

Free English Language Translation

Elektra Noreste, S.A.

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

Consolidated Financial Statements for the year ended 31st December 2018, and the Independent Auditors' report.

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

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

Contents

Independent Auditors' Report

Statement of Financial Position

Statement of profit or loss and other comprehensive income

Statement of changes in Shareholders' Equity

Statement of Cash Flows

Notes to the financial statements

INDEPENDENT AUDITORS' REPORT

To,

The Board of Directors,

Elektra Noreste, S.A and subsidiary

We have audited the financial statements of Elektra Noreste, S.A. (Hereinafter "ENSA" or the "Company"), which comprise the statement of financial position as of December 31, 2018, and the statement of income or loss and other comprehensive income, the statement of changes in shareholders' equity, and the statement of cash flows for the year ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018, 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. Our responsibilities under these standards are described in detail in the Auditor's Responsibilities section in the Audit of the Financial Statements of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants (Code of Ethics issued by IESBA) along with the ethical requirements that are relevant to our audit of the financial statements in Panama, and we have met with our other ethical responsibilities in accordance with these requirements, and the Code of Ethics issued by IESBA. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit issues – Comparative information

We call attention to note 2.20 of the consolidated financial statements, which indicates that the comparative information presented to and for the year ended December 31, 2017 has been re-expressed. Our opinion does not get modified with respect to this matter.

Another issue related to comparative information

The financial statements of Elektra Noreste, S.A. at and for the years ended December 31, 2017 and December 31, 2016, from which the consolidated statement of financial position is derived as of January 1, 2017, excluding the adjustments described in the note 2.20 to the consolidated financial statements, were audited by other auditors who expressed an unmodified opinion on said financial statements on February 23, 2018.

As part of our audit of the consolidated financial statements at and for the year ended On December 31, 2018, we have audited the adjustments described in Note 2.20 that were applied to re-express the comparative information presented to and for the year ended on December 2017 and the consolidated statement of financial position as of January 1, 2017. We did not get hired to audit, review or apply any procedure to the financial statements consolidated for the year ended on December 31, 2017 or for the year ended on December 31, 2017 December 2016 (not included) or the statement of financial position as of January 1, 2017, except with respect to the adjustments described in note 2.20 to the consolidated financial statements. Therefore, we do not express an opinion or any other form of assurance with respect to the consolidated financial statements taken together. However, in our opinion, the adjustments described in note 2.20 are appropriate and have been applied appropriately.

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.

Key Audit Issue

Deferred Regulatory accounts

See Notes 2.21 and 19 to the consolidated financial statements

The Group is subject to regulation by the “Autoridad Nacional de Servicios Públicos” (ASEP). This entity is in charge of regulating and establishing the rates that the Group invoices to its customers. The regulated system under which the Group operates allows any excess or deficiency between the estimated cost of the energy considered in the tariff and the current cost incurred by the Group is included as a compensatory adjustment, to be recovered or returned to customers, in the next tariff revision. Any excess in the cost of energy charged to customers is accumulated as credit balance in deferred regulatory account in the consolidated statement of the Group's financial situation and entails a reduction in the next tariff revision to be applied to customers. In the same way, any shortfall in the cost of energy charged to customers is accumulated as debit balance in deferred regulatory account in the state Consolidated financial position of the Group and leads to an increase in the next revision rate to be recovered from customers.

How the key issue was addressed in the audit Our procedures for audit included:

- We evaluated the accounting policy adopted by the Group regarding the recognition, measurement and presentation of deferred regulatory accounts in accordance with IFRS 14 Deferred regulatory accounts for Regulated Activities.
- We obtained an understanding of the process applied by the Group for the recovery of debit balances from deferred regulatory accounts with the ASEP.
 - We perform tests on the design of the process and the operational efficiency of the relevant controls associated with:
 - Automatic generation of billing in the accounting system.
- Changes and application of tariffs approved by the Authority (ASEP).
- We revised the correspondence with the ASEP, including the approvals of the tariff adjustments.

In addition, the net movement of deferred regulatory accounts related to gains or losses is presented as an addition to the net income for the year in the consolidated statement of income and other comprehensive income.

- We inspected the recoveries of the debit balances in deferred regulatory accounts of the last five (5) years, which were approved through publication of rate adjustments.
- We presented adequately the proper presentation of the balances of deferred regulatory accounts in the consolidated financial statements.

See Notes 2.5 and 20 to the consolidated financial statements

Key Audit Issue

Revenue Recognition

The income recognized in relation to the supply of electric energy includes estimates of the value of the energy supplied to customers between the date of the last meter reading and the end of the year, which is known as unbilled revenues. Revenues not invoiced at the balance sheet date amounted to B /.13,331,138 (2017: B /.10,170,570).

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.

How the key issue was addressed in the audit Our procedures for audit included:

- We carried out tests on the design and operating efficiency of internal controls related to revenue recognition and the billing system.
- We evaluated the accuracy and precision of the estimates made by the billing system for a sample of customers by comparing the actual use, obtained from the meter readings with the estimated use generated by the billing system for the same period.
- For a sample of customers, we verified that customer rates were updated correctly in the billing systems and that the rates were assigned to customers according to the type of customer.
- For a sample of customer invoices, we verified that these invoices were paid by the customers and were consistent with the tariff plans approved by the regulator.
- For those invoices selected that were pending collection at the end of the year, we confirmed the balance with the customers and verified the amounts of the subsequent cash receipts when the customer's confirmation was not received.
- 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.

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

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

Auditors' responsibility for audit of the financial statements

Our objectives are to obtain a reasonable security that the financial statements have no material misstatements, whether due to fraud or error, and to issue an auditor's report that includes our opinion. The reasonable security is a high level of security, but it is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect a major error when it exists. Errors can arise from fraud or error and are considered important if, individually or cumulatively, they can be expected to influence the users' economic decisions based on these financial statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. As well as:

- We identify and evaluate the risks of material misstatement in the financial statements due to fraud or error, we design and perform audit procedures in response to these risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a major error resulting from fraud is greater than one that results from error, because fraud may involve collusion, forgery, intentional omissions, misrepresented declarations, or violation of internal controls.
 - We obtain an understanding of the internal controls relevant to the audit with the objective of designing audit procedures that are appropriate for the circumstances, but not for expressing an opinion on the effectiveness of the Company's internal control.
 - We evaluate the appropriateness of the accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
-

- We conclude on the appropriateness of Management's use of the business accounting base for a going concern, based on the audit evidence obtained, and whether there is a significant uncertainty regarding events or conditions that may give rise to a doubt about the Company's ability to continue as a going concern. If we conclude that there is significant uncertainty, it is required that we direct our attention in our audit report to related relevant disclosures in the financial statements or, if those disclosures are inadequate, we will modify our opinion. Our findings are based on the audit evidence obtained at the date of our audit report. However, future events or conditions may cause the Company to cease to be a going concern.
- We evaluate the overall presentation, structure, and content of the financial statements, including disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves reasonable presentation.
- We obtain sufficient and appropriate evidence in relation to 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 execution of the group audit. We are responsible only for our opinion of audit.

We communicated with those in charge of corporate governance in relation to, among other matters, the scope and opportunity of the planned execution of the audit and the significant findings of the audit, including any significant deficiency of internal control that we identified during the audit.

We also provided those charge of corporate governance a statement that we have met the relevant ethical requirements in relation to independence and communicate to them all relationships and other matters that we reasonably believe may affect our independence and, where applicable, the corresponding safeguards.

Among the issues that have been communicated to those in charge of corporate governance, we determined those issues that have been the most significant in this audit of the consolidated financial statements for the current period and that are, consequently, the key issues of the audit.

We describe these matters in our audit report unless the legal provisions or regulations prohibit publicly disclosing these issues or, in extremely limited infrequent circumstances, we determine that an issue should not be communicated in our report because it reasonably expects that the adverse consequences of doing so would outweigh the benefits of public interest of such communication.

The partner in charge of the audit that has prepared this report of the independent auditors is Julio E. Lasso T.

Panama, Republic of Panama, March 20, 2019

ELEKTRA NORESTE, S. A. Y SUBSIDIARIA

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

(Panama, Republic of Panamá)

Statement of Financial position**31st December 2018**

(In balboas)

			<u>Re-expressed</u>	<u>Re-expressed</u>
	<u>Notes</u>	<u>2018</u>	<u>2017</u>	<u>1st January</u>
Assets				<u>2017</u>
Non-Current Assets				
Properties, Plant & Equipment	4	533,491,157	502,455,031	473,144,961
Inventories	9	2,138,237	1,635,511	1,546,404
Investment Property	5	4,014,309	3,162,609	2,480,209
Other Intangible Assets	6	19,719,819	19,875,032	20,442,389
Trade and Other Receivables	7,26	0	9,700,000	9,700,000
Deferred Income Taxes	25	0	2,813,876	1,698,740
Employee Benefits	15	81,821	0	172,499
Other Assets	8	737,022	679,162	625,407
Total Non-Current Assets		<u>560,182,365</u>	<u>540,321,221</u>	<u>509,810,609</u>
Current Assets				
Inventories	9	12,722,073	16,988,702	21,384,776
Trade and Other Receivables	7,26	142,379,434	107,693,795	96,228,584
Current Tax assets	25	11,823,323	0	7,653,094
Other Assets	8	744,895	800,384	559,150
Cash & Cash Equivalents	10	6,211,412	4,558,153	3,620,659
Total Current Assets		<u>173,881,137</u>	<u>130,041,034</u>	<u>129,446,263</u>
Total Assets		<u>734,063,502</u>	<u>670,362,255</u>	<u>639,256,872</u>
Balances of regulatory deferred debit accounts	19	34,423,438	16,368,097	5,269,828
Assets of deferred taxes related with balances of deferred regulatory accounts	19	-10,327,031	-4,910,429	-1,580,948
Total Assets and debit balances of deferred regulatory accounts		<u>758,159,909</u>	<u>681,819,923</u>	<u>642,945,752</u>

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

			<u>Re-expressed</u>	<u>Re-expressed</u>
	<u>Notes</u>	<u>2018</u>	<u>2017</u>	<u>1st January</u> <u>2017</u>
Equity & Liabilities				
Commitments and contingencies	16			
Equity				
Issued Capital	11	106,642,962	106,642,962	106,642,962
Treasury Stocks	11	-544,087	-544,087	-544,087
Other accumulated comprehensive Income (Loss)	12	-400,889	-586,915	-416,369
Retained Earnings	11	31,494,671	25,743,192	8,658,399
Net Profit for the year in balances of Deferred Regulatory accounts	11	33,296,262	32,390,063	32,164,937
Total Equity		<u>170,488,919</u>	<u>163,645,215</u>	<u>146,505,842</u>
Non-current Liabilities				
Credit facilities & loans payable	13	281,724,053	181,424,837	201,247,440
Creditors and other accounts payable	14	56,386,966	59,704,579	49,052,013
Employee Benefits	15	354,517	626,448	382,375
Liability for Deferred Taxes	25	760,040	0	0
Other Liabilities	17	2,257,042	2,439,222	2,621,402
Total Non Current Liabilities		<u>341,482,618</u>	<u>244,195,086</u>	<u>253,303,230</u>
Current Liabilities				
Credit facilities & loans payable	13	12,000,000	128,000,000	82,000,000
Creditors and other accounts payable	14	227,230,776	136,475,790	155,885,268
Employee Benefits	15	21,376	37,840	38,839
Current Taxes Payable	25	158,954	4,003,087	0
Provisions	16	6,595,086	5,280,725	5,021,184
Other Liabilities	17	182,180	182,180	191,389
Total Current Liabilities		<u>246,188,372</u>	<u>273,979,622</u>	<u>243,136,680</u>
Total Liabilities		<u>587,670,990</u>	<u>518,174,708</u>	<u>496,439,910</u>
Total Liabilities & Equity		<u>758,159,909</u>	<u>681,819,923</u>	<u>642,945,752</u>

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

ELEKTRA NORESTE, S. A. Y SUBSIDIARIA

(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 2018**

(In balboas)

	<u>Note</u>	<u>2018</u>	<u>Re-expressed</u> <u>2017</u>
Services provided		671,377,380	626,795,596
Sale of Assets		342,207	0
Other income from operations		10,053,674	8,300,495
Total Income from ordinary activities		<u>681,773,261</u>	<u>635,096,091</u>
Other income		2,128,731	1,750,027
Total Income	20, 26	<u>683,901,992</u>	<u>636,846,118</u>
Cost for Services provided and sale of assets	21, 26	613,112,231	560,564,601
Administrative expenses	22	24,242,301	21,360,125
Impairment in Accounts receivable	7	1,888,532	2,628,232
Other expenses	23	1,381,375	2,440,461
Financial Income	24	259,782	156,775
Financial costs	24	16,951,580	14,800,753
Net Profit for the year before Tax		<u>26,585,755</u>	<u>35,208,721</u>
Income tax for the period	25	5,928,232	10,587,446
Net Profit for the year before net movement in balances in deferred regulatory accounts		20,657,523	24,621,275
Net Movement in balance of regulatory accounts related to Profit and Loss	19	18,055,341	11,098,269
Net Movement arising in deferred taxes from balances of regulatory accounts related to profit or loss	19	<u>-5,416,602</u>	<u>(3,329,481)</u>
Net Income of the year and the net movement in balances of deferred regulatory accounts		<u>33,296,262</u>	<u>32,390,063</u>
Other comprehensive income (loss) net of tax			
Items that will not be reclassified later to Profit or Loss:			
New measurements of defined benefits plan	12	265,751	-243,637
Income Tax related to the components that will not be reclassified	12, 25	<u>-79,725</u>	<u>73,091</u>
Other comprehensive income (loss) net of taxes		<u>186,026</u>	<u>-170,546</u>
Total Other comprehensive income (loss) for the year		<u>33,482,288</u>	<u>32,219,517</u>

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

ELEKTRA NORESTE, S. A. Y SUBSIDIARIA

(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, 2018

(In balboas)

	Note	Issued Capital	Treasury Shares	Other Comprehensive Income (loss) Accumulated	Retained Earnings	Total
Balance at 1st January 2017		106,642,962	-544,087	-416,369	40,823,336	146,505,842
Total Comprehensive Income (loss)						
Net Profit for the year		0	0	0	32,390,063	32,390,063
Other comprehensive income (loss) net of Income Tax		0	0	-170,546	0	-170,546
Total Comprehensive Income (loss)		<u>0</u>	<u>0</u>	<u>-170,546</u>	<u>32,390,063</u>	<u>32,219,517</u>
Transactions with the owners of the Group						
Distributions						
Dividends Declared	11	0	0	0	-15,000,000	-15,000,000
Income tax related to transactions with owners		0	0	0	-80,144	-80,144
Total transactions with the owners of the Group		<u>0</u>	<u>0</u>	<u>0</u>	<u>-15,080,144</u>	<u>-15,080,144</u>
Balance as of December 31, 2017		<u>106,642,962</u>	<u>-544,087</u>	<u>-586,915</u>	<u>58,133,255</u>	<u>163,645,215</u>
Balance at 1st January 2018		106,642,962	-544,087	-586,915	58,133,255	163,645,215
Adjustment in initial application of IFRS 9 net of taxes	2.20.2, 11	0	0	0	-5,386,670	-5,386,670
Balance adjusted to January 1, 2018 (re-expressed)		<u>106,642,962</u>	<u>-544,087</u>	<u>-586,915</u>	<u>52,746,585</u>	<u>158,258,545</u>
Total Comprehensive Income (loss) for the period						
Net Profit for the year		0	0	0	33,296,262	33,296,262
Other comprehensive income (loss) net of Income Tax		0	0	186,026	0	186,026
Total Comprehensive Income (loss) for the year		<u>0</u>	<u>0</u>	<u>186,026</u>	<u>33,296,262</u>	<u>33,482,288</u>
Transactions with the owners of the Group						
Distributions						
Dividends Declared	11	0	0	0	-21,000,000	-21,000,000
Income tax related to transactions with owners		0	0	0	-251,914	-251,914
Total transactions with the owners of the Group		<u>0</u>	<u>0</u>	<u>0</u>	<u>-21,251,914</u>	<u>-21,251,914</u>
Balance as of December 31, 2018		<u>106,642,962</u>	<u>-544,087</u>	<u>-400,889</u>	<u>64,790,933</u>	<u>170,488,919</u>

