>	<u>382,359</u>

#### 22.2 The movement of Government subsidies is as follows:

	<b><u>2020</u></b>	<b><u>2019</u></b>
Beginning Balance	1,881,533	1,987,128

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Recognized in the profit or loss of the year	(105,595)	(105,595)
Ending Balance	<u>1,775,938</u>	<u>1,881,533</u>

#### (23) Changes in Liabilities from financing activities:

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

	2020				
	Liabilities		Equity		
	Credit Facilities and Loans	Liabilities for Leases	Treasury Shares	Accumulated Earnings	Total
Beginning Balance	307,179,173	1,608,441	(568,667)	75,392,107	383,611,054
Finance Obtained	72,488,983	0	0	0	72,488,983
Repayment of Treasury and Long-term Debt	(97,000,000)	0	0	0	(97,000,000)
Income tax related to transactions with Owners	0	0	0	(3,322,698)	(3,322,698)
Treasury Shares	0	0	(5,844)	0	(5,844)
Payment of Liabilities by Leases	0	(195,032)	0	0	(195,032)
	282,668,156	1,413,409	(574,511)	72,069,409	355,576,463
Other Changes					
New Leases	0	47,796	0	0	47,796
Interest expenses	0	62,192	0	0	62,192
Interest payments	0	(62,192)	0	0	(62,192)
Changes in Leases	0	(926,391)	0	0	(926,391)
Total other changes with Liabilities	0	(878,595)	0	0	(878,595)
Total other changes with Equity	0	0	0	20,235,417	20,235,417
Balance as on 31 December 2020	282,668,156	534,814	(574,511)	92,304,826	374,933,285

	2019				
	Liabilities		Equity		
	Credit Facilities and Loans	Liabilities for Leases	Treasury Shares	Accumulated Earnings	Total
Beginning Balance	293,724,053	0	(544,087)	64,790,933	357,970,899
Finance Obtained	181,455,120	0	0	0	181,455,120
Repayment of Treasury and Long-term Debt	(168,000,000)	0	0	0	168,000,000
Income tax related to transactions with Owners	0	0	0	(23,422,919)	(23,422,919)
Treasury Shares	0	0	0	913,693	913,693
Payment of Liabilities by Leases	0	0	(24,580)	0	(24,580)
	0	(180,338)	0	0	(180,338)
Other Changes	307,179,173	(180,338)	(568,667)	42,281,707	348,711,875
New Leases					
Interest expenses	0	1,788,779	0	0	1,788,779
Interest payments	0	68,595	0	0	68,595
Changes in Leases	0	(68,595)	0	0	(68,595)
Total other changes with Liabilities	0	1,788,779	0	0	1,788,779
Total other changes with Equity	0	0	0	33,110,400	33,110,400
Balance as on 31 December 2020	307,179,173	1,608,441	(568,667)	75,392,107	383,611,054

#### (24) Deferred Regulatory accounts:

ENSA is subject to regulation by the ASEP. This entity is responsible for regulating and setting the final rates that the Group invoices to their customers. The Group 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 Group operates allows any excess or deficiency between

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the estimated cost of energy considered in the rate and the actual cost incurred by the Group 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 Group 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 Group 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.

The movement of the regulatory accounts is the following:

<b>Deferred Regulatory accounts</b>	<b>Assets (Liabilities)</b>	
	<b><u>2020</u></b>	<b><u>2019</u></b>
Beginning Balance	(7,814,740)	34,423,438
Recognized in the consolidated statement of other comprehensive income or (los) for the year	<u>8,038,230</u>	<u>(42,238,178)</u>
Ending balance	<u>223,490</u>	<u>(7,814,740)</u>

The movement of deferred taxes related to the deferred regulatory accounts is the following:

<b>Deferred taxes associated with deferred regulatory accounts</b>	<b>Assets (Liabilities)</b>	
	<b><u>2020</u></b>	<b><u>2019</u></b>
Beginning Balance	(2,344,422)	(10,327,031)
Recognized in the consolidated statement of other comprehensive income or (los) for the year	<u>2,411,469</u>	<u>12,671,453</u>
Ending balance	<u>67,047</u>	<u>2,344,422</u>

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

### **(25) Income**

The Group for purposes of presentation, disaggregates its income for the services it provides, in accordance with the business lines in which it participates and the way in which the administration analyzes them. The detail of the income is presented below:

	<b><u>2020</u></b>	<b><u>2019</u></b>
<b>Services provided and Sale of Assets</b>		
Service of Energy distribution	552,531,663	729,172,720
Sale of Assets	0	144,717
Other Income (Note 25.1)	<u>7,200,865</u>	<u>8,516,116</u>



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<b>Total Income from ordinary activities</b>	559,732,528	737,833,553
Other Income (Note 25.2)	<u>1,662,244</u>	<u>2,922,506</u>
<b>Total Income</b>	<u><b>561,394,772</b></u>	<u><b>740,756,059</b></u>

In the Group performance commitments are fulfilled as follows:

Energy distribution service - the performance obligation is satisfied when the electric power service is supplied to the customer according to his request.

