



**FREE ENGLISH TRANSLATION FROM SPANISH VERSION**

**Elektra Noreste, S.A.**

(51% Owned by Panama Distribution Group, S.A.)

Financial Statements for the year ended  
December 31, 2015 and Independent Auditors'  
Report of March 7, 2016

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

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

## **Independent Auditors' Report and 2015 Financial Statements**

<b>Contents</b>	<b>Pages</b>
Independent Auditor's Report	1
Statement of financial position	2 - 3
Statement of profit or loss and other comprehensive loss	4
Statement of changes in shareholder's equity	5
Statement of cash flows	6
Notes to the financial statements	7 - 61

## FREE ENGLISH TRANSLATION FROM SPANISH VERSION

### INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of **Elektra Noreste, S.A.** which comprise the statement of financial position as at December 31, 2015, and the statement of profit or loss and other comprehensive loss, statement of changes in shareholder's equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as Management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. These standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Opinion***

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Elektra Noreste, S.A.**, as at December 31, 2015, and its results of operations and cash flows for the year then ended in accordance with International Financial Reporting Standards.



March 7, 2016  
Panama, Republic of Panama

## Elektra Noreste, S.A.

(51% Owned by Panama Distribution Group, S.A.)

### Statement of financial position at December 31, 2015

	Notes	2015	2014
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment, net	5	420,748,492	365,475,708
Investment property	6	2,480,209	2,142,300
Other intangible assets	7	19,563,006	15,930,605
Deferred tax asset	25	3,206,752	2,265,839
Employee benefits	16	39,642	529,116
Other assets	9	501,047	1,001,777
Total non-current assets		<u>446,539,148</u>	<u>387,345,345</u>
<b>Current assets</b>			
Inventories	10	25,867,559	18,084,905
Trade and other receivables	8	98,870,086	156,236,417
Current tax assets		-	11,358,854
Other assets	9	361,957	309,375
Cash and bank balances	11	2,146,109	4,214,886
Total current assets		<u>127,245,711</u>	<u>190,204,437</u>
<b>Total assets</b>		<u>573,784,859</u>	<u>577,549,782</u>
Balances of regulatory deferred debit accounts	19	-	11,105,450
Deferred tax assets related to the balances of deferred regulatory accounts	19	<u>5,704,834</u>	<u>-</u>
<b>Total assets and debit balances of deferred regulatory accounts</b>		<u>579,489,693</u>	<u>588,655,232</u>

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

**Elektra Noreste, S.A.**

(51% Owned by Panama Distribution Group, S.A.)

**Statement of financial position  
at December 31, 2015 - continued**

<b>Equity and liabilities</b>	<b>Notes</b>	<b>2015</b>	<b>2014</b>
<b>Equity</b>			
Issued capital	12	106,642,962	106,642,962
Treasury stocks	12	(544,087)	(544,087)
Other accumulated comprehensive loss	13	(312,952)	(224,806)
Retained earnings		-	33,832,005
Net profit for the year		<u>31,295,275</u>	<u>38,257,693</u>
<b>Total equity</b>		<u>137,081,198</u>	<u>177,963,767</u>
<b>Non-current liabilities</b>			
Credits and loans	14	200,975,975	200,607,076
Other financial liabilities	15	5,138,536	3,937,505
Employee benefits	16	419,104	412,683
Deferred tax liabilities	25	2,530,105	15,837,175
Provisions	17	425,132	1,975,980
Other liabilities	18	<u>3,015,434</u>	<u>3,230,283</u>
<b>Total non-current liabilities</b>		<u>212,504,286</u>	<u>226,000,702</u>
<b>Current liabilities</b>			
Credits and loans	14	27,000,000	12,000,000
Other financial liabilities	15	154,695,476	169,322,708
Employee benefits	16	38,882	36,420
Income tax payable		25,555,074	-
Provisions	17	<u>3,598,664</u>	<u>-</u>
<b>Total current liabilities</b>		<u>210,888,096</u>	<u>181,359,128</u>
<b>Total liabilities</b>		<u>423,392,382</u>	<u>407,359,830</u>
Balances of regulatory deferred credit accounts	19	19,016,113	-
Deferred tax liabilities related to the balances of deferred regulatory account	25	<u>-</u>	<u>3,331,635</u>
Total liabilities and credit balances of deferred regulatory accounts		<u>442,408,495</u>	<u>410,691,465</u>
<b>Total equity and liabilities</b>		<u>579,489,693</u>	<u>588,655,232</u>

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

**Elektra Noreste, S.A.**

(51% Owned by Panama Distribution Group, S.A.)

**Statement of profit or loss and other comprehensive loss  
for the year ended December 31, 2015**

	<b>Notes</b>	<b>2015</b>	<b>2014</b>
<b>Continuing operations</b>			
Rendering of services		588,273,224	664,466,628
Other income		15,396,323	13,402,803
<b>Income from continuing operations</b>	20	<u>603,669,547</u>	<u>677,869,431</u>
Costs for rendering services	21	525,404,771	592,645,763
Administrative expenses	22	19,949,232	17,553,513
Other expenses	23	1,011,940	1,073,399
Finance income	24	207,909	353,467
Finance costs	24	12,510,857	12,378,895
<b>Profit before tax</b>		<u>45,000,656</u>	<u>54,571,328</u>
Income tax expense	25	13,705,381	16,313,635
<b>Net profit for the year</b>		<u>31,295,275</u>	<u>38,257,693</u>
<b>Other comprehensive income (loss), net of tax</b>			
<b>Items which will not be reclassified later to profit or loss of the year:</b>			
Remeasurement of defined benefit obligations	13	(164,051)	7,587
Income tax relating to components which will not be reclassified	13, 25	75,905	10,990
<b>Other comprehensive income (loss), net of tax</b>		<u>(88,146)</u>	<u>18,577</u>
<b>Total comprehensive income for the year</b>		<u>31,207,129</u>	<u>38,276,270</u>
Earnings per share:			
Basic profits from continuing operations	26	<u>0.63</u>	<u>0.77</u>

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

**Elektra Noreste, S.A.**

(51% Owned by Panama Distribution Group, S.A.)