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

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

Statement of Cash Flows

For the year ended 31st December, 2018

(In balboas)

	<u>Note</u>	<u>2018</u>	<u>Re-expressed</u> <u>2017</u>
Cash flows from the operation's activities:			
Net income for the period and net movement of in balances of deferred regulatory accounts "		33,296,262	32,390,063
Adjustments for			
Depreciation and amortization of property, plant and equipment and intangible assets	4, 6	29,878,633	27,549,703
Impairment of financial instruments	7	1,888,532	2,628,232
Gain on changes in fair value of investment property	5	-851,700	-291,092
Provisions, and defined benefits plan post-employment and long term Income Tax		265,751	1,249,395
Financial costs Net		3,637,628	13,916,927
Profit or loss from disposal of property, plant and equipment		16,691,763	14,424,365
Provisions, and defined benefits plan post-employment and long term		4,396,340	6,367,340
		1,314,361	-989,854
		<u>90,517,570</u>	<u>97,245,079</u>
Changes in:			
Inventories		4,266,629	4,712,828
Trade receivables and Other accounts receivables		-32,260,841	-14,093,444
Other Assets		-2,371	-294,989
Creditors and other accounts payable		87,437,373	-9,565,675
Employee Benefits		-370,216	171,935
Other Liabilities		-182,180	<u>0</u>
		149,405,964	78,175,734
Interest paid		-16,951,545	-14,591,235
Income tax paid		-15,810,893	<u>0</u>
Cash flows from investing activities:			
before net changes in balances of deferred regulatory accounts		116,643,526	63,584,499
Changes in Deferred regulatory accounts		-12,638,739	-11,098,269
Net cash flows generated by activities of the operation and Net changes in balances of deferred regulatory accounts		<u>104,004,787</u>	<u>52,486,230</u>
Cash flows from investing activities:			
Interest received		259,782	0
Purchase of property, plant and equipment	4, 6	-65,155,886	-62,434,020
Inventories Net		-502,726	-89,107
Other cash flows from investing activities		0	54,535
Net cash generated by operating activities		<u>-65,398,830</u>	<u>-62,468,592</u>
Cash flows from financing activities:			
Obtaining financing	18	112,299,216	46,000,000
Repayment of Long term debt	18	(128,000,000)	(20,000,000)
Dividends paid	18	-21,000,000	-15,000,000
Income tax related to transactions with owners	18	-251,914	-80,144
Net cash flows generated (used) by financing activities		<u>-36,952,698</u>	<u>10,919,856</u>
Net Increase in cash and bank balances		1,653,259	937,494
Cash and bank balances at the end of the year		4,558,153	3,620,659
Cash and bank balances at the end of the year	10	<u><u>6,211,412</u></u>	<u><u>4,558,153</u></u>

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

ELEKTRA NORESTE, S. A. Y SUBSIDIARY

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

(Panamá, Republic of Panamá)

Notes to the Financial statements

31st, December, 2018

(In Balboas)

(1) Reporting entity: General Information.

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

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

ENSE Servicios, SA, (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, SA. 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. Therefore, these are the first consolidated financial statements issued by Elektra Noreste, S. A. that include its subsidiary.

1.1 Legal and regulatory framework

Panama's electricity sector is divided into three areas of activities: generation, transmission, and distribution. The country has a regulatory structure in place for the electric industry, based on legislation approved between 1996 and 1998. This framework created an independent regulator called the Autoridad Nacional de los Servicios Públicos (ASEP) and created a transparent process to establish rates for the sale of electricity to regulated customers.

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

The following legal standards mainly form the regulatory regime:

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

1.2 Regulatory entities

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

- Secretary of Energy: its mission is to formulate, propose and promote the national energy policy with the purpose of guaranteeing secure supply, rational and efficient use of the resources and energy in a sustainable manner, according to the National Development Plan. Currently, the company “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 Panama and ratified by the National Assembly. Similarly, it has three national directors under the general manager’s authority, one for the electricity and water sector, one for the telecommunications sector, and one for the customer care support sector. National directors are responsible for issuing resolutions relating to their respective industries and appeals to these resolutions are resolved by the general manager and comprise the final stage of the administrative process.

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

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

1.3 Concession agreement

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

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

The concession agreement stipulates provisions pertaining to the concessionaire’s obligations on the subject of rendering the service, forbidding the separation of the majority shares package, and is required to send technical and financial information periodically to ASEP, in compliance with the technical quality standards, (quality standards, metering standards and operation regulations from the Centro Nacional de Despacho “CND”), the payment of the control, surveillance and oversight of the ASEP, which cannot be transferred to the users through the rate.

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

1.4 External Audit

According to the contents of the Code of Good Corporate Governance, the external audit is established as a control mechanism, whose purpose is to audit the consolidated financial statements and accounting policies in accordance with the International Financial Reporting Standards - IFRS, as well as the rendering of an independent opinion regarding the reasonableness with which they indicate the consolidated financial situation of the Group at the end of each accounting period.

(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 2.20.

Certain comparative amounts in the consolidated statement of income and other comprehensive income have been re-expressed or reclassified as a result of a change in the accounting policy or a correction of an error in the previous period (see note 2.20).

3.1 Basis for the preparation of the financial statements

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

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

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

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

The financial statements are expressed in Balboas, the monetary unit of the Republic of Panama, in which the Company is incorporated and operates, and their figures are expressed in units. As at December 31, 2018 and for the year ended on that date, the Balboa has been maintained at the same par value of the US dollar, which circulates freely

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

in Panama. The Republic of Panama does not issue paper money and instead uses the dollar as legal tender.

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.

The control is obtained when the Company 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 has the ability to use its power over the subsidiary to influence their performance.

The financial statements of the subsidiary are prepared under the Company'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 Company obtains control over the subsidiary and ends when the Company 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 Company obtains control until the date on which it no longer controls the subsidiary.

When the Company 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 Company does not have an unconditional right to defer its settlement for at least one year after the reporting period. Other liabilities are classified as non-current liabilities.

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

2.4 Cash and bank balances

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

2.5 Revenue from ordinary activities from contracts with customers

The Company has initially applied IFRS 15 from 1 January 2018. Information about the Company's accounting policies and the effect of its initial application relating to contracts with customers is provided in Note 2.19.2.

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 is 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 Company subject to taxes, rates, and contributions. Obligations arise from the Nation, municipal entities, and other active subjects, once the conditions stipulated in the issued relevant standards are met.

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

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

2.8.1 Income Tax

2.8.1.1 Current

Current assets and liabilities for the income tax of the period are measured by the values that are expected to be recovered or paid to the tax authority. Income tax expense is recognized in the current tax in accordance with the streamlining carried out between tax revenues and the income or accounting loss affected by the income tax rate in compliance with the tax regulations of the country. Rates and fiscal regulations used to compute these values are those that are enacted or substantially approved at the end of the reporting period.

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

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

2.8.1.2 Deferred

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

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

Deferred tax assets and liabilities are measured at the tax rates expected to be applied in the period in which the asset is realized, or liabilities are cancelled and considering future tax consequences based on rates and tax rules that were approved at the filing date, or whose approval procedure is near to be completed at such date.

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

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

Deferred Tax assets and liabilities for income tax are also offset if they relate to the same tax authority and it is intended to settle them by the net value or to realize the asset and settle the liability simultaneously.

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

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

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 Company, borrowing costs of projects under construction that take a substantial period to be completed, if the requirements for recognition and the present value of the cost expected for dismantling the asset after being use are complied with and if the criteria for recognition for a provision are met.

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

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

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

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

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:

	<u>Useful life estimated in years</u>
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.

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.

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

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

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 each end of year, if 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.

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 Lessee

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

2.10.2 ENSA as Lessor

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

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

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

deducted from borrowing costs eligible for capitalization. All other costs on loans are recorded as expenses in the period in which they are incurred. Loan costs consist of interest and other costs incurred by the Company in relation to the borrowing of funds.

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

2.12 *Investment Property*

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

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

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

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 taken into account 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 carrying value is recorded as a revaluation which is recognized in Equity.

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 and any accumulated loss due to a drop-in value. Internally generated intangible assets, are capitalized if they meet the criteria for recognition as an asset and the generation of the asset should be classified in: research phase and development phase; if it is not possible to distinguish between the research phase from the development phase, disbursements should be reflected in the statement of profit or loss and other comprehensive loss in the period in which they were incurred.

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

The useful lives of intangible assets are:

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

Intangible assets with finite useful lives are amortized over their useful economic life in a linear manner and are evaluated to determine if they had any deterioration in value, provided there are indications that the intangible asset might have suffered such damage. The amortization period and the amortization method for an intangible asset with a finite life is reviewed at least at the end of each period. The changes in the expected useful life or in the expected consumption pattern of future economic benefits of the asset are accounted for by changing the period or depreciation method, accordingly, and are treated as changes in accounting estimates. The depreciation expense of intangible assets with finite useful lives is recognized in the statement of profit and loss and other comprehensive loss of the period in the expenditure item line that is consistent with the function of the intangible asset.

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

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

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

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

2.13.1 Other Intangible assets

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 Company can demonstrate:

- The technical feasibility of finalizing the intangible asset so that it is available for use or sale.
- The Company'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 Company.
- 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.

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.

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

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 Company are measured at cost less any accumulated depreciation and any impairment loss.

2.14 Financial Instruments

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

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

2.14.1 Financial Assets

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

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

The Company 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 Company'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 in order to obtain the contractual cash flows and the contractual

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

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 Company 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*

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 Company first assesses 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, accounts receivable is grouped by similar credit risk characteristics, which allow identifying the debtor's payment capacity, in accordance with the contractual terms of negotiation of the account receivable. The Group uses the expected credit loss method (ECL) called collectivity cascade to determine impairment losses.

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

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

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

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

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

2.14.3 *Financial Liabilities*

The Company 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 Company did not designate financial liabilities as at fair value through profit or loss.

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

2.14.4 Write offs of Financial Assets & 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 Company loses control over the contractual rights or on the cash flows of the instrument.

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

On a write off 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 Company retains an option to repurchase part of a transferred asset), the Company allocates the previous carrying value of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes based on the relative fair values of those parts on the date of the transfer.

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

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

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

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

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

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

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

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

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

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

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

2.17 Provisions

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

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 quoted by the market, as well as the specific risk of the corresponding liability. The reversion of the discount is recognized as financial cost.

2.17.1 Provision for dismantling

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

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

The future estimated costs for dismantling or restoration are reviewed annually. The changes in the estimated costs of the future, in the estimated dates of the disbursements or in the applied discount rate are added to or deducted from the cost of the asset, without exceeding the carrying value of the asset, any excess is immediately recognized in the result of the period. The change in the value of the provision associated with the passage of time is recognized as a financial expense in the statement of profit or loss and other comprehensive 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 Company, or present obligations arising from past events, but that it is not probable, but possible, that an outflow of resources that include economic benefits be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability, are not recognized in the statement of financial position, but instead are revealed as contingent liabilities.

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

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

2.17 *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

2.18.2 Defined benefits plans

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

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

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

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

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

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

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

The Company recognizes the short-term benefits at the moment in which the employee has rendered his services as 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 Company 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.

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

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

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

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

The Company recognizes as benefits for termination, the considerations granted to employees, payable as a result of the company'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.

2.18 Fair Value

Fair value is the price that would be received upon selling an asset or would be paid when transferring a liability in an orderly transaction between market participants to the measurement date, irrespective of whether the price is directly observable or estimated using another valuation technique. When estimating the fair value of an asset or a liability, the Company considers the characteristics of the asset or liability if market participants consider these characteristics when assessing the asset or liability to the measurement date. The fair value for purposes of measurement and/or disclosure in these financial statements is determined on that basis, except for the share-based payment transactions, lease transactions and the measurements that have certain similarities with the fair value but that are not fair value, as the realizable value or the value in use. The fair value of all financial assets and liabilities is determined at the date of presentation of the financial statements, for recognition or disclosure in the notes to the 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 Company can access on the date of the measurement (level 1).
- Based on valuation techniques commonly used by market participants that use different variables than those of the quoted prices that are observable for assets or liabilities, directly or indirectly (level 2).
- Based on internal valuation techniques of discounted cash flows or other valuation models, using non-observable estimated variables by the Company for the asset or liability, in the absence of variables observed in the market (level 3).

In Note 29 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.

2.19 Changes in estimates, accounting policies and errors

2.19.1 Changes in accounting estimates

As of 31st December,2018, the Company revised its accounting estimates, with no significant change in the current or future period. There are no significant changes in accounting estimates to report.

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

2.19.2 Changes in Accounting Policies

In the current year, the Group has implemented the changes to IFRS 9 and 15, issued by the International Accounting Standards Board (IASB), which are mandatory for the accounting period that began on January 1, 2018.

IFRS 9 - Financial Instruments

In 2018 the Group applied IFRS 9 Financial Instruments (revised in July 2014) and the corresponding amendments to other IFRS standards before its effective dates.

IFRS 9 introduces new requirements for: the classification and measurement of financial assets, impairment of financial assets and hedge accounting. The detail of these new requirements, as well as their impact on the consolidated financial statements are described below:

- Classification and measurement of financial assets: the standard introduces a measurement category for debt instruments called "Fair value with changes in other comprehensive income or loss". The Company had no impact from this new approach.
- Impairment of financial assets: the standard introduces the measurement of the value correction for expected credit losses (ECL) on financial assets that are measured at amortized cost or at fair value with changes in other comprehensive income or loss, accounts receivable for leases, contract assets or a loan commitment and financial guarantee contract to which the value impairment requirements are applied during the life of the asset.
- Changes in policies resulting from the adoption of IFRS 9 were not re-expressed, in which case the accumulated difference in the provision for losses recognized in terms of IFRS 9 was charged against retained earnings as of January 1, 2018
- The impairment due to additional credit losses of B / .7,695,243 as of January 1, 2018 has been recognized, net of its related deferred tax impact of B / .2,308,573, resulting in a net decrease in accumulated results of B / .5,386,670 to the January 1, 2017 • As a result of the adoption of IFRS 9, the Company adopted the consequential amendments to IAS 1 Presentation of financial statements, which require that the impairment of financial assets be presented in a separate line in the consolidated statement of income and other comprehensive income.
- Hedge accounting: the standard introduces a substantially reformed approach to hedge accounting that aligns it more closely with risk management. The Company had no impact from this new approach, because it does not apply hedge accounting.

The impact, net of taxes, of the transition to IFRS 9 on the initial balance of the accumulated earnings as of January 1, 2018 is summarized below:

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

<u>Accumulated earnings</u>	<u>Note</u>	<u>Impact of adopting IFRS 9 on the beginning balance</u>
Recognition of expected credit losses (ECL) under IFRS 9	8	5,386,670

IFRS 15 – Revenue from Contracts with Customers

A new standard issued on May 2014 is to all revenue agreements from ordinary activities arising from contracts with customers, except for leases, financial instruments and insurance contracts that are regulated by their respective standard.

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

a. Identification of the action as principal or agent:

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

b. Variable consideration:

It is any amount that is variable according to the contract. The amount of the consideration may vary due to discounts, refunds, compensations, reimbursements, credits, price reductions, incentives, performance bonuses, penalties or other similar elements. The agreed compensation may also vary if the right of an entity to receive it depends on whether or not a future event occurs. For example, a consideration amount would be variable if a product with a right of return was sold or a fixed amount is promised as a performance premium at the time of achieving a specified milestone.

c. Application methods:

The standard allows the use of two methods for initial application as well: full retrospective method and the modified method. The Company decided to adopt and apply the modified retrospective method.