The Group recognizes all its income from the satisfaction of performance obligations.

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

#### **25.1 Other Income from Ordinary activities:**

The detail of other income is as follows:

<b>Other Income from ordinary activities</b>	<b><u>2020</u></b>	<b><u>2019</u></b>
Professional Fees	4,991,077	4,496,077
Connection / Reconnection	884,101	2,524,071
Late payment Fees	742,065	1,228,049
Other income	164,643	0
Fines & Penalties	<u>418,979</u>	<u>267,919</u>
<b>Total other income from ordinary activities</b>	<u><b>7,200,865</b></u>	<u><b>8,516,116</b></u>

#### **25.2 Other Income**

<b>Other Income</b>	<b><u>2020</u></b>	<b><u>2019</u></b>
	7,800	8,450
Rental income of investment properties		
Other Income	1,247,837	679,343
Professional Fees	716,516	2,285,313
Increase (Decrease) in the fair value of Investment Properties (Note 7)	<u>(309,909)</u>	<u>(50,600)</u>
<b>Total Other Income</b>	<u><b>1,662,244</b></u>	<u><b>2,922,506</b></u>

#### **(26) Costs for services Provided:**

The detail of cost for services provided is as follows:

<b><u>Cost for services provided</u></b>	<b><u>2020</u></b>	<b><u>2019</u></b>
Cost of public goods and services for sale	428,260,843	542,418,636
Cost for services of construction	1,796,278	1,864,377
Depreciation & amortization of intangibles (Notes 6 y 9)	29,051,637	25,540,785
Orders & contracts for other services	13,748,181	18,446,836

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Salaries & Personnel expenses	8,199,979	6,115,783
General expenses	1,167,742	1,659,098
Maintenance & Repairs	1,431,759	3,032,011
Others	11,962	372,751
Amortization for Right of Use Assets (Note11)	245,797	223,737
Regulatory penalties	96,809	125,549
Taxes contributions and rates	969,231	1,158,942
Other Rentals	<u>594,331</u>	<u>256,643</u>
Total costs for services provided	<u>485,574,549</u>	<u>601,215,148</u>

#### (27) Administration Expense

The detail of administration expense is as follows:

	<u>2020</u>	<u>2019</u>
Personnel expense:		
Wages & Salaries	5,982,904	6,197,630
Social Security expense	982,244	979,415
Benefits of Union collective agreement	<u>93,534</u>	<u>89,199</u>
Total Personnel expense	<u>7,058,682</u>	<u>7,266,244</u>
General Expenses:		
Depreciation & amortization of intangibles (Notes 6 & 9)	5,269,322	4,790,633
Others	2,412,496	3,030,785
Commissions, Professional Fees & Services	1,838,238	1,689,595
Taxes, Contributions & Rates	2,054,991	1,753,251
Maintenance	1,808,537	2,214,980
General Insurance	721,277	766,161
Public Services	1,421,832	985,230
Rentals	6,660	2,170
Provision for contingencies	<u>9,452</u>	<u>321,315</u>
Total of General Expenses	<u>15,542,805</u>	<u>15,554,120</u>
Total	<u>22,601,487</u>	<u>22,820,364</u>

As of December 31, 2020, the Group does not have any operating leases that cannot be canceled. Operating lease payments recognized as expenses for the period are for B/.1,567,644 (2019: B/.482,551) included in the costs for the provision of services and administrative expenses.