**Statement of changes in shareholders' equity  
for the year ended December 31, 2015**

	Issued capital (Note 12)	Treasury stocks (Note 12)	Other accumulated comprehensive loss <u>Defined benefits plan (Note 13)</u>	Retained earnings	Total
<b>Balance at 1 January 2014</b>	106,642,962	(544,087)	(243,383)	35,081,976	140,937,468
Profit for the year	-	-	-	38,257,693	38,257,693
Other comprehensive income of the year, net of tax	-	-	18,577	-	18,577
<b>Total comprehensive income for the year</b>	<u>106,642,962</u>	<u>(544,087)</u>	<u>(224,806)</u>	<u>73,339,669</u>	<u>179,213,738</u>
Complementary dividend tax paid, net	-	-	-	(1,249,971)	(1,249,971)
<b>Balance at 31 December 2014</b>	<u>106,642,962</u>	<u>(544,087)</u>	<u>(224,806)</u>	<u>72,089,698</u>	<u>177,963,767</u>
Profit for the year	-	-	-	31,295,275	31,295,275
Other comprehensive loss of the year, net of tax	-	-	(88,146)	-	(88,146)
<b>Total comprehensive income for the year</b>	<u>106,642,962</u>	<u>(544,087)</u>	<u>(312,952)</u>	<u>103,384,973</u>	<u>209,170,896</u>
Dividends declared	-	-	-	(74,080,704)	(74,080,704)
Accredited complementary dividend tax	-	-	-	1,991,006	1,991,006
<b>Balance at 31 December 2015</b>	<u>106,642,962</u>	<u>(544,087)</u>	<u>(312,952)</u>	<u>31,295,275</u>	<u>137,081,198</u>

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

**Elektra Noreste, S.A.**

(51% Owned by Panama Distribution Group, S.A.)

**Statement of cash flows  
for the year ended December 31, 2015**

	<b>Notes</b>	<b>2015</b>	<b>2014</b>
<b>Cash flows from operating activities:</b>			
Net profit for the year		31,295,275	38,257,693
Adjustments to reconcile net income of the period to net cash used in operating activities:			
Depreciation and amortization of property, plant and equipment and intangible assets	5, 7	23,379,561	20,325,546
Gain on changes in fair value of investment property		(337,909)	(45,600)
Provisions, and defined benefits plan after employment and long-term		5,689,291	3,225,092
Deferred income tax		(23,208,547)	14,318,317
Current income tax		36,913,928	1,995,318
Finance costs		12,510,857	12,378,895
Profit or loss from disposal of property, plant and equipment	5, 23	1,011,940	1,073,399
Other non-cash income and expenses		365,461	385,487
		<u>87,619,857</u>	<u>91,914,147</u>
<b>Changes in working capital</b>			
Increase in inventories		(7,782,654)	(2,046,158)
Decrease (increase) in trade and other receivables		54,643,336	(74,307,808)
Decrease (increase) in deferred regulatory accounts		30,121,563	(6,919,697)
Decrease in other assets		448,148	73,330
(Decrease) increase in other financial liabilities		(13,537,102)	57,497,741
Decrease in provisions		(918,480)	(114,404)
Increase (decrease) in employee benefits		410,211	(90,864)
Income tax paid		-	(11,350,707)
		<u>151,004,879</u>	<u>54,655,580</u>
<b>Net cash generated by operating activities</b>			
<b>Cash flows from investing activities:</b>			
Purchase of property, plant and equipment	5, 7	(83,686,598)	(53,656,182)
Other cash flows from investing activities		389,913	93,440
		<u>(83,296,685)</u>	<u>(53,562,742)</u>
<b>Net cash flows used in investing activities</b>			
<b>Cash flows from financing activities:</b>			
Proceeds from short term borrowings		15,000,000	12,000,000
Interest paid, including capitalized interest		(12,687,273)	(12,586,399)
Payment of dividends	12	(74,080,704)	-
Other cash flows from financing activities		1,991,006	(1,249,971)
		<u>(69,776,971)</u>	<u>(1,836,370)</u>
<b>Net cash flows used in financing activities</b>			
Net decrease in cash and bank balances		<u>(2,068,777)</u>	<u>(743,532)</u>
Cash and bank balances at the beginning of the year		<u>4,214,886</u>	<u>4,958,418</u>
<b>Cash and bank balances at the end of the year</b>	<b>11</b>	<u>2,146,109</u>	<u>4,214,886</u>

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



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

(51% Owned by Panama Distribution Group, S.A.)

### **Notes to the financial statements for the year ended December 31, 2015**

#### **1. General information**

Elektra Noreste, S.A. (hereinafter "ENSA" or the "Company") is a company organized as a result of the privatization of the Instituto de Recursos Hidráulicos y Electrificación ("IRHE"). The Company was incorporated through Public Deed No.143 of January 19, 1998 and began operations in January 1998, and is owned by Panama Distribution Group, S.A. ("PDG"). The authorized capital stock of the Company is fifty million common shares with no par value. To date, Panama Distribution Group, S.A. ("PDG"), owns 51% of the authorized common shares issued and outstanding of the Company, while the Panamanian government and former IRHE employees own 48.25% and 0.43%, respectively. The remaining shares are kept as treasury shares.

The Company's activities include the purchase of energy in blocks and its transport through the distribution networks to the customers. Furthermore, the Company carries out linked voltage transformation, delivery of power to consumers, metering, reading, invoicing and power collection. Similarly, the Company has the responsibility of installing, operating and maintaining public/street lighting in the concession area. Furthermore, the Company is authorized to carry out power generation activities up to a limit of 15% of the maximum demand and power in the concession area.

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

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

The regulatory regime is mainly formed by the following standards:

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

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

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### **Notes to the financial statements for the year ended December 31, 2015**

#### **1.2 Regulatory entities**

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

- **Secretaría de Energía:** its mission is to formulate, propose and promote the national energy policy with the purpose of guaranteeing secure supply, rational and efficient use of the resources and energy in a sustainable manner, according to the National Development Plan. Currently, the Empresa de Transmisión Eléctrica (ETESA) manages the formation of 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 user attention sector. National directors are responsible for issuing resolutions relating to their respective industries and appeals to these resolutions are resolved by the general manager and comprise the final stage of the administrative process.

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

#### **1.3 Concession agreement**

According to 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 are allowed to purchase power from other agents of the electric market.

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

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### **Notes to the financial statements for the year ended December 31, 2015**

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

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

#### **1.4 External audit**

According to the Code of Good Corporate Governance, external audit is set as a control mechanism, which aims at examining the accounting information in general and the financial statements, as well as the surrender of an independent opinion regarding the reasonableness these indicate that the financial situation of the Company to cut each accounting period.