Modified retrospective method:

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

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

December 31 as the end of the year). Consequently, the information presented for 2017 has not been re-expressed and continues to be reported in accordance with IAS 18, IAS 11 and related interpretations. In general, the disclosure requirements of IFRS 15 have not been applied to comparative information.

The Group completed its qualitative and quantitative analysis of the impacts of the adoption of IFRS 15 in its consolidated financial statements. The evaluation included, among others, the following activities:

- Analysis of contracts with clients and their main characteristics,
- Identification of performance obligations in the aforementioned contracts,
- Determination of the prices of transactions and the effects caused by variable considerations,
- Assignment of transaction amounts to each performance obligation,
- Analysis of the appropriateness of the moment in which the income must be recognized by the Company either at a point in time or during the time.
- Analysis of the impacts that the adoption of IFRS 15 originated in accounting policies, processes and internal control.
- For submission periods that include the initial application date, an entity shall provide all of the following additional disclosure information:

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

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

(b) An explanation of the reasons for the significant changes identified.

This new Standard aims to improve the inconsistencies and weaknesses of IAS 18 and provide a model that will facilitate the comparability of companies from different industries and regions. It provides a new model for the recognition of more detailed income and requirements for contracts with multiple elements. In addition, it requires more detailed disclosures.

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

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

An entity recognizes revenues from ordinary activities in accordance with basic principle by applying the following steps:

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

Stage 2: Identify performance obligations in the contract

Stage 3: Determine the price of the transaction

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

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

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

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

The Company applied the new standard as of January 1, 2018 with special emphasis on the identification of performance obligations included in contracts with customers and the evaluation of methods to estimate the amount and timing of variable consideration.

The following table summarizes the impact of the transition to IFRS 15 on the consolidated statement of income and other comprehensive income as of December 31, 2018:

	Impact of the adopting IFRS 15 as on 31st December 2018
Reclassification of cost for rendering services to income from ordinary activities	<u>(2,986,610)</u>

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

This reclassification corresponds to the fact that previously the compensations to customers for penalties imposed on the Company were recorded as expenses, and as a result of the adoption of IFRS 15, they are recorded in income from ordinary activities.

Performance Obligations and Revenue Recognition policies.

Revenues from the provision of services in the distribution and commercialization of electric power are measured based on the consideration specified in the contract with the client. The Company recognizes revenues when it transfers control over a service to a customer.

The following table presents information on the nature and timing of satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Types of Services	Nature and opportunity in which performance obligations are met, including significant payment terms	Recognition of Revenue under IFRS 15 (applicable as of January 1, 2018)	Recognition of Revenue under IAS 18 / IAS 11 (applicable before January 1, 2018)
Distribution and commercialization of electric power	<p>The Company recognizes income from the provision of energy distribution and commercialization services, as well as the provision of technical, commercial and any other services complementary to the provision of the public service.</p> <p>Revenues are measured at the fair value of the consideration received or receivable, excluding taxes or any other obligations. The discounts, compensations to the client for the quality of the service and financial components that are granted, are registered as the lower value of the income. Only the financing component is recognized when it is significant as the lower value of income, as long as the contract with customers lasts more than one year.</p>	<p>Revenue recognized when the service is provided or at the time of the delivery of goods, to the extent that the economic benefits are likely to enter the Company and the revenues can be measured reliably.</p>	<p>These revenues were recognized when the service is provided or at the time of the delivery of goods, to the extent that the economic benefits are likely to enter the Company and the revenues can be measured reliably.</p>
Construction Contracts	<p>The Company provides construction services to certain customers for the adaptation of electricity distribution networks. The expiration of these contracts normally does not exceed twenty-four (24) months</p>	<p>Revenue is recognized over time based on the resource method.</p> <ul style="list-style-type: none"> The resource method recognizes revenues from ordinary activities based on the efforts or resources of the entity to satisfy the performance obligation (for example, resources consumed, labor hours spent, costs incurred, time elapsed or hours of work). machinery used) in relation to the total resources expected to satisfy said performance obligation. 	<p>When the results of the contract can be reliably measured, the Company recognizes the income and expenses associated with construction contracts using the advancement method, based on the proportion represented by the costs accrued for the work performed to date and the total estimated costs until its completion.</p> <p>The cost incurred included the costs, including costs for loans, directly related to the contract, until the work had been completed.</p>

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

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

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

Standard	Mandatory Applications date	Type of Change
IFRS 17 Insurance Contract	1st January, 2021	New
IFRIC 23 Uncertainty regarding the Treatment of Income Taxes	1st January, 2019	New
IFRS 16 - Leases	1st January, 2019	New
IAS 28 -Investments in associates and joint ventures (Long Term Participations in Associates and Joint Ventures)	1st January, 2019	Modification
IFRS 9 -Financial instruments - (Characteristics of Early Cancellation with Negative Compensation)	1st January, 2019	Modification
IFRS 3 Business Combinations (Annual Improvements to IFRS Standards Cycle 2015-2017 - Interest previously maintained in a joint operation when business control is obtained)	1st January, 2019	Modification
IFRS 11 Joint agreements (Annual Improvements to IFRS Standards 2015-2017 Cycle - Interest previously maintained in a joint operation when joint control is obtained)	1st January, 2019	Modification
IAS 12 Income Tax (Annual Improvements to IFRS Standards Cycle 2015-2017 - Consequences of income tax, of payments in financial instruments classified as equity)	1st January, 2019	Modification
IAS 19 - Benefits to employees - Modification, Reduction or Liquidation of the Plan	1st January, 2019	Modification
IFRS 3 - Business Combinations - Modification, Definition of a Business	1st January, 2020	Modification
IAS 1 - Presentation of financial statements and IAS 8 - Accounting policies, changes in accounting estimates and errors - Modification, Definition of Materiality	1st January, 2020	Modification

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

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 were allowed to 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 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 anticipated if IFRS 9 and IFRS 15 are applied. The Company does not anticipate that the application of this Standard will have any effect on its consolidated financial statements.

IFRIC 23 the uncertainty regarding the treatment of income tax.

Issued in June 2017, this Interpretation attempts to solve the problem of how to reflect in the financial statements, the uncertainty that arises from an accounting treatment applied in the tax returns, whether or not it is accepted by the tax authority. In the face of such uncertainty, the accounting treatment is considered an "uncertain accounting treatment" to which it is evaluated whether or not it is probable that the tax authority accepts it.

If accepted, the accounting tax position is consistent with the tax treatment used or planned to be used in the income tax returns of the entity must be determined and if not, the effect of the uncertainty in the determination of the related accounting tax position. In the latter case, the effect of the uncertainty must be estimated, using either the most probable quantity or the expected value method, depending on which method best predicts the solution of the uncertainty.

The Interpretation allows to apply any of the following approaches for the transition: • Full retrospective approach: this approach can be only be used without the use of hindsight. The application of the new Interpretation will be accounted for in accordance with IAS 8, which means that the comparative information will have to be re-expressed; or

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

- Modified retrospective approach: the re-expression of comparative information is not required or allowed according to this approach. The cumulative effect of initially applying the Interpretation will be recognized in the opening equity at the date of initial application, the beginning of the annual reporting period in which the entity applies the Interpretation for the first time.

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

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

IFRS 16 Leases. Issued in January 2016, this new standard introduces an integral model for the identification of lease agreements and accounting treatments for Property owners and tenants. It will replace the current standards for the accounting treatment of leases included in IAS 17 Leases and related interpretations, such as IFRIC 4, Determination of whether an agreement contains a lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluation of the essence of transactions that take the legal form of a lease.

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

The asset (right of use) is initially measured at cost and subsequently measured at cost (with certain exceptions) minus accumulated depreciation and impairment losses, adjusted for any reassessment of the lease liability. The lease liability is initially measured by the present value of future lease payments. Subsequently, the lease liability is adjusted to the interest and lease payments, as well as the impact of the lease modifications, among others. In addition, the classification of cash flows will also be affected since operating lease payments under IAS 17 are presented as operating cash flows; while in the IFRS 16 model, the lease payments will be divided into capital amortization and a portion of interest that will be presented as cash flow from financing and operation, respectively.

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

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

The Company during 2018 constructed the guidelines, the financial technical definitions and made the identification of impacts by the adoption of said standard in all fronts: processes, technology and people; In addition, an analysis was made of all the contracts that the Company has to identify those that were impacted.

The Company p will have an approximate impact on recognition of assets for right of use and lease liabilities of B / .1,685,397, measured at the present value of the remaining charges for those contracts that were classified in accordance with IAS 17 in operating leases, discounted using an incremental interest rate on the loans; it also includes the updating of assets and liabilities for financial leases. For the latter, the asset recognized in property, plant and equipment will be reclassified to the asset by right of use.

The Company will adopt the standard using the modified retrospective approach with the recognition of the cumulative effect in the accumulated earnings as of January 1, 2019, without making a comparative presentation of the financial statements prior to the application date.

Short-term leases that do not exceed 12 months or that correspond to low-value underlying assets will not be recognized as right-of-use assets, in exchange, the Company will use the practical records and recognize said leases in the consolidated statement of income and other comprehensive results.

IAS 28 Investments in associates and joint ventures - Long-term investments in associates and joint ventures. In the amendment to IAS 28, issued in October 2017, it is established that IFRS 9 must be applied to other financial instruments in associates or joint ventures to which the equity method is not applied. These include long-term interests that, in essence, form part of the entity's net investment in an associate or joint venture. The modifications will be of obligatory application for the annual periods that begin as of January 1, 2019. Its early application is allowed.

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

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

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

Modifications will be mandatory for annual periods beginning on or after January 1, 2019.

IFRS 3 - Business combinations. The amendment to IFRS 3, which is part of the annual improvements to IFRS Cycle 2015-2017 regulations issued in December 2017, establishes that when control is obtained of a business where previously it was part of a joint operation and was entitled to Assets and liabilities for liabilities relating to that joint operation before the acquisition date, the transaction is a business combination carried out in stages and the interest previously held in the joint operation must be remeasured.

These modifications have no material impact on the financial statements.

The modifications will be of obligatory application for the annual periods that begin as of January 1, 2019. Its early application is allowed.

IFRS 11 Joint agreements. The amendment to IFRS 11, which forms part of the annual improvements to the IFRS 2015-2017 Cycle Standards issued in December 2017, establishes that when joint control of a business is obtained where previously it was part of a joint operation but did not have joint control, the interest previously held in the joint operation should not be measured again.

These modifications have no material impact on the financial statements.

The modifications will be of obligatory application for the annual periods that begin as of January 1, 2019. Its early application is allowed.

IAS 12 Income Tax on Earnings. The amendment to IAS 12, which is part of the annual improvements to the IFRS 2015-2017 cycle rules issued in December 2017, clarifies that all the consequences of income tax on dividends (distribution of benefits) must be recognized in the statement of profit or loss and other comprehensive income or equity, depending on the initial recognition of the transaction.

Specifically, it establishes that an entity will recognize the consequences of the dividend income tax as defined in IFRS 9 when it recognizes a liability to pay a dividend. The consequences of income tax on dividends are more directly linked to past transactions or events that generated distributable profits, than to distributions made to owners. Therefore, an entity recognizes the consequences of dividends on income tax in profit or loss, other comprehensive income or equity depending on where the entity originally recognized those transactions or past events.

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

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

Modifications will be mandatory for annual periods beginning on or after January 1, 2019. Its early application is allowed.

IAS 19 - Benefits to employees - Modification, Reduction or Liquidation of the Plan. For the accounting of current or current service cost, both for the components of the defined benefit cost, and for the recognition and measurement of post-employment benefits - defined benefit plans and for other long-term employee benefits, it will require actuarial assumptions to be made at the beginning of the annual reporting period to determine the cost of current services. However, if an entity measures again the liability (asset) for net defined benefits in accordance with the current fair value of the assets of the plan and the current actuarial assumptions (paragraph 99), it will determine the cost of the services of the present period for the year. The remainder of the annual reporting period after the modification, reduction or liquidation of the plan, using the actuarial assumptions used to measure again the liability (asset) for defined benefits in accordance with paragraph 99 (b) - the benefits offered according to the plan and assets of the plan after the modification, reduction or liquidation of the plan. When a modification, reduction or liquidation of a plan takes place, an entity shall recognize and measure the cost of the past service, or a gain or loss from the liquidation.

Regarding the net interest on the net defined benefit (asset) liability, this will be determined by multiplying the amount of this liability (asset) by the specified discount rate, that is, the one corresponding to the bond issues or high corporate obligations. quality in that currency or, in absence of that, the market yields of government bonds denominated in that currency.

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

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

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 acquisition of assets. The new business definition is as follows: Integrated set of activities and assets that can be managed and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities.

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

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. It eliminates the assessment of whether market participants are able to replace any missing inputs or processes and continue to produce products and includes an optional concentration test that allows a simplified assessment of whether an acquired set of activities, and assets is not a business.

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

The amendment to IFRS 3 will be mandatory for annual periods beginning on or after January 1, 2020. Early application is permitted.

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

The amendment to IAS 1 and IAS 8 will be mandatory for annual periods beginning on or after January 1, 2020. Early application is permitted.

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

2.20 Changes in accounting policies, reclassifications and correction of errors

During the year ended December 31, 2018, the Administration identified transaction records in the consolidated financial statements at and for the year ended December 31, 2017 whose accounting treatment and / or financial presentation were not adequate, so it was necessary to re-express and / or reclassify retrospectively the financial statements previously reported for said years. A detail of the identified issues is shown below:

Consolidated statement of financial position:

(a) Correction of Errors

(a) Inventories balances of B /1,635,511 (2016: B /1,546,404) presented as current assets in the statement of financial position as of December 31, 2017, were reclassified to non-current assets to be presented correctly according to its use.

(b) The balances of tax liabilities related to debit balances of regulatory accounts deferred for B /4,910,429 (2016: B /1,580,948) presented as liabilities in the statement of financial position as of December 31, 2017, were reclassified to the assets to be presented net of the debit balances of deferred regulatory accounts in accordance with IFRS 14.

(c) The balances of creditors and other accounts payable for B /44,559,159 (2016: B /33,542,250) presented as current liabilities in the statement of financial position as of December 31, 2017, were reclassified to non-current liabilities to be correctly presented according with its expiration.

(d) The balances of other liabilities for B /182,180 (2016: B /191,389) presented as non-current liabilities in the statement of financial position as of December 31, 2017, were reclassified to current liabilities to be presented correctly in accordance with its expiration.