#### (28) Other Expenses

The detail of Other expenses is as follows:

	<u>2020</u>	<u>2019</u>
<b>Other Expenses</b>		
Loss on sale of Assets	<u>1,050,284</u>	<u>1,001,014</u>

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#### (29) Financial Income and Expenses

##### 29.1 Financial Income

The detail of Financial Income is as follows:

	<u>2020</u>	<u>2019</u>
<b>Financial Income</b>		
Interest Income		
Bank Fixed Deposits	191,793	169,222
Other Interest earned	<u>320,646</u>	<u>49,119</u>
Total	<u>512,439</u>	<u>218,341</u>

##### 29.2 Financial Expenses

The detail of Financial Expenses is as follows:

	<u>2020</u>	<u>2019</u>
Interest Expense		
Loans & Bonds	20,110,702	19,080,507
Interest for Leases	62,196	68,595
Less: interest capitalized on appropriate assets	(85,976)	(412,444)
Other financial expense	<u>611,415</u>	<u>460,253</u>
Total	<u>20,698,337</u>	<u>19,196,911</u>

#### (30) Income Tax

##### 30.1 Income Tax Provisions

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

- a) The nominal rate of income tax for ENSA is 30%.
- b) The nominal rate of income tax for ENSA Servicios is 25%.

##### 30.2 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 2020 and 2019 periods are as follows:

##### **Elektra Noreste, S. A.**

	<u>2020</u>	<u>%</u>	<u>2019</u>	<u>%</u>
<b>Income or (loss) before taxes</b>	<u>17,554,934</u>		<u>91,024,715</u>	
<b>Theoretical Tax</b>	5,033,135	<b>28.7</b>	29,526,383	<b>32.4</b>
Add items that increase the tax	17,376,397		29,978,476	
Reduce items that reduce the tax	<u>(22,515,243)</u>		<u>(4,074,956)</u>	
<b>Ordinary Liquid tax of the exercise</b>	12,416,088		116,928,236	
Less income exempted	(189,595)		(169,122)	
Less carry forward Losses	<u>(1,774,811)</u>		<u>0</u>	
<b>Liquid Income taxable</b>	<u>10,451,682</u>		<u>116,759,114</u>	
Effective tax rate	30%		30%	
Income Tax	3,135,505		35,027,734	
Adjustment of prior year tax returns.	<u>0</u>		<u>(553,684)</u>	
<b>Income Tax - Current</b>	<u>3,135,505</u>	<b>30.0</b>	<u>34,474,050</u>	<b>29.5</b>

**Detail of deferred & current expense**

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Income Tax – current	3,135,505	34,474,050
Income Tax – Deferred	<u>1,897,630</u>	<u>(4,947,667)</u>
<b>Income Tax Total</b>	<u>5,033,135</u>	<u>29,526,383</u>

<b>Ensa Servicios, S. A.</b>	<b><u>2020</u></b>	<b><u>%</u></b>	<b><u>2019</u></b>	<b><u>%</u></b>
<b>Income or (loss) before taxes</b>	<u>2,695,616</u>		<u>1,486,604</u>	
<b>Theoretical Tax</b>	608,759	<b>22.6</b>	307,811	<b>20.7</b>
Add items that increase the tax			128,457	
Reduce items that reduce the tax	(315,371)		<u>(149,087)</u>	
<b>Ordinary Liquid tax of the exercise</b>	<u>2,380,245</u>		1,465,974	
Less income exempted	<u>(7,435)</u>		<u>(99)</u>	
<b>Liquid Income taxable</b>	<u>2,372,810</u>		<u>1,465,875</u>	
Effective tax rate	25%		25%	
Income Tax	593,203		366,468	
Adjustment of prior year tax returns.	<u>(16,612)</u>		<u>(26,554)</u>	
<b>Income Tax - Current</b>	<u>576,591</u>	<b>24.3</b>	<u>339,914</u>	<b>23.2</b>
<b>Detail of deferred &amp; current expense</b>				
Income Tax – current	576,591		339,914	
Income Tax – Deferred	<u>32,168</u>		<u>(32,103)</u>	
<b>Income Tax Total</b>	<u>608,759</u>		<u>307,811</u>	

### 30.3 Income Tax recognized on Profit or Loss:

The components of the significant expenses for income tax are:

	<b><u>2020</u></b>	<b><u>2019</u></b>
<b>Current Income Tax</b>		
Expenditure (Income) for current income tax.	3,728,708	34,813,964
Adjustments recognized in the current period related to the Current Income tax from prior periods.		
Current Income tax from, Prior periods.	<u>(16,612)</u>	<u>0</u>
<b>Total Current Income Tax</b>	<u>3,712,096</u>	<u>34,813,964</u>
<b>Deferred Income Tax</b>		
Net expenses (income) for deferred income related to the Origin and the reversal of temporary differences.	<u>1,929,798</u>	<u>(4,979,770)</u>
<b>Total deferred Tax</b>	<u>1,929,798</u>	<u>(4,979,770)</u>
<b>Income Tax</b>	<u>5,641,894</u>	<u>29,834,194</u>