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

### **2.1 New and/or revised standards and interpretations still not in force**

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

#### Amendments to IAS 27 Equity Method in Separate Financial Statements

The amendments focus on separate financial statements and allow the use of the equity method in such statements. Specifically, the amendments allow an entity to account for investments in subsidiaries, joint ventures and associates in its separate financial statements:

- at cost,
- in accordance with IFRS 9 (or IAS 39 for entities that have not yet adopted IFRS 9), or
- using the equity method as described in IAS 28 Investments in Associates and Joint Ventures.

The same accounting must be applied to each category of investments.

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

(51% Owned by Panama Distribution Group, S.A.)

### **Notes to the financial statements for the year ended December 31, 2015**

The amendments also clarify that when a parent ceases to be an investment entity, or becomes an investment entity, it should account for the change from the date when the change in status occurs.

The amendments apply retrospectively for annual periods beginning on or after 1 January 2016 with earlier application permitted.

#### IFRS 9 Financial Instruments (as revised in 2014)

In July 2014, the IASB concluded the reform of financial instruments accounting and issued IFRS 9 (as revised in 2014), which contains the requirements for a) the classification and measurement of financial assets and financial liabilities, b) impairment methodology, and c) general hedge accounting. IFRS 9 (as revised in 2014) will supersede IAS 39 Financial Instruments: Recognition and Measurement upon its effective date.

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

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

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

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

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

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### **Notes to the financial statements for the year ended December 31, 2015**

#### Phase 2: Impairment methodology

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

#### Phase 3: Hedge accounting

The general hedge accounting requirements of IFRS 9 retain the three types of hedge accounting mechanisms in IAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify as hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is no longer required. Far more disclosure requirements about an entity's risk management activities have been introduced.

IFRS 9 (2014 revised version) is effective for annual periods beginning on January 1, 2018 or later and allows early application. If an entity decides to apply IFRS 9 in advance, you must comply with all requirements of IFRS 9 simultaneously, except some respects. ENSA is analyzing the impact on their financial statements and adopt this standard as of January 1, 2018.

#### Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. IAS 28 and IFRS 10 are amended, as follows:

IAS 28 has been amended to reflect the following:

- Gains and losses resulting from transactions involving assets that do not constitute a business between an investor and its associate or joint venture are recognised to the extent of unrelated investors' interests in the associate or joint venture.
- Gains or losses from downstream transactions involving assets that constitute a business between an investor and its associate or joint venture should be recognised in full in the investor's financial statements.

#### IFRS 10 has been amended to reflect the following

Gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

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

(51% Owned by Panama Distribution Group, S.A.)

### **Notes to the financial statements for the year ended December 31, 2015**

The amendments apply prospectively to transactions occurring in annual periods beginning on or after 1 January 2016 with earlier application permitted. In the June 2015 IASB meeting, the IASB tentatively decided to defer the mandatory effective date of these amendments. No exposure draft has yet been issued at the time of writing.

#### Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations

The amendments to IFRS 11 provide guidance on how to account for the acquisition of an interest in a joint operation in which the activities constitute a business as defined in IFRS 3 Business Combinations. Specifically, the amendments state that the relevant principles on accounting for business combinations in IFRS 3 and other standards (e.g. IAS 12 Income Taxes regarding recognition of deferred taxes at the time of acquisition and IAS 36 Impairment of Assets regarding impairment testing of a cash-generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

A joint operator is also required to disclose the relevant information required by IFRS 3 and other standards for business combinations.

Entities should apply the amendments prospectively to acquisitions of interests in joint operations (in which the activities of the joint operations constitute businesses as defined in IFRS 3) occurring from the beginning of annual periods beginning on or after 1 January 2016. Earlier application is permitted.

#### IFRS 7 Financial Instruments: Disclosing Information – Off-setting Financial Assets and Financial Liabilities

These amendments require disclosing information on compensation rights and similar agreements (i.e., collateral agreements). These disclosures will provide useful information to users to evaluate the effect or the potential effects of compensation agreements, including compensation rights associated to the recognized financial assets and the recognized financial liabilities of the entity on the financial situation of the entity. New disclosures are mandatory for all financial instruments compensated pursuant to IAS 32. These amendments do not have any material impact on ENSA's financial situation or results.

#### Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception (Effective for annual periods beginning on or after 1 January 2016)

The amendments clarify that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with IFRS 10. Consequential amendments have also been made to IAS 28 to clarify that the exemption from applying the equity method is also applicable to an investor in an associate or joint venture if that investor is a subsidiary of an investment entity that measures all its subsidiaries at fair value.

The amendments further clarify that the requirement for an investment entity to consolidate a subsidiary providing services related to the former's investment activities applies only to subsidiaries that are not investment entities themselves.

Moreover, the amendments clarify that in applying the equity method of accounting to an associate or a joint venture that is an investment entity, an investor may retain the fair value measurements that the associate or joint venture used for its subsidiaries.

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

(51% Owned by Panama Distribution Group, S.A.)

### **Notes to the financial statements for the year ended December 31, 2015**

Lastly, clarification is also made that an investment entity that measures all its subsidiaries at fair value should provide the disclosures required by IFRS 12 Disclosures of Interests in Other Entities.

#### IAS 32 Financial Instruments: Presentation

The amendment to IAS 32 on December 2011 clarifies that offsetting rights should not be legally required during the normal course of business; however, they must also be required in the event of default or in the case of bankruptcy or insolvency of one or all counterparties holding an agreement, including the disclosing entity itself. The amendment also clarifies that offset rights should not be subject to a future event or should not be contingent to a future event. The impact for ENSA, if it applies changes in compensation, would be in the presentation of the financial statements. (Taking into consideration the effect on the coefficients or leverage indicators, regulatory capital requirements, etc.)

#### IFRS 13 Fair Value Measurement

IFRS 13 establishes that the sole guide for all assessments is the fair value. IFRS 13 does not change when the fair value is required, however, it offers a guide on how to determine the fair value according to the IFRS when required or permitted. These modifications do not bear any material impact on ENSA's financial position and results.