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

(In balboas)

<u>Consolidated statement of financial position</u>	<u>Balance at 31/12/2017 previously Reported</u>	<u>Impact for the incorporation for the reclassifications</u>	<u>Balance re-expressed on 31/12/2017</u>	<u>Balance on al 31/12/2016 previously reported</u>	<u>Impact for the incorporation for the reclassifications</u>	<u>Balance re-expressed on 31/12/2016</u>
Assets						
Non-current assets						
Property, plant and equipment, net	502,455,031	0	502,455,031	473,144,961	0	473,144,961
Investment properties	3,162,609	0	3,162,609	2,480,209	0	2,480,209
Other intangible assets	19,875,032	0	19,875,032	20,442,389	0	20,442,389
Inventories	0	1,635,511 (a)	1,635,511	0	1,546,404 (a)	1,546,404
Commercial debts and other accounts receivable	9,700,000	0	9,700,000	9,700,000	0	9,700,000
Deferred tax assets	2,813,876	0	2,813,876	1,698,740	0	1,698,740
Benefits to employees	0	0	0	172,499	0	172,499
Other assets	679,162	0	679,162	625,407	0	625,407
Total non-current assets	<u>538,685,710</u>	<u>1,635,511</u>	<u>540,321,221</u>	<u>508,264,205</u>	<u>1,546,404</u>	<u>509,810,609</u>
Current assets						
Inventories	18,624,213	(1,635,511) (a)	16,988,702	22,931,180	(1,546,404) (a)	21,384,776
Commercial debts and other accounts receivable	107,693,795	0	107,693,795	96,228,584	0	96,228,584
Assets for current income tax	0	0	0	7,653,094	0	7,653,094
Other assets	800,384	0	800,384	559,150	0	559,150
Cash	4,558,153	0	4,558,153	3,620,659	0	3,620,659
Total current assets	<u>131,676,545</u>	<u>(1,635,511)</u>	<u>130,041,034</u>	<u>130,992,667</u>	<u>(1,546,404)</u>	<u>129,446,263</u>
Total assets	<u>670,362,255</u>	<u>0</u>	<u>670,362,255</u>	<u>639,256,872</u>	<u>0</u>	<u>639,256,872</u>
Deferred regulatory account debit balances	16,368,097	0	16,368,097	5,269,828	0	5,269,828
Deferred tax liabilities related to balances of deferred regulatory accounts	-	(4,910,429) (b)	(4,910,429)	-	(1,580,948) (b)	(1,580,948)
Total assets and balances debit from deferred regulatory accounts	<u>686,730,352</u>	<u>(4,910,429)</u>	<u>681,819,923</u>	<u>644,526,700</u>	<u>(1,580,948)</u>	<u>642,945,752</u>

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

(In balboas)

Consolidated statement of financial position	Balance at 31/12/2017 previously Reported	Impact for the incorporation for the reclassifications	Balance re-expressed on 31/12/2017	Balance on al 31/12/2016 previously reported	Impact for the incorporation for the reclassifications	Balance re-expressed on 31/12/2016
Equity & Liabilities						
Equity						
Issued Capital	106,642,962	0	106,642,962	106,642,962	0	106,642,962
Treasury Shares	(544,087)	0	(544,087)	(544,087)	0	(544,087)
Accumulated Other comprehensive income (loss)	(586,915)	0	(586,915)	(416,369)	0	(416,369)
Accumulated Earnings	25,743,192	0	25,743,192	8,658,399	0	8,658,399
Accumulated Earnings for the period	32,390,063	0	32,390,063	32,164,937	0	32,164,937
Total Equity	<u>163,645,215</u>	<u>0</u>	<u>163,645,215</u>	<u>146,505,842</u>	<u>0</u>	<u>146,505,842</u>
Non-Current Liabilities						
Loans payable & credits	181,424,837	0	181,424,837	201,247,440	0	201,247,440
Creditors and other accounts payables	15,145,420	44,559,159	(c) 59,704,579	15,509,763	33,542,250	(c) 49,052,013
Employee Benefits	626,448	0	626,448	382,375	0	382,375
Provisions	0	0	0	0	0	0
Other Liabilities	2,621,402	(182,180)	(d) 2,439,222	2,812,791	(191,389)	(d) 2,621,402
Total Non-Current Liabilities	<u>199,818,107</u>	<u>44,376,979</u>	<u>244,195,086</u>	<u>219,952,369</u>	<u>33,350,861</u>	<u>253,303,230</u>
Current Liabilities						
Loans payable & credits	128,000,000	0	128,000,000	82,000,000	0	82,000,000
Creditors and other accounts payables	181,034,949	(44,559,159)	(c) 136,475,790	189,427,518	(33,542,250)	(c) 155,885,268
Employee Benefits	37,840	0	37,840	38,839	0	38,839
Income taxes Payable	4,003,087	0	4,003,087	0	0	0
Provisions	5,280,725	0	5,280,725	5,021,184	0	5,021,184
Other Liabilities	0	182,180	(d) 182,180	0	191,389	(d) 191,389
Total Current Liabilities	<u>318,356,601</u>	<u>(44,376,979)</u>	<u>273,979,622</u>	<u>276,487,541</u>	<u>(33,350,861)</u>	<u>243,136,680</u>
Total de Liabilities	<u>518,174,708</u>	<u>0</u>	<u>518,174,708</u>	<u>496,439,910</u>	<u>0</u>	<u>496,439,910</u>
Liability on deferred taxes on balances of deferred regulator accounts.						
	4,910,429	(4,910,429)	(b) 0	1,580,948	(1,580,948)	(b) 0
Total de Liabilities and credit balances on deferred regulatory accounts.	<u>523,085,137</u>	<u>0</u>	<u>0</u>	<u>498,020,858</u>	<u>0</u>	<u>0</u>
Total Equity & Liability	<u>686,730,352</u>	<u>(4,910,429)</u>	<u>681,819,923</u>	<u>644,526,700</u>	<u>(1,580,948)</u>	<u>642,945,752</u>

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

(In balboas)

Consolidated statement of income and other comprehensive income:

(i) Reclassification and Corrections of errors

Corrections of errors

(a) Revenue from deferred regulatory accounts of B / .11,098,269 presented as part of the costs for service rendering and sale of assets in the statement of income and other comprehensive income as of December 31, 2017, were reclassified to be presented separately from the net income for the period as a net movement in the balances of net regulatory accounts related to gains and losses in accordance with IFRS 14.

(b) The deferred income tax expense generated by the debit balances of deferred regulatory accounts of B / .3,329,481 presented as part of the income tax in the statement of income and other comprehensive income as of December 31, 2017, were reclassified to be presented separately from the net income of the period as a net movement in the deferred tax that arises from balances of regulatory accounts related to gains and losses in accordance with IFRS 14.

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

(i) Reclassification

(a) Bank charges of B /.376,388 presented as part of the administrative expenses in the statement of income and other comprehensive income as of December 31, 2017, were reclassified to be properly presented as financial expenses.

(b) Other income of B /.1,750,027 presented as part of income from ordinary activities in the statement of income and other comprehensive income as of December 31, 2017, were reclassified to be properly presented as other income from ordinary activities.

<u>Statement of Profit or Loss and other comprehensive income</u>	<u>Balance at 31/12/2017 previously Reported</u>	<u>Impact for the incorporation for the reclassifications</u>	<u>Balance re-expressed on 31/12/2017</u>
Provision of services	626,795,596	0	626,795,596
Sale of Assets	0	0	0
Other Income	10,050,522	(1,750,027) (h)	8,300,495
Total Revenue from ordinary activities	635,096,091	0	635,096,091
Other income	0	1,750,027 (h)	1,750,027
Total of Income	636,846,118	0	636,846,118
Cost for provision of services and sale of assets	549,466,339	11,098,262 (e)	560,564,601
Administrative Expenses	21,736,506	(376,381) (g)	21,360,125
Impairment of Accounts Receivable	2,628,232	0	2,628,232
Other Expenses	2,440,461	0	2,440,461
Financial income	156,775	0	156,775
Financial Expenses	14,424,365	376,388 (g)	14,800,753
Earning for the period before taxes	46,306,990	11,098,269	35,208,721
Income Tax	13,916,927	(3,329,481) (f)	10,587,446
Net Profit for the year before the net movement on balance of deferred regulatory accounts.	32,390,063	7,768,788	24,621,275
Net movement on the balance of net deferred regulatory accounts.			
Related to profit or loss	0	(11,098,269) (e)	11,098,269
Net movement on the deferred tax that comes from the balance of deferred regulatory accounts related to profit or loss.	0	3,329,481 (f)	3,329,481
Net Profit for the year and the net movement of balances of deferred regulatory accounts.	32,390,063	0	32,390,063
Other comprehensive income net of taxes			
Amounts that Will not be reclassified before the net profit of loss of the year			
New measurements on defined Benefit plans	(243,637)	0	(243,637)
Income tax on the items that will not be reclassified.	73,091	0	73,091
Other Comprehensive income net of taxes	(170,546)	0	(170,546)
Total Profit & Loss and other comprehensive income - year	32,219,517	0	32,219,517

Consolidated statement of cash flows:

Changes in the accounting policies, reclassifications and correction of errors

- (i) Change in accounting policy During the 2018 period, the Company voluntarily changed its accounting policy for the presentation of interest paid in the consolidated statement of cash flows, in order to be consistent with the policy of presentation of its Head Office. The interest paid that was part of the financing activities has been reclassified as operating activities in the consolidated statement of cash flows.

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

- (a) Interest paid for B /.14,591,235, presented as cash flows from financing activities in the consolidated statement of cash flows as of December 31, 2017, were reclassified as part of operating activities.
- (ii) Reclassifications
- (b) Changes in non-current inventories for B /.89,107 presented as cash flows from operating activities in the statement of cash flows as of December 31, 2017, were reclassified to present them as net cash flows originated by activities of investment according to its use.
- (iii) Bug fixes
- (c) Changes in deferred regulatory accounts for B /.11,098,269 presented within the changes in cash flows from operating activities in the statement of cash flows as of December 31, 2017, were reclassified to present them separately as net cash flows. originated by activities of the operation and net changes in balances of deferred regulatory accounts in accordance with IFRS 14.
- (d) The balances of acquisition, construction of properties, plant and equipment and intangibles for B /.3,926,879 presented as cash flows from operating activities in the statement of cash flows as of December 31, 2017, were reclassified to present them adequately. as net cash flows originated by investment activities.

	Balance at 31/12/2017 previously Reported	Impact for the incorporation for the reclassifications		Balance re-expressed on 31/12/2017
Net cash flows originated by operating activities before net changes in balances of deferred regulatory accounts	63,061,479	(14,591,235)	(i)	63,584,499
		11,098,269	(k)	0
		89,107	(j)	0
		3,926,879	(l)	
Changes in deferred regulatory accounts	0	(11,098,269)	(k)	(11,098,269)
Net cash flows from operating activities and net changes in balances of deferred regulatory accounts	63,061,479	(10,575,249)		52,486,230
Net cash flows used for investment activities	(58,452,606)	(89,107)	(j)	
		(3,926,879)	(l)	62,468,592
Net cash flows originated (used) by financing activities	(3,671,379)	14,591,235	(i)	10,919,856
Net increase in Cash	937,494	0		937,494
Cash at the beginning of the period	3,620,659	0		3,620,659
Cash at the end of the Period	4,558,153	0		4,558,153

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

2.20 Deferred Regulatory accounts

The Company through ENSA, is subject to regulation by (ASEP) (Autoridad Nacional de los Servicios Públicos). This entity is in charge of regulating and establishing the rates that the Company 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 Company 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 Company 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 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.

2.21 Segment Information

An operating segment is a component of the Company 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 Company. All operating results of the operating segments are reviewed regularly by the Chief Executive of the Company 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 Company's Chief Executive Officer include elements directly attributable to a segment, as well as those that can be reasonably assigned.

(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 Company's Management used in the implementation of accounting policies under IFRS, and which have a significant effect on the values recognized in the financial statements.

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

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

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

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 comprehensive loss.

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

At each presentation date, the status of the assets is reviewed to determine if there are indications that one has suffered an impairment loss. If there is an 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 other comprehensive income.

The evaluation of the existence of indicators of impairment of value is based on external and internal factors, and also on quantitative and qualitative factors. Evaluations are based on financial results, the legal, social and environmental environment and market conditions; significant changes in the scope or manner in which the asset or cash-generating unit (CGU) in which the asset operates is used or expected to be used and evidence of 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,

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

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 Company of similar cases, the study and analysis of the substance of the matter, the existing guarantees at the time of the occurrence of the events. The Company will disclose, but 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 withdrawal of assets

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

3.6 Determination of the impairment of Portfolios

By adopting IFRS 9, the expected credit loss method (ECL) is used to calculate portfolio impairment, with which a probability is assigned collectively according to the type of portfolio and the actual historical behavior. The model calculates an annual historical loss based on the default definition for each type of portfolio, which is related to a macroeconomic data of the country's gross domestic product growth looking for a correlation with the historical behavior of the loss of the portfolio. The Company has decided to use as a reference the annual percentage growth rate of the Gross Domestic Product (GDP) at market prices based on US dollars. 2010 constant published by the World Bank. Based on the GDP projection, an expected loss adjustment is calculated, considering the regression of historical losses and the behavior of GDP. This adjustment is applied to the average of the historical loss rate which results from the product of the

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

average displacement of each seniority range. Although the methodology applies to all accounts with a balance, certain exclusions must be taken into account, such as: self-consumption. With this information, the expected loss (PE) calculation is calculated as follows:

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

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

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

$PE = \Sigma (PI \times SE)$, donde:

3.7 The recoverability of deferred tax assets

The deferred tax asset has been generated by the temporary differences, which generate future tax consequences in the consolidated financial situation of the Company. 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 Company is recovered in the net income taxed on the current income tax generated.

(4) Property, Plant & equipment, Net

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

	<u>2018</u>	<u>2017</u>
Cost	787,722,193	735,461,209
Accumulated Depreciation and impairment in value	<u>(254,231,036)</u>	<u>(233,006,178)</u>
Total	<u>533,491,157</u>	<u>502,455,031</u>

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

El movimiento del costo, la depreciación y deterioro de las propiedades, planta y equipo se detalla a continuación:

	<u>Network Lines & Cables</u>	<u>Plants Ducts & Tunnels</u>	<u>Constructions in Progress</u>	<u>Land & buildings</u>	<u>Machinery & Equipment's</u>	<u>Communicationa I & Computer Equipment's</u>	<u>Furniture Fixtures & office equipment's</u>	<u>Other Property plant & equipment</u>	<u>Total</u>
2018									
Beginning Balance Costs	371,649,119	152,831,077	43,553,086	58,840,726	85,951,722	10,549,744	5,377,735	6,708,000	735,461,209
Additions	0	0	62,553,711	0	0	0	0	0	62,553,711
Transfers	21,397,307	17,781,143	(51,636,473)	2,964,181	8,214,341	1,231,848	47,653	0	0
Dispositions & Withdrawals	(3,234,456)	(1,996,688)	0	(525,772)	(4,824,005)	(259,443)	(22,397)	(99,230)	(10,961,991)
Other changes	<u>(366,076)</u>	<u>(224,369)</u>	<u>1,259,709</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>669,264</u>
Final Balance Cost	<u>389,445,894</u>	<u>168,391,163</u>	<u>55,730,033</u>	<u>61,279,135</u>	<u>89,342,058</u>	<u>11,522,149</u>	<u>5,402,991</u>	<u>6,608,770</u>	<u>787,722,193</u>
Accumulated Depreciation									
Beginning Balance Accumulated						5,737,272	1,264,463	3,089,863	233,006,178
Depreciation	123,679,622	65,082,099	0	7,938,389	26,214,470				
Depreciation of the year	13,211,778	5,150,722	0	1,046,397	5,676,484	1,150,419	607,685	579,158	27,422,643
Dispositions & Withdrawals	<u>(2,892,462)</u>	<u>(1,113,494)</u>	<u>0</u>	<u>(16,294)</u>	<u>(1,802,975)</u>	<u>(256,182)</u>	<u>(22,173)</u>	<u>(94,205)</u>	<u>(6,197,785)</u>
Final Balance Accumulated	<u>133,998,938</u>	<u>69,119,327</u>	<u>0</u>	<u>8,968,492</u>	<u>30,087,979</u>	<u>6,631,509</u>	<u>1,849,975</u>	<u>3,574,816</u>	<u>254,231,036</u>
Total final balance Property Plant & Equipment	<u>255,446,956</u>	<u>86,599,836</u>	<u>55,730,033</u>	<u>52,310,643</u>	<u>59,254,079</u>	<u>4,890,640</u>	<u>3,553,016</u>	<u>3,033,954</u>	<u>533,491,157</u>
2017									
Beginning Balance Costs	347,901,215	144,176,643	46,271,489	53,820,362	80,413,357	8,529,060	1,544,143	6,892,857	689,549,126
Additions	0	0	60,589,160	0	0	0	0	0	60,589,160
Transfers	28,158,436	9,004,644	(60,931,760)	6,583,912	10,804,333	2,299,442	3,961,908	119,085	0
Dispositions & Withdrawals	(4,198,001)	0	0	(1,172,240)	(5,265,968)	(278,758)	(128,316)	(249,021)	(11,292,304)
Other changes	<u>(212,531)</u>	<u>(350,210)</u>	<u>(2,375,803)</u>	<u>(391,308)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(54,921)</u>	<u>(3,384,773)</u>
Final Balance Cost	<u>371,649,119</u>	<u>152,831,077</u>	<u>43,553,086</u>	<u>58,840,726</u>	<u>85,951,722</u>	<u>10,549,744</u>	<u>5,377,735</u>	<u>6,708,000</u>	<u>735,461,209</u>
Accumulated Depreciation									
Beginning Balance Accumulated						5,061,356	1,022,477	2,671,173	216,404,165
Depreciation	115,204,193	60,687,335	0	8,188,129	23,569,502				
Depreciation of the year	12,313,989	4,394,764	0	922,500	5,553,695	951,240	364,917	636,381	25,137,486
Dispositions & Withdrawals	<u>(3,838,560)</u>	<u>0</u>	<u>0</u>	<u>(1,172,240)</u>	<u>(2,908,727)</u>	<u>(275,324)</u>	<u>(122,931)</u>	<u>(217,691)</u>	<u>(8,535,473)</u>
Final Balance Accumulated	<u>123,679,622</u>	<u>65,082,099</u>	<u>0</u>	<u>7,938,389</u>	<u>26,214,470</u>	<u>5,737,272</u>	<u>1,264,463</u>	<u>3,089,863</u>	<u>233,006,178</u>
Total final balance Property Plant & Equipment	<u>247,969,497</u>	<u>87,748,978</u>	<u>43,553,086</u>	<u>50,902,337</u>	<u>59,737,252</u>	<u>4,812,472</u>	<u>4,113,272</u>	<u>3,618,137</u>	<u>502,455,031</u>

As of December 31, 2018, an impairment test was carried out on the assets. No signs of impairment in long-lasting assets were identified.