The value of the asset or liability of the current income tax is as follow:

	<b><u>2020</u></b>	<b><u>2019</u></b>
Asset or Liability for Current Income Tax	(22,884,197)	11,823,323
Income Tax	<u>(3,712,096)</u>	<u>(34,839,920)</u>
Balance in favor	<u>34,067,339</u>	<u>132,400</u>

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Total Asset or Liability for Current Income Tax.	<u>7,471,046</u>	<u>(22,884,197)</u>
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#### **30.4 Income Tax on Earning recognized in Other comprehensive Income.**

The value of asset or liability of current income is as follows:

	<u>2020</u>	<u>2019</u>
Asset or Liability for current income tax	284,078	171,810
Income Tax	<u>(11,222)</u>	<u>112,268</u>
Total of Asset or Liability for current income Tax.	<u>272,856</u>	<u>284,078</u>

#### **30.5 Deferred Income Tax**

The detail of deferred income taxes is as follows:

	<u>2020</u>	<u>2019</u>
Deferred Income Tax – Assets	4,443,269	6,598,205
Deferred Income Tax – Liabilities	<u>(2,052,290)</u>	<u>(2,266,206)</u>
Total Deferred Income tax - Net	<u>2,390,979</u>	<u>4,331,999</u>

The deferred tax item recognized in 2020 in liabilities of the consolidated statement of financial position has the following composition:

	<u>Beginning Balance</u>	<u>Net Changes included in the income statement.</u>	<u>Changes included in the OCI.</u>	<u>Final Balance</u>
<b>Current Assets:</b>				
Accounts Receivables	2,073,696	(3,581,319)	0	(1,507,623)
Inventories	34,778	4,772	0	39,550
<b>Non-Current Assets:</b>				
Property Plant & Equipment	(1,414,915)	136,501	0	(1,278,414)
Others	(100,180)	(15,795)	0	(115,975)
Investment Property	(740,224)	92,973	0	(647,251)
<b>Current Liabilities:</b>				
Employee benefits	7,088	(467)	0	6,621
Provisions	1,636,445	2,068,734	0	3,705,179
Other Liabilities	535,923	(60,552)	0	475,371
<b>Non-Current Liabilities:</b>				
Employee Benefits	84,652	(42,202)	(11,222)	31,228
Fiscal losses not used	<u>2,214,736</u>	<u>(532,443)</u>	<u>0</u>	<u>1,682,293</u>
	<u>4,331,999</u>	<u>(1,929,798)</u>	<u>(11,222)</u>	<u>2,390,979</u>
<b>Total of Deferred taxes assets/liabilities</b>				

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The deferred tax item recognized in 2019 in assets of the consolidated statement of financial position has the following composition:

	<u>Beginning Balance</u>	<u>Net Changes included in the income statement.</u>	<u>Changes included in the OCI.</u>	<u>Final Balance</u>
<b>Current Assets:</b>				
Accounts Receivables	(3,784,228)	5,857,924	0	2,073,696
Inventories	92,055	(57,277)	0	34,778
<b>Non-Current Assets:</b>				
Property Plant & Equipment	(1,552,334)	137,419	0	(1,414,915)
Others	(84,570)	(15,610)	0	(100,180)
Investment Property	(755,404)	15,180	0	(740,224)
<b>Current Liabilities:</b>				
Employee benefits	6,413	675	0	7,088
Provisions	1,943,015	(306,570)	0	1,636,445
Other Liabilities	524,875	11,048	0	535,923
<b>Non-Current Liabilities:</b>				
Employee Benefits	81,718	(109,334)	(112,268)	(139,884)
Fiscal Losses not utilized	<u>2,768,420</u>	<u>(553,684)</u>	<u>0</u>	<u>2,214,736</u>
<b>Total Deferred taxes assets/liabilities.</b>	<u>(760,040)</u>	<u>(4,979,771)</u>	<u>(112,268)</u>	<u>4,107,463</u>

### (31) Disclosure or related parties

ENSA is a commercial Group, whose owners are Panamá Distribution Group, S.A. (PDG) who owns 51% of the authorized common shares, issued and outstanding; the Panamánian government, and former IRHE employees who own 48.25% and 0.42%, respectively. The following are related parties of ENSA following the restructuring of the electricity sector in Panamá, in which the Panamánian government has stake and key management personnel.