#### IFRS 14 Regulatory Deferral Accounts

IFRS 14 allows an entity whose activities are subject to regulated rates, to continue applying most part of the existing accounting policies of regulatory accounts balances deferred in their first adoption of IFRS. The standard does not apply to entities who have already adopted IFRS. Furthermore, an entity which principles do not allow the recognition of assets and liabilities at a regulated rate or, which have not adopted said policies according to their PCGA in force, should not be recognized as their first application of the IFRS. The balances of these accounts must be presented separately in the financial situation statement as well as in the result of the period and other comprehensive results. IFRS 14 specifies the accounting for regulatory deferral account balances that arise from rate-regulated activities. The Standard is available only to first-time adopters of IFRSs who recognised regulatory deferral account balances under their previous GAAP. IFRS 14 permits eligible first-time adopters of IFRSs to continue their previous GAAP rate-regulated accounting policies, with limited changes, and requires separate presentation of regulatory deferral account balances in the statement of financial position and statement of profit or loss and other comprehensive income. Nota de la Traductora: Lo sombreado en verde está como sale en el Modelo 2014 de IFRS. No sé si lo quieren dejar o usar lo que ya estaba hecho que dice casi lo mismo) Effective for annual periods beginning January 1, 2016; this standard was adopted in advance by ENSA in its first annual financial statements under IFRS.

#### IFRS 15 Revenue from Contracts with Customers

Issued in May 2014, IFRS 15 provides a comprehensive framework for the recognition of income from contracts with customers from ordinary activities, because it replaces and eliminates all the income requirements in IFRS (IAS 11 Construction Contracts, IAS 18 Revenue from ordinary activities, IFRIC 13 Customer Loyalty Programs, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC 31 (Revenue-Barter Transactions Involving Advertising Services) and applies to all income derived from contracts with customers. It also provides criteria for the recognition of costs incurred in the performance of a contract which is not within the scope of another standard (for example, IAS 2 Inventories, IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets). Effective for annual periods beginning on or after January 1, 2018. Early application is permitted and in such a case, the fact shall be disclosed. This new standard is more prescriptive than the current IFRS and offers more application guides. The reporting requirements are also more extensive. The adoption will be an important issue with possible changes in accounting, systems and processes.

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

(51% Owned by Panama Distribution Group, S.A.)

### **Notes to the financial statements for the year ended December 31, 2015**

#### Amendments to IAS 1 Disclosure Initiative

The amendments were a response to comments that there were difficulties in applying the concept of materiality in practice as the wording of some of the requirements in IAS 1 had in some cases been read to prevent the use of judgement. Certain key highlights in the amendments are as follows:

- An entity should not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions.
- An entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material.
- In the other comprehensive income section of a statement of profit or loss and other comprehensive income, the amendments require separate disclosures for the following items:
  - the share of other comprehensive income of associates and joint ventures accounted for using the equity method that will not be reclassified subsequently to profit or loss; and
  - the share of other comprehensive income of associates and joint ventures accounted for using the equity method that will be reclassified subsequently to profit or loss.

The amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2016 with earlier application permitted. Application of the amendments need not be disclosed.

#### IAS 16 and IAS 38 Clarifications of Acceptable Methods Depreciation and Amortization

The amendments of May 2014 clarify in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets, that revenues reflect a pattern of the economic benefits generated from the operation of a business (of which the asset is a part), rather than the economic benefits that are consumed through the use of the asset. As a result, the proportion of revenues generated on total income expected to be generated, cannot be used for amortization of intangible assets and may only be used in very limited circumstances for the amortization of intangible assets. Effective for annual periods beginning after January 1, 2016. This standard has no impact for ENSA, since it currently does not use a method based on income; the depreciation method used by the Company is the straight-line method.

#### NIC 7 Disclosure Initiative

The amendment to IAS 7, "Disclosure Initiative", introduces new disclosure requirements that allow users of financial statements to assess changes in obligations from financing activities, including both changes caused by cash flows and non-cash changes. It establishes a way to comply with the disclosure requirement by providing a reconciliation between beginning and ending balances in the statement of financial situation of obligations resulting from financing activities. When an entity reveals such reconciliation, it must provide sufficient information that enables users of the financial statements to link concepts included in the reconciliation with the statement of financial situation and the cash flows statements. ENSA will adopt this amendment as of January 1, 2017.



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

(51% Owned by Panama Distribution Group, S.A.)

### **Notes to the financial statements for the year ended December 31, 2015**

#### NIC 12 Recognition of Deferred Tax Assets for Unrealized Losses

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

### **3. Significant accounting policies**

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

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

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

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

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

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

The financial statements are expressed in Balboas, the monetary unit of the Republic of Panama, in which the Company is incorporated and operates, and their figures are expressed in units. As at December 31, 2015 and for the year ended on that date, the Balboa has been maintained at the same par value of the US dollar, which circulates freely in Panama. The Republic of Panama does not issue paper money and instead uses the dollar as legal tender.

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

(51% Owned by Panama Distribution Group, S.A.)

### **Notes to the financial statements for the year ended December 31, 2015**

#### **3.2 Classification of current and non-current assets and liabilities**

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

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

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

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

#### **3.3 Cash and bank balances**

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

#### **3.4 Revenue recognition**

##### **3.4.1 Ordinary income**

Ordinary income corresponds to the development of the main activity the Company that is providing the services of distribution and commercialization of power, these are recognized when the service is provided or at the time of delivery of the goods, to the extent that is probable that the economic benefits enter into the Company and the revenue can be measured reliably. Income is measured at the fair value of the consideration received or receivable, excluding taxes or other obligations. Discounts granted are recorded as less value than the income.

##### **3.4.2 Interest income**

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

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

(51% Owned by Panama Distribution Group, S.A.)

### **Notes to the financial statements for the year ended December 31, 2015**

#### **3.4.3 Rental income**

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

#### **3.5 *Construction contracts***

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

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

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

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

The difference between the income recognized in the profit and loss statement and billing is presented as an asset in the statement of financial situation called trade receivables and other receivables, or as a liability known as other financial liabilities.

#### **3.6 *Government subsidies***

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

#### **3.7 *Taxes***

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

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

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

(51% Owned by Panama Distribution Group, S.A.)

### **Notes to the financial statements for the year ended December 31, 2015**

#### **3.8 *Income tax***

##### **3.8.1 Current**

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

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

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

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

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

The Company is responsible 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.

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

(51% Owned by Panama Distribution Group, S.A.)

### **Notes to the financial statements for the year ended December 31, 2015**

#### **3.9 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.

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, costs are capitalized by loans. 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:

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

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

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

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

(51% Owned by Panama Distribution Group, S.A.)