As of December 31, 2018, construction in progress includes capitalization of loan costs of B /.412,444 (2017: B /.637,127), the average rate used to determine the amount of borrowing costs was 6.3244% (2017: 6.3244%), which is the specific effective interest rate of 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:

Project	<u>2018</u>	<u>2017</u>
Sub Stations and High Voltage Lines	8,124,298	14,250,682
Network growth	24,294,829	14,232,578
Other minor projects	13,897,644	8,608,784
Loss reduction and reliability improvements	4,181,577	4,177,047
ASEP special projects	2,193,358	2,283,995
Technology application replacement	<u>3,038,327</u>	<u>0</u>
Total	<u>55,730,033</u>	<u>43,553,086</u>

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

(5) Investment Property

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 29 - Measurement of fair value on a recurring and non-recurring basis (Level 3)

	<u>2018</u>	<u>2017</u>
Beginning Balance	3,162,609	2,480,209
Profit or Loss for Fair value adjustment (Note 20.1)	851,700	291,092
Transfers	<u>0</u>	<u>391,308</u>
Balance at the end of the year	<u>4,014,309</u>	<u>3,162,609</u>

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

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, 2018 is B /.4,014,309 (2017: B /.3,162,609) 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, 2018, of B / 26,100 (2017: B /.29,800) (see note 20.2).

The Company 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 similar to the projects developed by the Company.
- 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.

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

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:

:

<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">• Location factor (2%).• Commercialization factor (between 5% and 15%).• Influence of the extension of the land (between 2% and 15%).• Influence of accessibility (10%).	The estimated fair value would increase (decrease) if: <ul style="list-style-type: none">• The expected growth of the lease quota according to the average inflation rate was higher (lower);• The discount rate adjusted for risk was higher (lower).

(6) Other Intangible assets

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

	<u>2018</u>	<u>2017</u>
Cost	37,311,831	35,011,054
Accumulated Amortization and impairment in value	<u>(17,592,012)</u>	<u>(15,136,022)</u>
Total	<u>19,719,819</u>	<u>19,875,032</u>

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

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

<u>2018</u>	<u>Software & IT Applications</u>	<u>Licenses</u>	<u>Easement Rights</u>	<u>Total</u>
Beginning Balance Cost	23,166,780	10,724,708	1,119,566	35,011,054
Additions	1,065,182	413,222	1,123,771	2,602,175
Dispositions	0	0	(301,398)	(301,398)
Ending Balance Cost	<u>24,231,962</u>	<u>11,137,930</u>	<u>1,941,939</u>	<u>37,311,831</u>
Beginning Balance Accumulated				
Amortization	8,064,245	7,071,777	0	15,136,022
Amortization for the year	<u>1,843,015</u>	<u>612,975</u>	<u>0</u>	<u>2,455,990</u>
Ending Balance Accumulated				
Amortization	<u>9,907,260</u>	<u>7,684,752</u>	<u>0</u>	<u>17,592,012</u>
Final Balance Net Intangible Assets	<u>14,324,702</u>	<u>3,453,178</u>	<u>1,941,939</u>	<u>19,719,819</u>

<u>2017</u>	<u>Software & IT Applications</u>	<u>Licenses</u>	<u>Easement Rights</u>	<u>Total</u>
Beginning Balance Cost	22,001,281	10,045,347	1,119,566	33,166,194
Additions	<u>1,165,499</u>	<u>679,361</u>	<u>0</u>	<u>1,844,860</u>
Dispositions	<u>23,166,780</u>	<u>10,724,708</u>	<u>1,119,566</u>	<u>35,011,054</u>
Ending Balance Cost	6,191,834	6,531,971	0	12,723,805
Beginning Balance Accumulated				
Amortization	<u>1,872,411</u>	<u>539,806</u>	<u>0</u>	<u>2,412,217</u>
Amortization for the year	<u>8,064,245</u>	<u>7,071,777</u>	<u>0</u>	<u>15,136,022</u>
Ending Balance Accumulated				
Amortization	<u>15,102,535</u>	<u>3,652,931</u>	<u>1,119,566</u>	<u>19,875,032</u>
Final Balance Net Intangible Assets				

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

As of December 31, 2018, impairment tests were carried out on the assets for having intangible assets with an indefinite useful life. Signs of deterioration in long-lived assets were identified.

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

	<u>Useful life</u>	<u>Remaining Period for amortization</u>	<u>Book Value In 2018</u>	<u>Book Value In 2017</u>
SAP Commercial System	Definite	10 years	12,164,526	12,334,884
Maximo System	Definite	7 years	1,271,292	1,427,116
Choice System	Definite	12 years	1,279,916	1,272,476
SCADA system	Definite	5 years	754,245	889,294
Other Software & Licenses	Definite	1 13 years	2,307,901	2,831,696
Easement Rights	Indefinite		<u>1,941,939</u>	<u>1,119,566</u>
			<u>19,719,819</u>	<u>19,875,032</u>

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

An Easement Right, the real right, perpetual or temporary on another property, under which the Company can make use of it, or exercise certain rights of disposal, or prevent the owner from exercising some of their property rights. In the Company, 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.

(7) Trade and Other Receivables

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

	<u>2018</u>	<u>2017</u>
Non-Current		
Accounts Receivable	<u>0</u>	<u>9,700,000</u>
Current:		
Customers Public Service	133,531,636	116,119,021
Impairment in value Public Service	(10,831,414)	(18,484,993)
Others	<u>19,679,212</u>	<u>10,059,767</u>
Total Current	<u>142,379,434</u>	<u>107,693,795</u>
Total	<u>142,379,434</u>	<u>117,393,795</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.

Impairment of the Portfolio

The Company 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 Company. The write-off of the portfolio does not release the Company from continuing with the collection procedures that are conducive to its recovery. Faced with a possible recovery, an income is recorded for debt recovery.

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

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

	<u>2018</u>		<u>2017</u>	
	<u>Gross Value in Books</u>	<u>Value Expected Credit Losses during its Life time</u>	<u>Gross Value in Books</u>	<u>Value losses incurred</u>
Public Utilities Customers				
Current	46,380,270	399,600	56,918,736	0
Less than 30 days	36,865,192	344,961	22,754,850	0
30-60 days	11,668,402	344,333	3,132,016	126,475
61-90 days	5,769,612	361,317	2,371,614	202,592
91-120 days	14,824,926	362,436	3,047,908	242,348
121-180 days	10,029,117	363,987	6,964,474	561,718
181 or more	<u>7,994,117</u>	<u>7,856,389</u>	<u>20,929,423</u>	<u>17,268,494</u>
Total Public Utilities - Customers	<u>133,531,636</u>	<u>10,033,023</u>	<u>116,119,021</u>	<u>18,401,627</u>
Other receivables				
Current	13,705,518	86,416	5,194,297	0
Less than 30 days	4,132,820	22,052	1,774,939	0
30-60 days	385,609	24,196	1,098,487	0
61-90 days	417,973	71,264	302,015	0
91-120 days	18,394	923	251,113	0
121-180 days	673,934	265,981	121,112	41,922
181 or more	<u>344,964</u>	<u>327,559</u>	<u>1,317,804</u>	<u>41,444</u>
Total Other receivables	<u>19,679,212</u>	<u>798,391</u>	<u>10,059,767</u>	<u>83,366</u>
Total Accounts Receivables	<u>153,210,848</u>	<u>10,831,414</u>	<u>126,178,788</u>	<u>18,484,993</u>

The reconciliation of the impairment losses of the portfolio is:

	<u>Note</u>	<u>Expected Credit Loss 2018</u>	<u>Loss incurred 2017</u>
Beginning Balance at the start of the year		18,484,993	15,840,130
Adjustment in initial application of IFRS 9 net of taxes	2.20.2	5,386,670	0
Impairment in Accounts receivable		1,888,532	2,802,726
Charges against the provision		<u>(14,928,781)</u>	<u>(157,863)</u>
Ending Balance at the end of the year		<u>10,831,414</u>	<u>18,484,993</u>

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

The Company 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 guarantee deposit to the last invoice after completing them.

The non-current account receivable for 2017 includes a promissory letter of irrevocable payment issued by Banco Davivienda (Panama), SA by the order of Bahía las Minas Corp., in favor of Elektra Noreste, SA as beneficiary, for the sum of B /.9,700,000 with renewed validity until January 1, 2019, being considered automatically canceled upon its due date. The irrevocable payment promissory letter was issued to cover the termination of Contract DME-018-06, signed between Bahía las Minas Corp., and Elektra Noreste, S. A. for the purchase of supply of long-term power and associated energy. In this regard, the ASEP ordered Bahía las Minas Corp., through Resolution AN No. 9189-Elec of October 23, 2015, to present an Irrevocable Payment Letter to Elektra Noreste, SA for the amount of nine million seven hundred thousand balboas (B /.9,700,000) no later than ninety (90) days after the aforementioned resolution is duly executed, to be payable as of January 1, 2019 and until March 1, 2019, and ordered Elektra Noreste, S.A. that once the payment was received, it allocates said funds to its regulated clients, for which it must comply with the guidelines established by the ASEP in the corresponding tariff review (see Note 14).

(8) Other Assets

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

<u>Concept</u>	<u>2018</u>	<u>2017</u>
Non-Current		
Severance Indemnity Fund	281,901	283,251
Severance Indemnity Fund - Interest	288,822	213,137
Guarantee Deposits	<u>166,299</u>	<u>182,774</u>
Total other assets Non-Current	<u>737,022</u>	<u>679,162</u>
Current		
Advances to suppliers	25,770	133,900
Insurance – Various	317,797	314,857
Other expenses to amortize	400,861	342,558
Temporary costs of vehicle maintenance	<u>467</u>	<u>9,069</u>
Total other assets – Current	<u>744,895</u>	<u>800,384</u>
Total Other Assets	<u>1,481,917</u>	<u>1,479,546</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.

(9) Inventories

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

	<u>2018</u>	<u>2017</u>
Non-current		
Materials for provision of service	<u>2,138,237</u>	<u>1,635,511</u>
Total Current Inventories	<u>2,138,237</u>	<u>1,635,511</u>

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

Current		
Materials for provision of service ¹	12,404,276	16,640,677
Inventory in transit	<u>317,797</u>	<u>348,025</u>
Total inventories non-current	<u>12,722,073</u>	<u>16,988,702</u>
Total inventories	<u>14,860,310</u>	<u>18,624,213</u>

¹ ¹ 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.

As of December 31, 2018, inventories were recognized for B /.1,112,639 (2017: B /.770,416) as cost for the provision of the service during the period. The reduction in value of the inventories recognized as an expense during the period amount to B /. 63,665 (2017: B /.225,111) and the reversal of the reduction in value amount to B /. 33,360 (2017: B /: 0). The circumstances leading to the reversal of the value reduction were because some inventory items after the necessary technical analysis were considered good for operational use. The Company has no inventory committed to guarantee its liabilities.

(10) Cash & Bank Balances

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

	<u>2018</u>	<u>2017</u>
Cash & Bank Balances	<u>6,211,412</u>	<u>4,558,153</u>
Total Cash & Cash Equivalents presented in the consolidated statement of financial position and statement of cash flows	<u>6,211,412</u>	<u>4,558,153</u>

(11) Equity

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

	<u>Value</u>		<u>Number of Shares</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Authorized Capital	106,642,962	106,642,962	50,000,000	50,000,000
Treasury Shares	<u>(544,087)</u>	<u>(544,087)</u>	<u>(160,031)</u>	<u>(160,031)</u>
Subscribed and Paid Capital	<u>106,098,875</u>	<u>106,098,875</u>	<u>49,839,969</u>	<u>49,839,969</u>

11.1 Retained Earnings

	<u>Accumulated Earnings</u>	<u>2018</u>	<u>2017</u>
Beginning Balance		58,133,255	40,823,336
Movement of reserves			
Dividends declared		(21,000,000)	(15,000,000)
Other - Income tax con transactions related with owners		(251,914)	(80,144)
Adjustment in the initial application of IFRS 9 net of taxes		<u>(5,386,670)</u>	<u>0</u>
		31,494,671	25,743,192
Net Profit of the year Before movement		<u>33,296,262</u>	<u>32,390,063</u>

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

Total Accumulated Earnings	<u>64,790,933</u>	<u>58,133,255</u>
-----------------------------------	-------------------	-------------------

By means of the minutes of the Board of Directors of June 13, 2018 and 2017, the distribution of dividends was approved for B /.21,000,000 (2017: B /.15,000,000), which correspond to the 2017 and 2016 periods, respectively.

(12) . Components of other accumulated comprehensive Income (loss)

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

	2018			2017		
	Gross	Net Tax Effect	Net	Gross	Net Tax Effect	Net
New measures for defined Benefit plans	<u>572,698</u>	<u>(171,809)</u>	<u>400,889</u>	<u>838,450</u>	<u>(251,535)</u>	<u>586,915</u>

For each component of the comprehensive loss a reconciliation of the opening and closing balances to the cutoff date is presented below.

12.1. 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>2018</u>	<u>2017</u>
Beginning Balance	586,915	416,369
Results of the year for new measures done to the defined benefits plan.	(265,751)	243,637
Income tax associated	<u>79,725</u>	<u>(73,091)</u>
Total	<u>400,889</u>	<u>586,915</u>

(13) Credit facilities & Loans

The detail of credit facilities and Loans on the cut-off date is the following:

Credit facilities & loans	<u>2018</u>	<u>2017</u>
Non-Current		
Bank Commercial Loans	99,894,713	-
Bonds & Securities issued	<u>181,829,340</u>	<u>181,424,837</u>
Total Non-Current	<u>281,724,053</u>	<u>181,424,837</u>

Current:

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

Bank commercial Loans 12,000,000 128,000,000

As of December 31st, 2018 the Company maintains contracts for credit lines facilities with the Bank of Nova Scotia, Banco General, S.A., Banistmo, S.A. Banco Nacional de Panamá, Banco Latinamericano de Comercio Exterior, Banco Davivienda, BAC Panamá and Citibank for a total value of B/.285,000,000 (2017: B/.330,000,000), with LIBOR annual interest rates between one (1) to three (3) or six (6) months, plus a margin between 0.3% to 2.5%. The credit lines are not subject to guarantees and are available for a maximum period of one year. The Company uses these credit facilities depending on the need for working capital or other needs.