On June 20, 2017, ENSA signed with Hidroecológica del Teribe, S.A., a Group 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 Group. As of December 31, 2019, the amount recognized as income is B/.135,178 (2019: B/.159,043), and the account receivable is B/.38,888 (2019: B/.58,642) a product of this agreement.

In the normal course of business, ENSA purchases electricity from generators and other distribution companies, sells energy to government institutions and makes payments to the transmission Group.

The total value of the transactions carried out by the Group with its related parties during the corresponding year is presented below:

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#### Transactions & Balances with related parties:

			2020		
		<u>Income</u>	<u>Costs &amp; Expenses</u>	<u>Value to be collected</u>	<u>Value to be Paid</u>
Gobierno Nacional de la República de Panamá	(a)	75,276,564	0	14,202,625	0
Hidroeléctrica del Teribe, S. A.	(b) (c)	135,178	3,295,499	38,888	383,075
AES Panamá, S.R.L.	(b)	0	70,800,916	33,391	8,615,479
AES Changuinola, S. A.	(b)	0	78,237	0	4,864
Autoridad del Canal de Panamá	(b)	0	3,156,160	4,782	206,897
Bahía Las Minas Corp.	(b)	0	3,494,181	2,903	359,064
Empresa de Distribución Eléctrica, Chiriquí, S. A.	(b)	0	4,524	93,438	233
Empresa de Distribución Eléctrica, Metro Oeste, S. A.	(b)	0	1,361,548	96,191	10,366
Empresa de Generación Eléctrica, S. A.	(b)	0	20,750	511	4,254
Empresa de Transmisión Eléctrica, S. A.	(b)	0	43,318,154	506,169	7,889,624
Enel Fortuna, S. A.	(b)	0	47,320,019	18,324	5,680,321
Enel Green Power Panamá, S. A.	(b)	0	11,083	7	0
Energía y Servicios de Panamá S. A.	(b)	0	2,914,852	1,748	540,415
EPM Latam	(c)	16,563	0	0	0
Panamá Distribution Group	(c)	16,500	0	0	0
		<u>77,444,805</u>	<u>175,775,923</u>	<u>14,998,977</u>	<u>23,694,592</u>

#### Transactions & Balances with related parties:

			2019		
		<u>Income</u>	<u>Costs &amp; Expenses</u>	<u>Value to be collected</u>	<u>Value to be Paid</u>
Gobierno Nacional de la República de Panamá	(a)	100,293,182	0	14,202,625	0
Hidroeléctrica del Teribe, S. A.	(b) (c)	297,710	3,428,374	20,645	2,447
AES Panamá, S.R.L.	(b)	0	50,652,747	811,607	11,397,461
AES Changuinola, S. A.	(b)	0	36,429,635	18,066	3,071,935
Autoridad del Canal de Panamá	(b)	0	23,198,482	241,330	1,267,321
Bahía Las Minas Corp.	(b)	0	1,197,642	15,917	38,325
Empresa de Distribución Eléctrica, Chiriquí, S. A.	(b)	0	6,056	47,074	0
Empresa de Distribución Eléctrica, Metro Oeste, S. A.	(b)	0	692,304	92,843	6,042
Empresa de Generación Eléctrica, S. A.	(b)	0	38,938	725	0
Empresa de Transmisión Eléctrica, S. A.	(b)	0	58,043,248	547,963	13,898,005
Enel Fortuna, S. A.	(b)	0	33,387,894	114,193	5,202,385
Enel Green Power Panamá, S. A.	(b)	0	11,715,483	8,469	0
Energía y Servicios de Panamá S. A.	(b)	0	5,228,013	0	0
		<u>100,590,892</u>	<u>224,018,816</u>	<u>16,121,457</u>	<u>34,883,921</u>

- (a) Sales of electric power to government institutions.  
(b) Power purchases from power generation companies.  
(c) Administrative services

The Law obliges ENSA 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 Group 100% fully-owned by the Panamanian State, a rate regulated by the connection and use of the transmission system.

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#### **Remuneration for the Board of Directors and the key personnel of the Group:**

The key management personnel in the Group include the general manager, vice presidents and members of the Group's Executive Committee. The amounts disclosed are those recognized as cost or expense during the period reported as compensation of key management personnel.

	<u>Concept</u>	<u>2020</u>	<u>2019</u>
	Salaries & other benefits to employees		
<b>Remuneration of Key Management staff</b>		<u>2,704,322</u>	<u>2,608,025</u>

#### **(32) Capital Management**

The capital of the Group 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 Group'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 Group 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 Group 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, 2020 and 2019.