### **Notes to the financial statements for the year ended December 31, 2015**

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

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

#### **3.10 Leasing**

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

Leases are classified as operating and financial leasing. A finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified asoperating leases.

##### **3.10.1 ENSA as Lessee**

Payments for operating leases, including incentives received are recognized as expenses in the statement of comprehensive 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.

##### **3.10.2 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 so as to reflect a constant net investment performance rate. Contingent leases are recognized as income in the period in which they are obtained.

#### **3.11 Borrowing costs**

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

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

(51% Owned by Panama Distribution Group, S.A.)

### **Notes to the financial statements for the year ended December 31, 2015**

#### **3.12 Investment properties**

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

Subsequent to 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 loss in the period in which they arise.

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

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

#### **3.13 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 provided that they meet the criteria for recognition as an asset and the generation of the asset should be classified in: research phase and development phase; if it is not possible to distinguish between the research phase from the development phase, disbursements should be reflected in the statement of profit or loss and other comprehensive loss in the period in which they were incurred.

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

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

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

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

(51% Owned by Panama Distribution Group, S.A.)

### **Notes to the financial statements for the year ended December 31, 2015**

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

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

#### **3.13.1 Other intangible assets**

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

### **3.14 *Financial instruments***

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

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

### **3.15 *Financial assets***

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

A financial asset is measured subsequently at an amortized cost using the effective interest rate if the asset is kept within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding. Notwithstanding the foregoing, the Company can irrevocably designate a financial asset as measured at fair value through profit or loss.

#### **3.15.1 Impairment of financial instruments**

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



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

(51% Owned by Panama Distribution Group, S.A.)

### **Notes to the financial statements for the year ended December 31, 2015**

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

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

- Significant financial difficulties of the issuer or of the debtor;
- Breach of contracts, such as default or delinquency in the interest or principal payments;
- The lender gives concessions or advantages which it would not have granted under other circumstances;
- 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 recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying value of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been determined if the impairment loss had the impairment not been recognised. The amount of the reversal is recognized in profit or loss of the period.

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

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

#### **3.15.2 Financial liabilities**

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

Financial liabilities at fair value through profit or loss include liabilities held for trading, financial liabilities designated at the time of initial recognition at fair value through profit or loss and 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.

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

(51% Owned by Panama Distribution Group, S.A.)

### **Notes to the financial statements for the year ended December 31, 2015**

The liabilities at amortized cost are measured using the effective interest rate. The gains and losses are recognized in the statement of comprehensive loss and other comprehensive 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 loss.

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

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

If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises 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 recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

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

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

#### **3.15.4 Compensation of financial instruments**

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

#### **3.15.5 Inventories**

Inventories are classified as 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.**

(51% Owned by Panama Distribution Group, S.A.)

### **Notes to the financial statements for the year ended December 31, 2015**

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

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

#### **3.15.6 Impairment of non-financial assets**

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

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

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

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

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

#### **3.16 *Provisions***

The provisions are recorded when the Company has a present obligation, legal or implied, as a result 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.

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

(51% Owned by Panama Distribution Group, S.A.)

### **Notes to the financial statements for the year ended December 31, 2015**

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

#### **3.16.1 Provision for dismantling**

The Company recognizes as part of the cost of a fixed asset in particular, provided that 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 cost of dismantling or restoration 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 must be determined taking as a reference the market yields of the bonds issued by the National Government.

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

#### **3.16.2 Onerous contracts**

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

#### **3.16.3 Contingent liabilities**

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

#### **3.16.4 Contingent assets**

The possible assets of nature, 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.

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

(51% Owned by Panama Distribution Group, S.A.)

### **Notes to the financial statements for the year ended December 31, 2015**

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

##### **3.17.1 Defined benefit plans**

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

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

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

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

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

The Company classifies as short term employee benefits those obligations with the employees, they hope to liquidate at the end of the twelve months following the end of the accounting period in which the obligation has been generated or the service provided. Some of these benefits are generated 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 had provided its services as a liability for the value that will be paid to the employee, by deducting the values already paid beforehand, and its counterpart as a period expense, unless another chapter forces or allows including the payments in the cost of an asset or inventory, for example, if the payment corresponds to employees whose services are directly related to the construction of a work, these will be capitalized to this asset.

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

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

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

(51% Owned by Panama Distribution Group, S.A.)

### **Notes to the financial statements for the year ended December 31, 2015**

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

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

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

#### **3.18 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 takes into account the characteristics of the asset or liability if market participants take into account these characteristics when assessing the asset or liability to the measurement date. The fair value for purposes of measurement and/or disclosure in these financial statements is determined on that basis, except for the share-based payment transactions, lease transactions and the measurements that have certain similarities with the fair value but that are not fair value, as the realizable value or the value in use. The fair value of all financial assets and liabilities is determined at the date of presentation of the financial statements, for recognition or disclosure in the notes to the financial statements.

The fair value is determined:

- Based on prices quoted in assets markets for assets or liabilities that are identical to those that the Company can access on the date of the measurement (level 1).
- On the basis of 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, non-financial assets and liabilities and greater detail of its measurement.

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

##### **3.18.1.1 Changes in accounting estimates**

During 2015, 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.**

(51% Owned by Panama Distribution Group, S.A.)

### **Notes to the financial statements for the year ended December 31, 2015**

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

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

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

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

##### **4.1 *Assessment 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.

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

##### **4.2 *The hypotheses used in the actuarial calculation of the post-employment obligations with the employees***

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

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

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



## Elektra Noreste, S.A.

(51% Owned by Panama Distribution Group, S.A.)