These credit facilities have a "pari passu" order of precedence over other "senior" obligations not guaranteed and are not subordinated to the Company. The credit lines include, among other provisions, an indicator of debt coverage which sets a limit of indebtedness that does not exceed 3.50 of its EBITDA.

By entity the detail of credit facilities and loans short term is as follows:

Entity	Original Currency	start date	Term	Nominal Interest Rate	2018 Rate	Nominal Value	Valuer Total	2017 Rate	Nominal Value	Value cost Amortized	Total Value
The Bank of Nova Scotia	USD	6-Nov-18	0.25	LIBOR + 2.9%	2.90%	6,000,000	6,000,000				
The Bank of Nova Scotia	USD	7-Dec-18	0.08	LIBOR + 2.68%	2.68%	6,000,000	6,000,000				
Banco Davivienda	USD	21-Dec-16	0.08	LIBOR + 1.40%				2.00%	18,000,000		18,000,000
Banco Davivienda	USD	21-Jun-17	0.58	LIBOR + 2.0%				2.00%	2,000,000		2,000,000
Banco Davivienda	USD	14-Dec-17	0.50	LIBOR + 2.0%				2.00%	10,000,000		10,000,000
The Bank of Nova Scotia	USD	9-Oct-17	0.41	LIBOR + 1.89%				1.89%	20,000,000		20,000,000
The Bank of Nova Scotia	USD	16-Oct-17	0.50	LIBOR + 1.98%				1.98%	20,000,000		20,000,000
The Bank of Nova Scotia	USD	6-Dec-17	0.50	LIBOR + 1.95%				1.95%	15,000,000		15,000,000
The Bank of Nova Scotia	USD	11-Dec-17	0.50	LIBOR + 1.95%				1.95%	5,000,000		5,000,000
Citibank	USD	7-Aug-17	0.50	LIBOR + 2%				2.00%	13,000,000		13,000,000
Citibank	USD	8-Nov-17	0.49	LIBOR + 1.94%				1.94%	12,000,000		12,000,000
BAC	USD	5-Dec-17	0.17	LIBOR + 1.65%				1.65%	13,000,000		13,000,000
Total						<u>12,000,000</u>	<u>12,000,000</u>		<u>128,000,000</u>		<u>128,000,000</u>

By entity the detail of credit facilities and loans Long Term is as follows:

Entity – Sub Series	Type	Original Currency	Start date	Term	Nominal Interest rate	2018 Rate	Nominal Value	Amortized Value cost	Total Value	2017 Rate	Nominal Value	Amortized Value - Cost	Total Value
The Bank of Nova Scotia	Loan	USD	3-Oct-18	5	LIBOR + 4.25%	4.42%	100,000,000	(105,287)	99,894,713	-	-	-	-
Preferred Bonds 2021	International Bond	USD	10-Jul-06	15	7.60%	8.16%	100,000,000	2,604,783	102,604,783	8.16%	100,000,000	2,283,242	102,283,242
Preferred Bonds 2027	International Bond	USD	13-Dec-12	15	4.73%	4.96%	80,000,000	(775,443)	79,224,557	4.96%	80,000,000	(858,405)	79,141,595
TOTAL							<u>280,000,000</u>	<u>1,724,053</u>	<u>281,724,053</u>		<u>180,000,000</u>	<u>1,424,837</u>	<u>181,424,837</u>

Commercial banking loan 2023

On October 2, 2018, the Company 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 Company 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 Company is current, it must comply with the terms of the contract, some of which are indicated below:

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

- 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 Company 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 Company has bonds payable per the Debt Agreement ("Senior Notes") for a nominal value of B/.100, 000,000. The bonds have a fixed interest rate of 7.6%, payable semi-annually, with maturity in 2021. The payment to capital is performed at maturity. The bonds are not guaranteed and are not subordinated. The Company can redeem the bonds, in whole or in part, at any time prior to its expiration provided they meet certain conditions that include the payment of a premium.

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

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

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

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

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

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 Company 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 Company and notified to the Trustee in writing. For the purposes of the amortization amount for default events, the "Sum of Restitution" will be equal to the difference between (i) the sum of (a) the current value of the future capital and the 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 Company signed an Agreement for the Purchase of Promissory Notes with a group of investors that individually agreed to buy from the Company a total of B/.80,000,000 in Preferred Bonds ("Senior Notes"). The bonds were agreed upon with a fixed rate of 4.73% payable semiannually, with maturity on December 13, 2027 and were issued pursuant to the Indenture Agreement, signed between the Company and The Bank of New York Mellon in its capacity as fiduciary agent dated of December 11, 2012.

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

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

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

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

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

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

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

As of December 31, 2018, the result of the (Covenant) Debt / EBITDA indicator is 3.2 times. For the measurement of EBITDA, and consistent with the current accounting policy, since the bonds were issued, the Company considers the year's profit including the net movement of regulatory accounts related to gains and losses, as presented below:

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

	<u>2018</u>	<u>2017</u>
Net Profit of the year before any movement of the balances of deferred regulatory accounts	20,657,523	24,621,275
Net Movement on balances of deferred regulatory accounts with profit & loss	18,055,341	11,098,269
Net movement on deferred taxes that that come from balances with deferred regulatory accounts related to profit or loss	<u>(5,416,602)</u>	<u>(3,329,481)</u>
Net Profit on the net movement of balances of deferred regulatory accounts	33,296,262	32,390,063
Depreciation & Amortization	29,878,751	27,549,703
Financial Expenses	16,691,798	14,424,365
Income Tax	<u>11,344,834</u>	<u>13,916,927</u>
EBITDA	<u>91,211,645</u>	<u>88,657,446</u>

	<u>2018</u>	<u>2017</u>
Contract Debt		
Debt Short term	12,000,000	128,000,000
Debt Long Term	100,000,000	0
Preferred Bonds 2021	100,000,000	100,000,000
Preferred Bonds 2027	<u>80,000,000</u>	<u>80,000,000</u>
Total Contract Debt	<u>292,000,000</u>	<u>308,000,000</u>
Debt to EBITDA (times)	3.2	3.5

During 2018, the Company has not failed to pay principal and interest on its loans. Creditors and other accounts payable

The creditors and other accounts payable are composed of:

	<u>2018</u>	<u>2017</u>
Non-Current		
Funds to be returned - arbitration contracts for supply	0	9,700,000
Deposits received as collateral	6,396,855	5,047,231
Construction contracts	49,618,704	44,559,159
Acquisition of goods and services	<u>371,407</u>	<u>398,189</u>
Total non-current financial liabilities	<u>56,386,966</u>	<u>59,704,579</u>
Current		
Funds to be returned - arbitration contracts for supply	9,700,000	0
Energy Suppliers	183,896,952	111,110,507
Acquisition of goods and services	22,318,505	15,174,193
Guarantee deposits	1,233,050	1,230,741
Advance & Prepayments received	47,349	5,238
Other accounts payable	6,160,282	4,484,082
Constructions contracts	3,727,038	4,268,193
Commissions payable	<u>147,600</u>	<u>202,836</u>
Total Current financial liabilities	<u>227,230,776</u>	<u>136,475,790</u>

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

(14) Suppliers and other accounts payable

The creditors and other accounts payable are composed of:

	<u>2018</u>	<u>2017</u>
Non-Current		
Funds to be returned – arbitration of supply contracts	0	9,700,000
Deposits received in guarantee	6,396,855	5,047,231
Construction contracts	49,618,704	44,559,159
Acquisition of assets and services	371,407	398,189
Total of Non-current Liabilities	<u>56,386,966</u>	<u>59,704,579</u>
Current		
Funds to be returned – arbitration of supply contracts	9,700,000	0
Energy Vendors	183,896,952	111,110,507
Acquisition of assets and services	22,318,505	15,174,193
Deposits received in guarantee	1,233,050	1,230,741
Advance and Prepayment received	47,349	5,238
Other accounts payable	6,160,282	4,484,082
Construction contracts	3,727,038	4,268,193
Commissions payable	147,600	202,836
Total Current Liabilities Suppliers and other accounts payable	<u>227,230,776</u>	<u>136,475,790</u>

(15) 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:

	<u>2018</u>		
	<u>Non-Current</u>	<u>Current</u>	<u>Total</u>
Assets:			
Post-Employment Benefits	81,821	0	81,821
Liability:			
Post-Employment Benefits	<u>(354,517)</u>	<u>(21,376)</u>	<u>(375,893)</u>
Total	<u>(272,696)</u>	<u>(21,376)</u>	<u>(294,072)</u>
	<u>2017</u>		
	<u>Non-Current</u>	<u>Current</u>	<u>Total</u>
Liability:			
Post-employment Benefits	<u>(626,448)</u>	<u>(37,840)</u>	<u>(664,288)</u>

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

15.1 Post-employment benefits

Includes the defined benefit plans detailed below:

Defined Benefits Plan	Other defined benefits plan		Seniority Premium		Total	
	2018	2017	2018	2017	2018	2017
Present value of obligations for defined benefits						
Beginning Balance	(455,857)	(421,214)	(1,871,554)	(1,435,111)	(2,327,411)	(1,856,325)
Cost of Present services	(23,865)	(21,860)	(261,768)	(119,264)	(285,633)	(141,124)
Income o (expenses) for interest	0	0	14,264	(61,732)	14,264	(61,732)
Assumptions for experience	119,185	(3,978)	45,568	(98,574)	164,753	(102,552)
Financial assumptions	(39,493)	(47,998)	126,226	(307,523)	86,733	(355,521)
Payments made by the plan	24,137	39,193	373,891	150,650	398,028	189,843
Present value of obligations for the end of the period.	(375,893)	(455,857)	(1,573,373)	(1,871,554)	(1,949,266)	(2,327,411)
Fair Value of the Assets of the plan.						
Beginning Balance	0	0	1,663,123	1,822,046	1,663,123	1,822,046
Contributions made to the plan	0	0	295,655	256,981	295,655	256,981
Payments made by the plan	0	0	(303,584)	(415,904)	(303,584)	(415,904)
Fair Value of the assets of the Plan at the end of the period.	0	0	1,655,194	1,663,123	1,655,194	1,663,123
Surplus or deficit for the defined benefits plane	(375,893)	(455,857)	81,821	(208,431)	(294,072)	(664,288)
Adjustment to the retained earnings by limit of asset.	0	0	0	0	0	0
Total de defined Benefits	(375,893)	(455,857)	81,821	(208,431)	(294,072)	(664,288)

The Company has three post-employment defined benefit plans:

(i) Seniority Premium and severance payment fund

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

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

(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.

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

b) Retirement Bonus

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

The Company made contributions for defined benefits during the period for B/.295,655 (2017: B/.256,981) and expects to make contributions for the next annual period for B/.221,134

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 Company (the employees do not perform contributions), the proceeds from the change of the market value of the investments correspond to the administrator of the Fund.

The 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	
	2018	2017
Discount Rate (%)	4.51	3.84
Seniority Premium (%)	4.11	3.50
Retirement Bonus	3.94	2.97
<i>Electrical Bill Benefit</i>		
Annual Salary rate increase (%)	5.00	5.00
Incremental Rate on the discount of the electrical Bill benefit	1.83	2.27
Survival tables	Mortality Table for the Urban population of the Republic of Panama 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:

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	162,961	(199,081)	(158,097)	133,710	NA	NA
Subsidy Public Services	11,983	(13,523)	NA	NA	(12,680)	11,449
Retirement Bonus	<u>10,174</u>	<u>(11,942)</u>	<u>NA</u>	<u>NA</u>	<u>NA</u>	<u>NA</u>
Total benefits Post-employment	<u>185,118</u>	<u>(224,546)</u>	<u>(158,097)</u>	<u>133,710</u>	<u>(12,680)</u>	<u>11,449</u>

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

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.

(16) Provisions Contingent assets & liabilities

16.1 Provisions

The reconciliation of provisions is as follows:

2018	<u>Dismantling & Restoration</u>	<u>Litigations</u>	<u>Others</u>	<u>Total</u>
Beginning Balance	178,117	229,794	4,872,814	5,280,725
Additions	0	23,929	2,766,560	2,790,489
Utilizations (-)	0	0	(1,380,397)	(1,380,397)
Reversals and the amount not utilized (-)	0	0	(95,731)	(95,731)
Final Balance	<u>178,117</u>	<u>253,723</u>	<u>6,163,246</u>	<u>6,595,086</u>

2017	<u>Dismantling & Restoration</u>	<u>Litigations</u>	<u>Others</u>	<u>Total</u>
Beginning Balance	180,963	122,793	4,717,428	5,021,184
Additions	0	109,816	1,290,042	1,399,858
Utilizations (-)	0	0	(989,854)	(989,854)
Reversals and the amount not utilized (-)	(2,846)	(2,815)	(144,802)	(150,463)
Ending Balance	<u>178,117</u>	<u>229,794</u>	<u>4,872,814</u>	<u>5,280,725</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 Company evaluates each case in a particular way together with its external legal advisors. In consideration 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 in order to determine the recognition of a possible loss. For this, the Company has the appreciation of external legal advisors of the Company and, in certain cases, the support of insurance advisors if an actuarial valuation is required.

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

16.1.1 Dismantling

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

- a. It was determined that 34 transformers should be discarded for being suspects in PCB content.
- b. The present value of the obligation was determined by using a discount rate of 1,598% which is the rate of return extrapolated for Global Bonds 2015 of the Republic of Panama.
- c. The legal obligation (implicit) of dismantling the transformers appears for the first time in ENSA in 2002 with the subscription of the Republic of Panama to the Rotterdam Convention.

16.1.2 Litigations

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

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

Esta provisión cubre las pérdidas estimadas probables relacionadas con litigios laborales, administrativos, civiles y fiscales (vía administrativa y gubernativa) que surgen en la operación. Los principales supuestos considerados en el cálculo de la provisión son:

The following are the lawsuits recognized in 2018:

<u>Legal Claims</u>	<u>Valor</u>
Civil ordinary process for the development of the Llano Bonito substation	123,684
Civil ordinary process for the discounts applied in the service invoice	6,110
Civil ordinary process for damages caused by interruption of service	100,000
Labor demand for solidarity for the payment of acquired rights	<u>23,929</u>
	<u>253,723</u>

16.1.3 Other provisions

The Company maintains other provisions for B/. 6,163,246 (2017: B/. 4,872,814) to cover compensations to customers that occurred due to possible breaches of regulations

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

regulated by the “Autoridad Nacional de los Servicios Públicos” (ASEP). The amount of these compensations is provided by the technical area of the Company which makes calculations based on indicators provided by the system.

Estimated Payments

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

Estimated Payments	Dismantling or restauration	<u>Litigations</u>	<u>Others</u>	<u>Total</u>
2019	<u>178,117</u>	<u>253,723</u>	<u>6,163,246</u>	<u>6,595,086</u>
Total	<u>178,117</u>	<u>253,723</u>	<u>6,163,246</u>	<u>6,595,086</u>

16.2 Contingent Liabilities

The composition of contingent liabilities are as follows:

Type of contingency	<u>Contingent Liabilities</u>
Litigations	<u>7,889,812</u>
Guarantees	<u>82,396,298</u>
Total	<u>90,286,110</u>

The ASEP through Resolution AN No. 9075-Elec of September 7, 2015, orders the Company, to apply a tariff reduction for the non-compliance of the service quality standards, for the sum of US\$7,060,063.27 associated with the interruptions registered over the years 2012, 2013 and 2014. As per the resolution, the amount previously indicated must be applied every six months, in a period of eight (8) years from the first half of 2016, totaling sixteen (16) semiannual installments. The Company believes that the calculated sum and criteria applied by the Regulator to fix the amounts are not correct, which is why an appeal for reconsideration was filed before the ASEP against the resolution, which has not been resolved.