The Group monitors the capital using a debt ratio, which is debt divided by EBITDA, (Earnings Before Interest, Tax, Depreciation and Amortization for its acronym in English) in accordance with the requirements of current financial agreements, which reveals the limit of 3.5 to 1.0 and anticipating that the violations of the financial clauses would allow bondholders to immediately call for their early cancellation. For the calculation of EBITDA, the Group considers the net profit including the net movement of regulatory deferred accounts, consistent with the accounting policy in force when issuing the bonds and periodically reports to the respective entities. The Group's policy is to maintain that the debt ratio will not exceed 3.50 times its EBITDA and a financial debt ratio of less than 200%.

To achieve this overall objective, the capital management of the Group, among other things, aims to optimize first the management of current assets and liabilities and in case if required take decisions to restructure long term commitments. During the years ended 31<sup>st</sup> December 2020 and 2019 there have been no breaches of financial clauses of the bonds issued in the current period or earlier.



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	<u>2020</u>	<u>2019</u>
Short Term Debt	0	25,000,000
Long Term Debt	100,000,000	100,000,000
Preferred Bonds 2021	100,000,000	100,000,000
Preferred Bonds 2027	80,000,000	80,000,000
Cash & Cash equivalents	(54,023,188)	(25,511,109)
<b>Total Net Debt</b>	<u>225,976,812</u>	<u>279,488,891</u>
Common Shares	106,068,451	106,074,295
Comprehensive Profit or loss	(636,662)	(662,847)
Accumulated Earnings	92,304,826	75,392,107
<b>Total Equity</b>	<u>197,736,615</u>	<u>180,803,555</u>
Indebtedness Ratio	114%	155%
Total Debt to EBITDA (times)	3.37	3.06

### **(33) Objectives and policies of financial risk management.**

The Group 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 risks are described in each of the sections below:

The Group is exposed to financial risks that are part of the regular affairs of the business, which is why it tries to establish the measurement, impact and monitoring parameters that allow taking the necessary precautions and control measures in a risky situation. The risks are reviewed by the Administration periodically in order to update their status and deal with it in a timely manner, if applicable.

#### **33.1 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 Group 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.

#### **33.2 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 Group is exposed to interest rate risk due to debt contracted at a floating interest rate. The risk is managed by the Group 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 Group has the practice of negotiating the margins with our banking institutions of preference and carry out short-term transactions when the interest is variable.

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

As of December 31, 2019, the Group holds 0% (2019: 8%) of the debt contracted at a floating interest rate and 100% (2018: 92%) at a fixed interest rate. The Administration's position regarding its financing structure, and given the liquidity of the market, has been to contract most of its short-term debt at variable rates until accumulating representative levels, at which point it migrates to long-term debt.

#### **33.3 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 Panamá and the use of the United States dollar by the Group in all our operations and transactions. The Group does not use Swaps of exchange rates as a hedge against the risk of foreign currency.

#### **33.4 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 Group are mainly cash and cash equivalents, accounts receivable, accounts receivable from related parties and other financial assets.

The credit risk of the Group's consumer customers is managed in part by requiring a security deposit equivalent to one-month billing for all new customers. (See Note 18) Existing customers with good payment history can open additional accounts without this security deposit. The Group 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 Group is exclusively dedicated to the distribution and marketing of electricity to customers located in its concession area. The Group 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 Group charges interest on late payments. However, once these governmental budgets are

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approved and the process is complete, the Group 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 Group 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 Group 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 Group believes that its potential credit risk is adequately covered by the provision for doubtful accounts for Accounts receivable - Public Services.

Regarding the credit risk arising from the other financial assets of the Group, which include cash and cash equivalents, other accounts receivable and other financial assets, the Group'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 Group limits the counterparty credit risk in these assets by only dealing commercially with financial institutions with high credit rating.

The Group 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:

	<u>2020</u>	<u>2019</u>
Cash & Cash equivalents	54,023,188	25,511,109
Accounts Receivable Commercial & Others	130,760,862	145,778,015
Other assets Non - Current	<u>1,070,998</u>	<u>900,955</u>
Maximum exposure of Credit Risk	<u>185,855,048</u>	<u>172,190,079</u>

#### **34.5 Liquidity Risk**

Liquidity risk is the risk that the Group finds itself having difficulty in meeting obligations associated with financial liabilities that are settled by delivery of cash or another financial asset. The Group monitors its risk to the shortage of funds monitoring its debt index and

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the expiration dates of their existing debt and of the other accounts payable.