### Notes to the financial statements for the year ended December 31, 2015

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

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

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

#### 4.5 Future expenditures by dismantling obligations and withdrawal of assets

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

## 5. Property, plant and equipment, net

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

	2015	2014
Cost	623,437,309	553,182,037
Accumulated depreciation and impairment of the value	<u>202,688,817</u>	<u>187,706,329</u>
Total	<u>420,748,492</u>	<u>365,475,708</u>

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

2015	Networks, lines and cables	Plants, ducts and tunnels	Property under construction	Land and buildings	Equipment and machinery	Communications and computer equipment	Furniture, fixtures and office equipment	Other property, plant and equipment	Total
<b>Cost</b>									
Balance at January 1, 2015	284,023,399	118,309,051	45,654,490	27,420,805	63,981,562	7,014,631	1,345,842	5,432,258	553,182,038
Additions	31,301,617	18,506,325	84,469,937	10,842,459	9,483,948	1,829,593	251,072	684,563	157,369,514
Transfers	-	-	(79,717,208)	-	-	-	-	-	(79,717,208)
Disposals	(4,159,770)	(43,215)	-	(5,448)	(2,201,825)	(792,651)	(61,704)	(135,627)	(7,400,240)
Other changes	-	-	-	3,205	-	-	-	-	3,205
<b>Balance at December 31, 2015</b>	<u>311,165,246</u>	<u>136,772,161</u>	<u>50,407,219</u>	<u>38,261,021</u>	<u>71,263,685</u>	<u>8,051,573</u>	<u>1,535,210</u>	<u>5,981,194</u>	<u>623,437,309</u>
<b>Accumulated depreciation and impairment in value</b>									
Balance at January 1, 2015	102,588,126	52,813,700	-	6,667,223	18,578,314	4,373,643	725,808	1,959,515	187,706,329
Depreciation of the year	10,180,105	3,885,737	-	644,116	4,484,661	1,045,671	199,848	540,738	20,980,876
Disposals	(3,654,690)	(36,098)	-	(2,098)	(1,397,133)	(777,610)	(31,114)	(115,283)	(6,014,026)
Other changes	12,418	-	-	-	-	-	-	3,220	15,638
<b>Balance at December 31, 2015</b>	<u>109,125,959</u>	<u>56,663,339</u>	<u>-</u>	<u>7,309,241</u>	<u>21,665,842</u>	<u>4,641,704</u>	<u>894,542</u>	<u>2,388,190</u>	<u>202,688,817</u>
<b>Final balance of property, plant and equipment, net</b>	<u>202,039,287</u>	<u>80,108,822</u>	<u>50,407,219</u>	<u>30,951,780</u>	<u>49,597,843</u>	<u>3,409,869</u>	<u>640,668</u>	<u>3,593,004</u>	<u>420,748,492</u>

## Elektra Noreste, S.A.

(51% Owned by Panama Distribution Group, S.A.)

### Notes to the financial statements for the year ended December 31, 2015

2014	Network, lines and cables	Plants, ducts and tunnels	Property under construction	Land and buildings	Equipment and machinery	Communications and computer equipment	Furniture, fixtures and office equipment	Other property, plant and equipment	Total
<b>Cost</b>									
Balance at January 1, 2014	263,043,429	109,043,209	48,992,802	23,184,670	61,053,588	6,640,081	1,300,745	3,626,425	516,884,949
Additions	24,236,231	9,806,755	53,656,182	4,465,258	5,766,246	817,517	48,582	1,942,088	100,738,859
Transfers	-	-	(56,994,494)	-	-	-	-	-	(56,994,494)
Disposals	(3,256,261)	(540,913)	-	(229,123)	(2,838,272)	(442,967)	(3,485)	(136,256)	(7,447,277)
<b>Balance at December 31, 2014</b>	<b>284,023,399</b>	<b>118,309,051</b>	<b>45,654,490</b>	<b>27,420,805</b>	<b>63,981,562</b>	<b>7,014,631</b>	<b>1,345,842</b>	<b>5,432,257</b>	<b>553,182,037</b>
<b>Accumulated depreciation and impairment in value</b>									
Balance at January 1, 2014	96,550,887	49,389,346	-	6,236,766	16,555,164	4,042,972	546,020	1,581,729	174,902,884
Depreciation of the year	8,689,217	3,965,268	-	649,853	3,861,868	676,676	182,528	463,296	18,488,706
Disposals	(3,505,727)	(540,914)	-	(219,396)	(1,673,585)	(346,005)	(2,740)	(85,510)	(6,373,877)
Transfers	853,749	-	-	-	(165,133)	-	-	-	688,616
<b>Balance at December 31, 2014</b>	<b>102,588,126</b>	<b>52,813,700</b>	<b>-</b>	<b>6,667,223</b>	<b>18,578,314</b>	<b>4,373,643</b>	<b>725,808</b>	<b>1,959,515</b>	<b>187,706,329</b>
<b>Final balance, property, plant and equipment, net</b>	<b>181,435,273</b>	<b>65,495,351</b>	<b>45,654,490</b>	<b>20,753,582</b>	<b>45,403,248</b>	<b>2,640,988</b>	<b>620,034</b>	<b>3,472,742</b>	<b>365,475,708</b>

At the end of the periods, a test for the value impairment to assets was carried out for having registered intangible assets with an indefinite useful life, no impairments were identified in the long-lived assets.

The property under construction include capitalization of costs by loans for B/.702,022 (2014: B/.1,540,125), the average rate used to determine the amount of the costs for loans was 5.9504% (2014: 5.9415%), which is the effective interest rate specifically for this type of loan.

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

The main constructions in course correspond to the following:

Project	2015	2014
Corporate building	8,307,593	-
Loss reduction and reliability improvements	8,290,525	5,099,412
Substation and high voltage lines	5,380,745	15,250,120
Grid growth	8,565,335	10,364,868
ASEP special projects	3,721,517	724,945
Materials warehousing	3,513,840	309,101
Other individual projects	12,627,664	13,906,044
<b>Total</b>	<b>50,407,219</b>	<b>45,654,490</b>

## 6. Investment property

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

	2015	2014
Balance at beginning of year	2,142,300	1,697,505
Net profit or loss, for fair value adjustment	337,909	444,795
<b>Balance at end of year</b>	<b>2,480,209</b>	<b>2,142,300</b>

## Elektra Noreste, S.A.

(51% Owned by Panama Distribution Group, S.A.)

### Notes to the financial statements for the year ended December 31, 2015

The income from investment property leases for the period, amounted to B/.8,700 (2014: B/.8,700).