The main litigations pending resolution and judicial and extrajudicial disputes in which the Company is a party at the end of the year, are listed below:

Contingent Liabilities:

Legal Claims

	<u>Value</u>
For breach of the technical service quality standard	7,060,063
Civil suit for damages for cancellation of contract	600,000
Civil suit for Claim damages	137,400
Process of consumer protection on demand in billing	

Total Contingent Liabilities

92,349
7,889,812

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

The Company 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
Compañías Generadoras	Compliance guarantee to provide credit security and compliance with the obligations contracted under energy purchase contracts	59,773,511
Empresa de Transmisión Eléctrica, S. A.	Bank guarantee to guarantee the payment of one month of billing of the Transmission System.	1,134,458
Empresa de Transmisión Eléctrica, S. A.	Letter of credit to guarantee the payment of energy purchase costs in the occasional market.	5,819,436
Ente Operador Regulador del El Salvador	Letter of credit to guarantee the payment of energy purchase costs in the occasional market.	468,893
Empresa Nacional de Autopista, S. A.	Bank guarantee to guarantee payment for work in national highways.	200,000
Total of Guarantees Given		<u>82,396,298</u>

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

16.3 Compromises

The purchase rules for the contract market, established by Resolution AN No. 991-Elec of July 11, 2007 and its amendments, establish minimum contracting obligations in the medium and long term, both in power and in energy to the distribution companies. The power must be contracted to cover the maximum demand of generation of the Company and the energy must be contracted as per the associated Energy required. ETESA must carry out the summoning's of the Acts of Concurrence to supply the need for potency and energy of the final clients of the electric distribution company and ensure that the summoning's that they conduct comply with the minimum contracting levels of the company of electric distribution. The Company routinely enters into purchase contracts that have different quantity and duration requirements as part of its obligation to distribute and sell electricity to its regulated customers. ENSA must recover costs related to these obligations at future rates to customers. In addition, all energy supply contracts entered into by the Company are to meet its obligations to distribute energy to customers.

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

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

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

Year	Payment Obligations
2019	162,699,093
2020	194,290,000
2021	194,999,273
2022	191,315,945
There after	<u>1,307,097,354</u>
Total	<u>2,050,401,665</u>

The Company made disbursements for B /.144,066,194 (2017: 132,929,336), in unconditional contracts, related to the purchase of long-term energy capacity.

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

16.4 Operating leases

ENSA as lessee

The most significant operating leases are in three locations that the Company maintains as customer service branches:

- “Los Andes” renewed in October 2017 for an additional 3 years. Payments must be made within 30 days of each month. Contract lease payments are updated annually.
- Plaza Toledano, valid from June 5, 2010 to June 6, 2019. Contract lease payments are updated annually.
- Los Pueblos, effective from July 1, 2010 to June 30, 2020.

At the date of presentation, the minimum future payments for operating leases, which cannot be canceled, are distributed as follows:

	2018	2017
Operating Leases	Operating leases non-cancelable	Operating leases non-cancelable
Up to one year	238,081	242,262
One year or more	159,673	398,754
Total Leases	397,754	641,016

ENSA as Lessor

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

	2018	2017
Operating Leases	Operating leases non-cancelable	Operating leases non-cancelable
Up to one year	7,800	7,800
Total Leases	7,800	7,800

The rental income recognized in the statement of profit or loss for the period is B /7,800 (2017: B /7,800).

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

(17) Other Liabilities

The composition of other liabilities is the following:

	<u>2018</u>	<u>2017</u>
Non-Current		
Income received in Advance	375,510	452,095
Government Subsidies	<u>1,881,532</u>	<u>1,987,127</u>
Total other liabilities non-current	<u>2,257,042</u>	<u>2,439,222</u>
Current		
Income received in advance	76,584	76,584
Government subsidies	<u>105,596</u>	<u>105,596</u>
Total other liabilities current	<u>182,180</u>	<u>182,180</u>
Total Other Liabilities	<u>2,439,222</u>	<u>2,621,402</u>

17.1 The movement of income received in advance is the following:

	<u>2018</u>	<u>2017</u>
Beginning Balance	528,679	614,472
Recognized in the profit or loss of the year	<u>(76,585)</u>	<u>(85,793)</u>
Ending Balance	<u>452,094</u>	<u>528,679</u>

17.2 The movement of Government subsidies is as follows:

	<u>2018</u>	<u>2017</u>
Beginning Balance	2,092,723	2,198,319
Recognized in the profit or loss of the year	<u>(105,595)</u>	<u>(105,596)</u>
Ending Balance	<u>1,987,128</u>	<u>2,092,723</u>

(18) Changes in liabilities from financing activities

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

	Credit facilities & Loans	Accumulated Earnings	Total
Balance adjusted 1st January 2018 (re-expressed))	309,424,837	52,746,585	362,171,422
For changes in cash flows financing			
Finance obtained	112,299,216	0	112,299,216
Repayment of Long-term debt	(128,000,000)	0	(128,000,000)
Dividends	0	(21,000,000)	(21,000,000)
Income tax related to transactions with owners	0	(251,914)	(251,914)
Total changes in statement of cash flows financing	<u>(15,700,784)</u>	<u>(21,251,914)</u>	<u>(36,952,698)</u>

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

(19) Deferred Regulatory accounts

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

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

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

The movement of the regulatory accounts is the following:

El movimiento de las cuentas regulatorias es el siguiente:

Deferred Regulatory accounts	Assets (Liabilities)	
	2018	2017
Beginning Balance	16,368,097	5,269,828
Recognized in the consolidated statement of other comprehensive income or (los) for the year	<u>18,055,341</u>	<u>11,098,269</u>
Ending balance	<u>34,423,438</u>	<u>16,368,097</u>

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

Deferred taxes associated with deferred regulatory accounts	Assets (Liabilities)	
	2018	2017
Beginning Balance	(4,910,429)	(1,580,948)
Recognized in the consolidated statement of other comprehensive income or (los) for the year	<u>(5,416,602)</u>	<u>(3,329,481)</u>
Ending balance	<u>(10,327,031)</u>	<u>(4,910,429)</u>

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

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

(20) Income

The Company 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:

	<u>2018</u>	<u>2017</u>
Services provided and Sale of Assets		
Service of Energy distribution	671,377,380	626,795,596
Sale of Assets	342,207	0
Other Income (Note 20.1)	<u>10,053,674</u>	<u>8,300,495</u>
Total Income from ordinary activities	681,773,261	635,096,091
Other Income (Note 20.2)	<u>2,128,731</u>	<u>1,750,027</u>
Total Income	<u><u>683,901,992</u></u>	<u><u>636,846,118</u></u>

In the Company 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 Company recognizes all its income from the satisfaction of performance obligations.

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

20.1 Other Income from ordinary activities

The detail of other income is as follows:

Other income from ordinary activities	<u>2018</u>	<u>2017</u>
Professional Fees	4,473,586	4,166,488
Connection / Reconnection	2,264,966	2,282,745
Late Fees	1,339,804	1,006,021
Construction Contracts (a)	1,135,438	0
Fines & Penalties	<u>839,880</u>	<u>845,241</u>
Total other income from ordinary activities	<u><u>10,053,674</u></u>	<u><u>8,300,495</u></u>

(a) The construction contracts come from agreements authorized by the ASEP for the construction of electrical infrastructure to the National Aqueduct and Sewer Institute and the Tocumen International Airport.

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

20.2 Other Income

Other income	2018	2017
Rental income of investment properties	26,100	29,800
Other income	589,273	1,068,446
Professional Fees	661,658	360,689
Increase in fair value of investment properties (Note 5)		
	<u>851,700</u>	<u>291,092</u>
Total Other Income	<u>2,128,731</u>	<u>1,750,027</u>

(21) Costs for services provided

The detail of cost for services provided is as follows:

Cost for services provided	2018	2017
Cost of public goods and services for sale	554,524,388	503,188,484
Cost for services of construction	908,609	0
Depreciation & amortization of intangibles	25,288,888	23,570,432
Orders & contracts for other services	15,564,332	16,576,708
Salaries & Personnel expenses	7,491,622	7,440,948
General expenses	2,855,612	2,248,518
Maintenance & Repairs	2,191,134	2,160,985
Others	1,929,642	1,804,013
Regulatory penalties	115,644	1,446,543
Taxes contributions and rates	1,148,284	1,243,171
Rentals	<u>1,094,076</u>	<u>884,799</u>
Total costs for services provided	<u>613,112,231</u>	<u>560,564,601</u>

(22) Administration expense

The detail of administration expense is as follows:

	2018	2017
Personnel expense:		
Wages & Salaries	6,800,590	6,273,449
Social Security expense	890,479	805,852
Benefits of Union collective agreement	<u>50,462</u>	<u>43,482</u>
Total Personnel expense	<u>7,741,531</u>	<u>7,122,783</u>
General Expenses:		
Depreciation & amortization of intangibles	4,589,863	3,979,272
Others	3,032,294	1,644,382
Commissions, Professional Fees & Services	2,792,006	2,975,005
Taxes, Contributions & Rates	<u>2,326,598</u>	<u>2,326,363</u>

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

Maintenance	2,270,809	1,609,487
General Insurance	762,641	748,950
Public Services	671,197	524,483
Rentals	31,433	322,399
Provision for contingencies	<u>23,929</u>	<u>107,001</u>
Total of General Expenses	<u>16,500,770</u>	<u>14,237,342</u>
Total	<u>24,242,301</u>	<u>21,360,125</u>

As of December 31, 2018, the Company does not have any operating leases that cannot be canceled.

Operating lease payments recognized as expenses for the period are for B/.1,125,509 (2017: B/.1,207,198), included in the costs for the provision of services and administrative expenses.

(23) Other Expenses

The detail of other expenses is as follows:

Other Expenses	<u>2018</u>	<u>2017</u>
Loss on sale of Assets	<u>1,381,375</u>	<u>2,440,461</u>

(24) Financial Income and Expenses

24.1 Financial Income:

The detail of financial income is as follows:

Financial Income	<u>2018</u>	<u>2017</u>
Interest income		
Bank fixed deposits	103,954	92,646
Other interest income earned	<u>155,828</u>	<u>64,129</u>
Total	<u>259,782</u>	<u>156,775</u>

24.2 Financial Costs:

The detail of financial expenses is as follows:

	<u>2018</u>	<u>2017</u>
Interest expense:		
Loans & Bonds	16,930,733	14,957,442
On financial liabilities that is not measured with fair value with changes in the income statement		
Less: interest capitalized on appropriate assets	(412,444)	(637,127)
Other financial expense	<u>433,291</u>	<u>480,438</u>
Total	<u>16,951,580</u>	<u>14,800,753</u>

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

(25) Income Tax

25.1 Tax Provisions

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

The nominal rate of income tax is 30%.

25.2 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 2018 and 2017 periods are as follows:

	<u>2018</u>	<u>%</u>	<u>2017</u>	<u>%</u>
Income or (loss) before taxes	<u>26,585,755</u>		<u>35,208,721</u>	
Theoretical Tax	5,928,232	22.3%	10,587,446	30.1%
Add items that increase the tax	1,964,230		6,231,143	
Reduce items that reduce the tax	<u>(37,144,250)</u>		<u>(2,496,240)</u>	
Ordinary Liquid tax of the exercise	(8,594,265)		38,943,624	
Less income exempted	<u>(103,954)</u>		<u>(92,645)</u>	
Income taxable	<u>(8,698,219)</u>		<u>38,850,979</u>	
Effective tax rate	30%		30%	
Income Tax	158,954		11,655,294	
Adjust tax returns of prior year	<u>(15,517)</u>		<u>887</u>	
Income Tax current	<u>143,437</u>	2%	<u>11,656,181</u>	30%
Detail of deferred & current expense				
Income Tax – Current	143,437		11,656,181	
Income Tax – Deferred	<u>5,784,795</u>		<u>(1,068,735)</u>	
Income Tax	<u>5,928,232</u>		<u>10,587,446</u>	

25.3 Income Tax recognized on Profit or Loss

The components of the significant expenses for income tax are:

	2018	2017
Current income tax		
Expenditure (income) for current income tax	158,954	11,655,294
Adjustments recognized in the current period related to the current income tax from previous periods	<u>(15,517)</u>	<u>887</u>
Total current income tax	<u>143,437</u>	<u>11,656,181</u>
Deferred tax		
Net expense (income) for deferred tax related to the origin and the reversal of temporary differences	8,553,215	(1,068,735)
Benefits of accumulated tax losses	<u>(2,768,420)</u>	<u>-</u>
Total deferred tax	<u>5,784,795</u>	<u>(1,068,735)</u>
Income tax	<u>5,928,232</u>	<u>10,587,446</u>

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

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

	<u>2018</u>	<u>2017</u>
Assets for current income tax	7,652,206	14,928,180
Income Tax	(7,484,176)	(18,931,267)
Balance in favor	<u>11,655,293</u>	<u>-</u>
Total Asset (or liability) of Income tax	<u>11,823,323</u>	<u>4,003,087</u>

25.4 Income Tax on Earnings recognized in other comprehensive income:

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

	<u>2018</u>	<u>2017</u>
Asset or Liability for current income tax	251,535	178,444
Income Tax	<u>(79,725)</u>	<u>73,091</u>
Total of Asset or Liability for current income tax	<u>171,810</u>	<u>251,535</u>

25.5 Deferred Income Tax

The detail of deferred taxes is as follows:

	<u>2018</u>	<u>2017</u>
Deferred taxes Assets	65	2,813,876
Deferred Taxes Liabilities	<u>(760,105)</u>	<u>-</u>
Total Deferred Taxes Net	<u>(760,040)</u>	<u>2,813,876</u>

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

The deferred tax item recognized in 2018 in liabilities of the consolidated statement of financial position has the following composition:

	<u>Beginning Balance</u>	Net changes included in the income statement	Changes included in the <u>OCI</u>	<u>Final Balance</u>
Current Assets:				
Accounts Receivables	5,036,741	(8,820,969)	0	(3,784,228)
Inventories	105,609	(13,554)	0	92,055
Non-Current Assets:				
Property Plant & Equipment	(1,689,691)	137,357	0	(1,552,334)
Others	(84,975)	405	0	(84,570)
Investment Property	(499,894)	(255,510)	0	(755,404)
Current Liabilities:				
Employee benefits	11,352	(4,939)	0	6,413
Provisions	1,548,706	394,309	0	1,943,015
Other Liabilities	470,728	54,147	0	524,875
Non-Current Liabilities:				
Employee Benefits	205,904	(44,461)	(79,725)	81,718
Fiscal losses not used	<u>0</u>	<u>2,768,420</u>	<u>0</u>	<u>2,768,420</u>
Total of Deferred taxes assets/liabilities	<u>5,104,480</u>	<u>(5,784,795)</u>	<u>(79,725)</u>	<u>(760,040)</u>

The deferred tax item recognized in 2017 in assets of the consolidated statement of financial position has the following composition:

	<u>Beginning Balance</u>	Net changes included in the income statement	Changes included in the <u>OCI</u>	<u>Final Balance</u>
Current Assets:				
Accounts Receivables	2,072,433	673,640	0	2,746,137
Inventories	47,212	58,397	0	106,609
Non-Current Assets:				
Property Plant & Equipment	(1,825,492)	135,801	0	(1,689,691)
Others	(93,095)	8,120	0	(84,975)
Investment Property	(412,567)	(87,327)	0	(499,894)
Current Liabilities:				
Employee benefits	11,652	(300)	0	11,352
Provisions	1,470,843	77,863	0	1,548,706
Other Liabilities	338,101	132,627	0	470,728
Non-Current Liabilities:				
Employee Benefits	<u>89,653</u>	<u>(43,160)</u>	<u>73,091</u>	<u>205,904</u>
Total of Deferred taxes assets/liabilities	<u>1,698,740</u>	<u>1,042,045</u>	<u>73,091</u>	<u>2,813,876</u>

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

(26) Disclosure of related parties

ENSA is a commercial company, whose owners are Panama Distribution Group, S.A. (PDG) who owns 51% of the authorized common shares, issued and outstanding; the Panamanian government, and former IRHE employees who own 48.25% and 0.43%, respectively. The following are related parties of ENSA following the restructuring of the electricity sector in Panama, in which the Panamanian government has stake and key management personnel.