The Group has adopted practices for the management of liquidity risk that have the intention to maintain enough cash and liquid financial assets. The Group maintains lines of short-term financing with first-rate financial entities in Panamá that provide us with the operational flexibility required to meet our energy purchase and other obligations. Since the Group 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 Group considers that its sources of liquidity are enough to meet the needs.

The concentration of liquidity risk is managed by the Group negotiating credit facilities with various financial institutions in Panamá, that allow them to access funds in an expeditious and reliable manner when required.

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

	In Books	Less than 1 year	1-2 years	2 to 3 years	4 to 5 years	5 years or more	Total contractual obligation
<b>2020</b>							
<b>Non-derivative financial liabilities</b>							
Credit facilities & loans	282,668,156	115,634,000	8,034,000	106,298,583	3,784,000	91,175,759	324,926,342
Suppliers & other accounts payable	301,392,791	255,171,929	11,065,056	7,846,882	6,818,378	22,260,875	303,163,120
Other financial liabilities	534,814	242,477	187,461	111,859	0	0	541,797
Benefits to employees	380,187	28,280	28,563	28,848	29,137	282,509	397,337
Other Liabilities	<u>2,076,677</u>	<u>163,306</u>	<u>160,545</u>	<u>153,174</u>	<u>149,856</u>	<u>1,537,956</u>	<u>2,164,837</u>
Total	<u>587,052,625</u>	<u>371,239,992</u>	<u>19,475,625</u>	<u>114,439,346</u>	<u>10,781,371</u>	<u>115,257,099</u>	<u>631,193,433</u>
<b>2019</b>							
<b>Non-derivative financial liabilities</b>							
Credit facilities & loans	307,179,173	40,777,750	111,834,000	8,034,000	106,971,500	93,244,000	360,861,250
Suppliers & other accounts payable	249,030,725	211,665,987	11,572,912	5,149,742	4,905,569	17,143,264	250,437,474
Other financial liabilities	1,608,441	263,793	263,793	263,793	240,215	863,138	1,894,732
Benefits to employees	346,703	68,625	36,923	32,042	33,513	539,249	710,352
Other Liabilities	<u>2,263,892</u>	<u>173,981</u>	<u>189,992</u>	<u>189,992</u>	<u>189,992</u>	<u>1,519,936</u>	<u>2,263,893</u>
	<u>560,428,934</u>	<u>252,950,136</u>	<u>123,897,620</u>	<u>13,669,569</u>	<u>112,340,789</u>	<u>113,309,587</u>	<u>616,167,701</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 Group considers that the cash flows cannot occur earlier than when it is indicated above.

#### **(34) 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 Group 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 Group can access on the date of the measurement (level 1).

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- Based on 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 Group 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.

#### ***Valuation techniques and variables used by the Group 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 Group 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 based on 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 3 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.

All financial liabilities detailed below, except employee benefits, are measured at cost or amortized cost, but their fair value is required to be disclosed.

	2020			
	Fair Value estimated			Total
	Book Value	Level 2	Level 3	
<b>Liabilities</b>				
Debt Instrument – Fixed Rate	282,668,156	194,463,200	102,896,960	297,360,160
Suppliers and Other accounts payable	301,392,791	0	299,645,984	299,645,984
Other Financial Liabilities	534,814	0	528,000	528,000
Employee benefits	380,187	0	380,797	380,797
Other Liabilities	2,076,677	0	1,992,564	1,992,564
Total	<u>587,052,625</u>	<u>194,463,200</u>	<u>405,444,305</u>	<u>599,907,505</u>

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	2019			Total
	Book Value	Level 2	Fair Value estimated Level 3	
<b>Liabilities</b>				
Debt Instrument – Fixed Rate	307,179,173	192,277,400	129,474,438	321,751,838
Suppliers and Other accounts payable	249,030,725	0	248,855,627	248,855,627
Other Financial Liabilities	1,608,441	0	1,608,200	1,608,200
Employee benefits	346,703	0	503,548	503,548
Other Liabilities	<u>2,263,892</u>	<u>0</u>	<u>2,301,611</u>	<u>2,301,611</u>
Total	<u>560,428,934</u>	<u>192,277,400</u>	<u>382,743,424</u>	<u>575,020,824</u>

### (35) Segment Information

The Group has two reportable segments, as described below, which are strategic business units of the Group. The strategic business units offer different products and services that are managed separately because they require different marketing strategies. For each of the strategic business units, the Chief Executive of the Group examines the internal management reports, at least quarterly.