#### 7. Other intangible assets

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

	2015	2014
Cost	30,430,981	24,405,653
Accumulated amortization and impairment in value	<u>10,867,975</u>	<u>8,475,048</u>
Total	<u>19,563,006</u>	<u>15,930,605</u>

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

2015	Software and IT applications	Licenses	Other intangible assets <sup>1</sup>	Total
<b>Cost</b>				
Balance at January 1, 2015	15,258,322	8,024,560	1,122,771	24,405,653
Additions <sup>2</sup>	4,522,988	1,511,304	-	6,034,292
Disposals	(5,759)	-	-	(5,759)
Other changes	-	-	(3,205)	(3,205)
Balance at December 31, 2015	<u>19,775,551</u>	<u>9,535,864</u>	<u>1,119,566</u>	<u>30,430,981</u>
<b>Accumulated amortization and impairment in value</b>				
Balance at January 1, 2015	3,214,700	5,260,348	-	8,475,048
Amortization of the year	1,652,694	745,991	-	2,398,685
Disposals	(5,758)	-	-	(5,758)
Balance at December 31, 2015	<u>4,861,636</u>	<u>6,006,339</u>	<u>-</u>	<u>10,867,975</u>
<b>Final balance intangible assets, net</b>	<u>14,913,915</u>	<u>3,529,525</u>	<u>1,119,566</u>	<u>19,563,006</u>

2014	Software and IT applications	Licenses	Other intangible assets <sup>1</sup>	Total
<b>Cost</b>				
Balance at January 1, 2014	6,711,008	6,384,141	1,037,573	14,132,722
Additions <sup>2</sup>	<u>8,547,314</u>	<u>1,640,418</u>	<u>85,198</u>	<u>10,272,931</u>
Balance at December 31, 2014	<u>15,258,322</u>	<u>8,024,560</u>	<u>1,122,771</u>	<u>24,405,653</u>
<b>Accumulated amortization and impairment in value</b>				
Balance at January 1, 2014	1,971,591	4,501,484	-	6,473,075
Amortization of the year	1,077,976	758,864	-	1,836,840
Transfers (-/+)	<u>165,133</u>	<u>-</u>	<u>-</u>	<u>165,133</u>
Balance at December 31, 2014	<u>3,214,700</u>	<u>5,260,348</u>	<u>-</u>	<u>8,475,048</u>
Final balance, intangible assets, net	<u>12,043,623</u>	<u>2,764,211</u>	<u>1,122,771</u>	<u>15,930,605</u>

## Elektra Noreste, S.A.

(51% Owned by Panama Distribution Group, S.A.)

### Notes to the financial statements for the year ended December 31, 2015

At the end of the periods, a test for the value impairment to assets was carried out for having registered intangible assets with an indefinite useful life; no impairments were identified in the long-lived assets.

<sup>1</sup> Includes easements.

<sup>2</sup> Includes the purchases, capital disbursements that meet the recognition criteria.

The useful lives of intangible assets are:

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

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

The following intangible assets have indefinite useful life for being compensations and reimbursements paid by the Company for making easements required for the passage of its distribution network and at December 31, 2015 have a carrying value of B/.1,119,566 (2014: B/.1,122,771).

	2015	2014
Other intangible assets		
Easements	<u>1,119,566</u>	<u>1,122,771</u>
Total intangible assets with undefined useful life	<u>1,119,566</u>	<u>1,122,771</u>

The carrying value as at December 31, 2015 and the remaining period of amortization for the significant assets are:

	Remaining amortization term	Carrying Value 2015	Carrying Value 2014
Commercial System (SAP)	13 años	12,673,755	9,710,610
Maximum system	10 años	1,503,721	1,581,540
SCADA System	8 años	<u>1,503,484</u>	<u>1,691,331</u>
		<u>15,680,960</u>	<u>12,983,481</u>

## 8. Trade and other receivable

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

	2015	2014
<b>Current</b>		
Customers	104,459,863	163,747,040
Impairment value, Public Utilities	(14,434,079)	(13,748,592)
Others	<u>8,844,302</u>	<u>6,237,969</u>
Total current	<u>98,870,086</u>	<u>156,236,417</u>

## Elektra Noreste, S.A.

(51% Owned by Panama Distribution Group, S.A.)

### Notes to the financial statements for the year ended December 31, 2015

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.

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

#### Aging of the accounts receivable

Unimpaired accounts receivable	Total	Matured but not impaired				
		Less than 30 days	31-60 days	61-90 days	91-120 days	> 121-days
<b>Public Utilities Debtors</b>						
2015	90,158,748	59,592,677	17,688,790	5,046,160	1,193,609	6,637,512
2014	150,130,539	59,509,622	17,764,440	8,361,689	9,710,563	54,784,225
<b>Other debtors</b>						
2015	8,711,338	1,566,459	602,078	200,251	240,730	6,101,820
2014	6,105,878	2,113,501	620,406	854,878	310,319	2,206,774
<b>Total accounts receivable unimpaired</b>						
2015	<b>98,870,086</b>	<b>61,159,136</b>	<b>18,290,868</b>	<b>5,246,411</b>	<b>1,434,339</b>	<b>12,739,332</b>
2014	<b>156,236,417</b>	<b>61,623,123</b>	<b>18,384,846</b>	<b>9,216,567</b>	<b>10,020,882</b>	<b>56,990,999</b>

To the cut-off date, the seniority analysis of financial assets at the end of the period of time on which it is reported and that is in arrears and deteriorated is:

Impaired accounts receivable	Total	Matured and impaired				
		Less than 30 days	31-60 days	61-90 days	91-120 days	> 121-days
<b>Utilities debtors</b>						
2015	14,301,115	181,864	173,936	146,143	259,177	13,539,995
2014	13,616,501	140,826	148,049	115,896	192,159	13,019,571
<b>Other debtors</b>						
2015	132,964	-	-	-	-	132,964
2014	132,091	-	-	-	-	132,091
<b>Total accounts receivable impaired</b>						
2015	<b>14,434,079</b>	<b>181,864</b>	<b>173,936</b>	<b>146,143</b>	<b>259,177</b>	<b>13,672,959</b>
2014	<b>13,748,592</b>	<b>140,826</b>	<b>148,049</b>	<b>115,896</b>	<b>192,159</b>	<b>13,151,662</b>

The reconciliation of the impairment losses of the portfolio is:

	2015	2014
Balance at beginning of year	13,748,592	11,627,441
Impairment loss recognized during the year	2,863,475	2,231,576
Write-off during the period	(2,177,988)	(110,425)
Balance at end of year	<b>14,434,079</b>	<b>13,748,592</b>

## Elektra Noreste, S.A.

(51% Owned by Panama Distribution Group, S.A.)