On June 20, 2017, ENSA signed with Hidroecológica del Teribe, S.A., a company that belongs to the EPM business group, a legal and computer services contract, as well as a rental lease of a physical space in the corporate building of the Company. As of December 31, 2018, the amount recognized as income is B/. 97,768 and the account receivable is B/.11,736 (2017: B/. 7,629 as a product of this agreement).

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

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

Transactions & Balances with related parties:

			2018		
		<u>Income</u>	<u>Costs & Expenses</u>	<u>Value to be collected</u>	<u>Value to be Paid</u>
Gobierno Nacional de la República de Panamá	(a)	80,345,657	0	15,875,043	0
	(b)				
Hidroecológica del Teribe, S. A.	(c)	104,612	3,700,323	14,514	482,113
AES Panamá, S.R.L.	(b)	0	68,719,605	52,218	8,644,729
AES Changuinola, S. A.	(b)	0	282,948	54	1,447,890
Autoridad del Canal de Panamá	(b)	0	9,063,985	34,872	120,301
Bahía Las Minas Corp.	(b)	0	93,135,816	138,249	15,046,505
Empresa de Distribución Eléctrica, Chiriquí, S. A.	(b)	0	27,913	16,778	2,588
Empresa de Distribución Eléctrica, Metro Oeste, S.A	(b)	0	1,816,913	35,693	0
Empresa de Generación Eléctrica, S. A.	(b)	0	10,725	345	8,032
Empresa de Transmisión Eléctrica, S. A.	(b)	0	36,321,545	206,210	23,147,362
Enel Fortuna, S. A.	(b)	0	61,603,494	52,304	9,156,022
Enel Green Power Panama, S. A.	(b)	0	1,873,251	2,245	136,451
Energía y Servicios de Panamá S. A.	(b)	0	3,070,755	1,242	494,901
		<u>80,450,269</u>	<u>279,627,273</u>	<u>16,429,767</u>	<u>58,686,894</u>

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

			2017		
		<u>Income</u>	<u>Costs & Expenses</u>	<u>Value to be collected</u>	<u>Value to be Paid</u>
Gobierno Nacional de la República de Panamá	(a)	77,976,265	0	13,179,060	0
Hidroecológica del Teribe, S. A.	(b)	0	3,038,166	7,629	494,405
AES Panamá, S.R.L.	(b)	0	57,040,168	0	7,700,089
AES Changuinola, S. A.	(b)	0	208,225	0	1,660,887
Autoridad del Canal de Panamá	(b)	0	10,846,370	1,570	1,537,395
Bahía Las Minas Corp.	(b)	0	89,207,013	1,486	14,976,732
Empresa de Distribución Eléctrica, Chiriquí, S. A.	(b)	0	51,829	35,258	3,931
Empresa de Distribución Eléctrica, Metro Oeste, S.A	(b)	0	947,693	95,766	107,025
Empresa de Generación Eléctrica, S. A.	(b)	0	9,883	0	386
Empresa de Transmisión Eléctrica, S. A.	(b)	0	23,961,730	44,275	4,559,304
Enel Fortuna, S. A.	(b)	0	63,617,673	0	10,016,477
Enel Green Power Panama, S. A.	(b)	0	0	0	0
Energía y Servicios de Panamá S. A.	(b)	0	3,158,543	83	520,775
		<u>77,976,265</u>	<u>252,087,293</u>	<u>13,365,127</u>	<u>41,577,406</u>

(a) Sales of electric power to government institutions.

(b) Power purchases from power generation companies.

(c) Administrative services

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

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

The key management personnel in the Company include the general manager, vice presidents and members of the Company'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>2018</u>	<u>2017</u>
Remuneration of Key Management staff	Salaries & other benefits to employees	2,836,087	2,383,090

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

(27) Capital Management

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

The Company manages its capital structure and adjusts in view of changes in economic conditions and according to requirements of the financial agreements. To maintain or adjust the capital structure, the Company may adjust the payment of dividends to shareholders and the return of capital. No changes were made to these objectives during the years ending December 31, 2018 and 2017

The Company monitors the capital by using an indebtedness ratio, which is the total debt divided by the sum of the total operating profit plus depreciation and amortization ("EBITDA" by its acronym in English, (Earnings before Interest, Tax, Depreciation and Amortization) in accordance to the requirements of the financial agreements, the Company considers net income including the net movement of regulatory deferred accounts, consistent with the current accounting policy when issuing the bonds and periodically reported to the respective entities. On May 31, 2016, the Company filed with the Securities Market Superintendence (hereinafter "SMV") an application for registration of certain terms and conditions of corporate bonds that were issued and sold in a public offering for an amount Total of one hundred million dollars' legal tender of the United States of America. The proposed amendment was made with the specific purpose of (i) increasing the debt to EBITDA ratio included in Section 4.16 (iii) of the Issue Agreement from 3.5 to 1.0 and (ii) making other changes to the Issuance Agreement to incorporate greater consistency between the terms of the Issuance Agreement and the terms of other Issuer debt instruments. The holders of the corporate bonds of the issue were duly informed of the proposed amendment by ENSA and notified their consent to them. By resolution No. SMV-803-16 of December 16, 2016, the SMV of Panama all modifications to the terms and conditions of the corporate bonds issued for one hundred million dollars were duly approved. The Company's policy is to maintain that the debt ratio will not exceed 3.50 times it's EBITDA.

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

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

	<u>2018</u>	<u>2017</u>
Short Term Debt	12,000,000	128,000,000
Long Term Debt	100,000,000	0
Preferred Bonds 2021	100,000,000	100,000,000
Preferred Bonds 2027	80,000,000	80,000,000
Cash & Cash equivalents	(6,211,412)	(4,558,153)
Total Net Debt	<u>285,788,588</u>	<u>303,441,847</u>
Common Shares	106,098,875	106,098,875
Comprehensive Profit or loss	(400,889)	(586,915)
Accumulated Earnings	64,790,933	58,133,255
Total Equity	<u>170,488,919</u>	<u>163,645,215</u>
Indebtedness Ratio	168%	185%
Total Debt to EBITDA (times) (Note 13)	3.20	3.50

(28) Objectives and policies of financial risk management

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

The risks are described in each subsequent section.

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

28.1 Market Risk

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

28.2 Interest Rate Risk

The interest rate risk is the risk that the fair value or future cash flows of a financial instrument may fluctuate as a result of variations in market interest rates. The Company is exposed to interest rate risk due to debt contracted at a floating interest rate. The risk is managed by the Company maintaining a proper balance between contracted fixed and floating interest rate. To minimize the impact of fluctuations in interest

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

rates in our cash flows, the Company has the practice of negotiating the margins with our banking institutions of preference. In recent years, we have been able to reduce the margins about our lines of credit that not guaranteed. With the goal of minimizing the impact of fluctuations in the interest rate in the cash flow the Company has the practice of negotiating the best margins with the most preferred financial entities in Panama.

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

As of December 31, 2018, the Company holds 4% (2017: 41%) of the debt contracted at a floating interest rate and 96% (2017: 59%) at a fixed interest rate. The Administration's position with respect to its financing structure has been to contract the majority of its short-term debt at a fixed rate within a range of over 60% and at a variable rate of 40%. The financing structure existing at the end of the 2018 period is of a conjunctural nature given that at this time it is practical for the Company to access its credit facilities.

28.3 Foreign Exchange risk

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

28.4 Credit Risk

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

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

The credit risk of the Company's consumer customers is managed in part by requiring a security deposit equivalent to one-month billing for all new customers. (See Note 14) Existing customers with good payment history can open additional accounts without this security deposit. The Company believes that it has no significant concentration of credit risk with respect to non-governmental accounts. The concentration of credit risk is limited because the Company is exclusively dedicated to the distribution and marketing of electricity to customers located in its concession area. The Company does not believe that there is a risk of significant loss because of the concentration of credit, given that many their customers who make up the portfolio are geographically dispersed.

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

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

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

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

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

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

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

	<u>2018</u>	<u>2017</u>
Cash & Cash equivalente	6,211,412	4,558,153
Accounts Receivable *	10,033,023	18,401,627
Other Accounts Receivable *	798,391	83,366
Other current assets	<u>737,022</u>	<u>679,162</u>
Maximum exposure of Credit Risk	<u>17,779,848</u>	<u>23,722,308</u>

* Corresponds to the value of the provision for impairment of accounts receivable of public services.

28.5 Liquidity Risk

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

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

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

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

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

	<u>In Books</u>	<u>Less than 1 year</u>	<u>1-2 years</u>	<u>2 to 3 years</u>	<u>4 to 5 years</u>	<u>5 years or more</u>	<u>Total contractual obligation</u>
2018							
Non-derivative financial liabilities							
Credit facilities & loans	293,724,053	27,746,778	15,634,000	111,834,000	8,034,000	202,461,667	365,710,445
Suppliers & other accounts payable	283,617,742	227,230,776	6,930,729	5,336,172	4,213,403	40,322,038	284,033,118
Benefits to employees	375,893	21,376	20,553	19,671	18,766	304,925	385,291
Other Liabilities	2,439,222	2,439,222					2,439,222
Total	<u>580,156,910</u>	<u>257,438,152</u>	<u>22,585,282</u>	<u>117,189,843</u>	<u>12,266,169</u>	<u>243,088,630</u>	<u>652,568,076</u>
2017							
Non-derivative financial liabilities							
Credit facilities & loans	309,424,837	141,220,761	11,384,000	11,384,000	107,584,000	102,704,000	374,276,761
Suppliers & other accounts payable	196,180,369	136,475,790	16,938,820	4,172,566	3,794,524	35,080,147	196,461,847
Benefits to employees	664,288	37,840	36,318	34,680	32,163	538,338	679,339
Other Liabilities	2,621,402	2,621,402					2,621,402
Total	<u>508,890,896</u>	<u>280,355,793</u>	<u>28,359,138</u>	<u>15,591,246</u>	<u>111,410,687</u>	<u>138,322,485</u>	<u>574,039,349</u>

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

(29) Measurement of fair value on a recurring and non-recurring basis

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

- Based on prices quoted in the assets market for assets or liabilities that are identical to those that the Company can access on the date of the measurement (level 1).
- On the basis of valuation techniques commonly used by market participants that use different variables of the quoted prices that are observable for assets or liabilities, directly or indirectly (level 2).
- Based on internal valuation techniques for discounted cash flows or other valuation models, using variables estimated by the Company that are not observable for the asset or liability, in the absence of variables observed in the market (level 3).

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

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

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

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

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

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

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

	<u>Valuation techniques</u>	<u>Non-observable variable</u>	<u>Range (weighted average)</u>
Liabilities			
Debt Instrument Variable Rate	Discounted cash flows	5.50% Discount Rate	1.30% -1.40% LIBOR 3M + Márgen

	2018			
	<u>Book Value</u>	<u>Fair Value estimated</u>		<u>Total</u>
		<u>Level 1</u>	<u>Level 3</u>	
Liabilities				
Debt Instrument – Fixed Rate	293,724,053	307,897,166		307,897,166
Suppliers and Other accounts payable	283,617,742		281,552,743	281,552,743
Employee benefits	375,893		375,893	375,893
Other Liabilities	2,439,222		2,260,691	2,260,691
Total	<u>580,156,910</u>	<u>307,897,166</u>	<u>284,189,327</u>	<u>592,086,493</u>

	2017			
	<u>Book Value</u>	<u>Fair Value estimated</u>		<u>Total</u>
		<u>Level 1</u>	<u>Level 3</u>	
Liabilities				
Debt Instrument – Fixed Rate	309,424,837	325,577,000		325,577,000
Suppliers and Other accounts payable	196,180,369		194,456,117	194,456,117
Employee benefits	664,288		664,288	664,288
Other Liabilities	2,621,402		2,420,263	2,420,263
Total	<u>508,890,896</u>	<u>325,577,000</u>	<u>197,540,668</u>	<u>523,117,668</u>

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

(30) Segment information

The Company has two reportable segments, as described below, which are strategic business units of the Company. The strategic business units offer different products and services are managed separately because they require different marketing strategies. For each of the strategic business units, the Chief Executive of the Company 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 Company has the responsibility of installing, operating and maintaining the public lighting in the concession area.
Sales of Assets	Sale of spare parts and provision of technical, commercial and any other complementary services to the provision of electricity service

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

ELEKTRA NORESTE, S. A. & SUBSIDIARY

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

(Panama, Republic of Panama)

Notes to the consolidated financial statements for the year ended 31st December 2018.

ELEKTRA NORESTE, S. A. Y SUBSIDIARIA

(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 2018

(In balboas)

	Segments to be informed					
	Services Provided		Sale of Assets		Consolidated	
	2018	2017	2018	2017	2018	2017
Services Provided	670,037,134	626,795,596	1,340,246	0	671,377,380	626,795,596
Sale of Assets	0	0	342,207	0	342,207	0
Other Income	10,020,454	8,300,495	33,220	0	10,053,674	8,300,495
Total Income from ordinary activities	680,057,588	635,096,091	1,715,673	0	681,773,261	635,096,091
Other income	2,128,731	1,750,027	0	0	2,128,731	1,750,027
Total Income	682,186,319	636,846,118	1,715,673	0	683,901,992	636,846,118
Cost for Services provided and sale of assets	612,208,789	560,564,601	903,442	0	613,112,231	560,564,601
Administrative expenses	24,131,318	21,360,125	110,983	0	24,242,301	21,360,125
Impairment in Accounts receivable	1,875,120	2,628,232	13,412	0	1,888,532	2,628,232
Other expenses	1,381,375	2,440,461	0	0	1,381,375	2,440,461
Financial Income	259,782	156,775	0	0	259,782	156,775
Financial costs	16,951,580	14,800,753	0	0	16,951,580	14,800,753
Net Profit for the year before Tax	25,897,919	35,208,721	687,836	0	26,585,755	35,208,721
Income tax for the period	5,769,343	10,587,446	158,889	0	5,928,232	10,587,446
Net Profit for the year before net movement in balances in deferred regulatory accounts	20,128,576	24,621,275	528,947	0	20,657,523	24,621,275
Net Movement in balance of regulatory accounts related to Profit and Loss	18,055,341	11,098,269	0	0	18,055,341	11,098,269
Net Movement arising in deferred taxes from balances of regulatory accounts related to profit or loss	(5,416,602)	(3,329,481)	0	0	(5,416,602)	(3,329,481)
Net Income of the year and the net movement in balances in deferred regulatory accounts	32,767,315	32,390,063	528,947	0	33,296,262	32,390,063
Other comprehensive income (loss) net of tax						
Items that will not be reclassified later to Profit or Loss:						
New measurements of defined benefits plan	265,751	(243,637)	0	0	265,751	(243,637)
Income Tax related to the components that will not be reclassified	(79,725)	73,091	0	0	(79,725)	73,091
Other comprehensive income (loss) net of taxes	186,026	(170,546)	0	0	186,026	(170,546)
Total Other comprehensive income (loss) for the year	32,953,341	32,219,517	528,947	0	33,482,288	32,219,517
Total Assets	757,819,301	681,819,923	845,793	0	758,159,909	681,819,923
Total Liabilities	588,126,175	518,174,708	266,791	0	587,670,990	518,174,708

(31) Subsequent events after the reporting date

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