The following summary describes the operations of each segment that should be reported:

<u>Segments to be informed about</u>	<u>Operations</u>
Services Provided	Purchase energy in blocks and transport them through distributed networks to customers. In addition, ENSA performs the voltage linked transformation, energy delivery to consumers, their measurement, reading, billing and energy collection. In the same way, the Group has the responsibility of installing, operating, and maintaining the public lighting in the concession area.
Sale of Assets	Sale of spare parts and provision of technical, commercial and any other complementary services to the provision of electricity service

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Information on the results of each reportable segment is included below:

	Segments to be informed					
	<u>Services Provided</u>		<u>Sale of Assets</u>		<u>Consolidated</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Services provided	547,280,809	726,169,128	5,250,854	3,003,592	552,531,663	729,172,720
Sale of Assets	0	0	0	144,717	0	144,717
Other income from operations	7,098,790	8,516,093	102,075	23	7,200,865	8,516,116
<b>Total Income from ordinary activities</b>	<b>554,379,599</b>	<b>734,685,221</b>	<b>5,352,929</b>	<b>3,148,332</b>	<b>559,732,528</b>	<b>737,833,553</b>
Other income	1,662,244	2,922,506	0	0	1,662,244	2,922,506
<b>Total Income</b>	<b>556,041,843</b>	<b>737,607,727</b>	<b>5,352,929</b>	<b>3,148,332</b>	<b>561,394,772</b>	<b>740,756,059</b>
Cost for Services provided and sale of assets	483,605,563	598,877,286	1,968,986	2,337,862	485,574,549	601,215,148
Administrative expenses	22,224,881	22,471,668	376,606	348,696	22,601,487	22,820,364
Impairment in Accounts receivable	11,898,350	4,058,443	-166,346	171,201	11,732,004	4,229,644
Other expenses	1,050,284	1,001,014	0	0	1,050,284	1,001,014
Financial Income	510,095	218,241	2,344	100	512,439	218,341
Financial costs	20,692,806	19,193,795	5,531	3,116	20,698,337	19,196,911
Net Profit for the year before Tax	17,080,054	92,223,762	3,170,496	287,557	20,250,550	92,511,319
Income tax for the period	5,033,135	29,526,383	608,759	307,811	5,641,894	29,834,194
<b>Net Profit for the year before net movement in balances in deferred regulatory accounts</b>	<b>12,046,919</b>	<b>62,697,379</b>	<b>2,561,737</b>	<b>-20,254</b>	<b>14,608,656</b>	<b>62,677,125</b>
Net Movement in balance of regulatory accounts related to Profit and Loss	8,038,230	-42,238,178	0	0	8,038,230	-42,238,178
Net Movement arising in deferred taxes from balances of regulatory accounts related to profit or loss	-2,411,469	12,671,453	0	0	-2,411,469	12,671,453
<b>Net Income of the year and the net movement in balances in deferred regulatory accounts</b>	<b>17,673,680</b>	<b>33,130,654</b>	<b>2,561,737</b>	<b>-20,254</b>	<b>20,235,417</b>	<b>33,110,400</b>
<b>Other comprehensive income (loss) net of tax</b>						
<b>Items that will not be reclassified later</b>						
<b>1 to Profit or Loss for the period:</b>						
New measurements of defined benefits plan	37,407	-374,226	0	0	37,407	-374,226
Income Tax related to the components that will not be reclassified	-11,222	112,268	0	0	-11,222	112,268
Other comprehensive income (loss) net of taxes	26,185	-261,958	0	0	26,185	-261,958
<b>Total Other comprehensive income (loss) for the year</b>	<b>17,699,865</b>	<b>32,868,696</b>	<b>2,561,737</b>	<b>-20,254</b>	<b>20,261,602</b>	<b>32,848,442</b>
<b>Total Assets</b>	<b>792,016,429</b>	<b>770,189,503</b>	<b>5,932,728</b>	<b>5,449,243</b>	<b>797,606,508</b>	<b>775,098,042</b>
<b>Total Liabilities</b>	<b>598,007,423</b>	<b>591,074,743</b>	<b>2,155,119</b>	<b>3,710,448</b>	<b>599,869,893</b>	<b>594,294,487</b>

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### **(36) Subsequent Events:**

The Group evaluated all events and transactions that took place between the date of the consolidated statement of financial position and the date on which the consolidated financial statements were issued and determined that no additional disclosures are required.