### Notes to the financial statements for the year ended December 31, 2015

The Company maintains a provision for deterioration of the portfolio. The calculation of this provision relates to a technical assessment to determine the loss contingency or risk for the eventual insolvency of the debtor. It is the policy of the Company on a monthly basis to review balances receivable and adjust the provision for doubtful accounts. Each month the status of collectibility using the Cascada Model, which requires 12 months of a minimum historical basis to determine the percentages of loan losses is evaluated. The amount of the provision is recognized under the statement of profit or loss and other comprehensive loss under "Costs for rendering services". The financial difficulties of the debtor and default or nonpayment are indicators of possible impairment of accounts receivable. When the recovery is not possible by way of enforcement, coercive jurisdiction or ordinary way, it operates the punishment portfolio to recognize the extinction of the receivable for the Company. Portfolio punishment does not relieve the Company of responsibility to continue collection efforts that are conducive. To a possible recovery, a debt recovery income is recorded.

#### 9. Other assets

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

	2015	2014
<b>Non-current</b>		
Severance compensation fund	269,106	344,223
Severance compensation fund - interests	46,767	511,808
Guarantee deposit	185,174	102,610
Accounts receivable, customers	-	43,136
<b>Total other non-current assets</b>	<b>501,047</b>	<b>1,001,777</b>
<b>Current</b>		
Advance to vendors	11,289	15,384
Various insurances	205,413	215,592
Other expenses to amortize	111,076	72,817
Temporary costs of vehicle maintenance	34,179	5,582
<b>Total other current assets</b>	<b>361,957</b>	<b>309,375</b>

#### 10. Inventories

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

	2015	2014
Materials for the rendering of service <sup>1</sup>	24,490,519	17,683,386
Inventory in transit	1,377,040	401,519
<b>Total inventories at cost or net realizable value, whichever is less</b>	<b>25,867,559</b>	<b>18,084,905</b>

<sup>1</sup>Includes material for internal use and for rendering of service.

## Elektra Noreste, S.A.

(51% Owned by Panama Distribution Group, S.A.)

### Notes to the financial statements for the year ended December 31, 2015

#### 11. Cash and bank balances

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

	2015	2014
Cash at hand and banks	2,146,109	4,214,886
Cash and bank balance presented in the statement of financial position	<u>2,146,109</u>	<u>4,214,886</u>
Cash and bank balance presented in the statement of cash flows	<u>2,146,109</u>	<u>4,214,886</u>

#### 12. Equity

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

	Value		Number of shares	
	2015	2014	2015	2014
Issued capital	106,642,962	106,642,962	50,000,000	50,000,000
Treasury stocks	<u>(544,087)</u>	<u>(544,087)</u>	<u>(160,031)</u>	<u>(160,031)</u>
Total	<u>106,098,875</u>	<u>106,098,875</u>	<u>49,839,969</u>	<u>49,839,969</u>

By minutes of the board of directors dated February 26, 2015 a dividend distribution of B/.74,080,704 was approved corresponding to prior years earnings.

#### 13. Components of other accumulated comprehensive 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:

	2015			2014		
	Gross	Tax Effect	Net	Gross	Tax Effect	Net
New measures for defined benefits plans	<u>447,074</u>	<u>134,122</u>	<u>312,952</u>	<u>283,023</u>	<u>58,217</u>	<u>224,806</u>
Total	<u>447,074</u>	<u>134,122</u>	<u>312,952</u>	<u>283,023</u>	<u>58,217</u>	<u>224,806</u>

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

## Elektra Noreste, S.A.

(51% Owned by Panama Distribution Group, S.A.)

### Notes to the financial statements for the year ended December 31, 2015

#### 13.1. Component of new measurements of defined benefit plans

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

	2015	2014
Balance at beginning of year	224,806	290,610
Results of the year for new measures done to defined benefits plan	164,051	(7,587)
Associated Income Tax	<u>(75,905)</u>	<u>(58,217)</u>
Total	<u>312,952</u>	<u>224,806</u>

#### 14. Credits and loans

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

	2015	2014
<b>Non-current</b>		
<i>Credits and loans</i>		
Bonds and securities issued	<u>200,975,975</u>	<u>200,607,076</u>
Total non-current	<u>200,975,975</u>	<u>200,607,076</u>
<b>Credits and loans</b>		
Commercial banking loans	<u>27,000,000</u>	<u>12,000,000</u>
Total current	<u>27,000,000</u>	<u>12,000,000</u>
Total	<u>227,975,975</u>	<u>212,607,076</u>

The Company maintains contracts for credit lines facilities with the Bank of Nova Scotia, Banco General, S.A., Banistmo, S.A. Banco Panamá, S.A., Banco Nacional de Panamá for a total value up to December 31, 2015 of B/.172, 000,000 (2014: B/.172, 000,000), with LIBOR annual interest rates between one (1) to three (3) or six (6) months, plus a margin between 2% 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 with other "senior" obligations not guaranteed and not subordinate of the Company. The credit lines include, among other provisions, an indicator of debt coverage which sets a limit of indebtedness that does not exceed 3.25 of its EBITDA.



## Elektra Noreste, S.A.

(51% Owned by Panama Distribution Group, S.A.)

### Notes to the financial statements for the year ended December 31, 2015

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

Long-term debt	2015		2014	
	IRR	Value	IRR	Value
Preferred bonds 2021	8.16%	101,764,850	8.16%	101,518,185
Corporate Bonds 2018	3.46%	20,223,889	3.46%	20,173,412
Preferred Bonds 2027	4.96%	<u>78,987,236</u>	4.96%	<u>78,915,479</u>
Total		<u>200,975,975</u>		<u>200,607,076</u>

#### Preferred bonds 2021

The Company has bonds payable according to 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. The obligations include among other provisions an indicator of debt coverage which sets a limit of indebtedness that does not exceed 3.25 times of its EBITDA.

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

#### Corporate bonds 2018

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

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

#### Preferred bonds 2027

On December 6, 2012, the Company signed 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.

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

(51% Owned by Panama Distribution Group, S.A.)

### **Notes to the financial statements for the year ended December 31, 2015**

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 mutual agreement of the parties or in the absence of the issuance of the preferred bonds. The Financing Agreement requires that the Company maintains and ensures that it has the capacity for indebtedness in funds available under its facilities of credit lines along with their cash equivalents by an amount in excess of the amount to cancel due to the termination of this Agreement.

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

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

- Prohibition on granting tax on any of its properties or assets of the Company or its Subsidiaries.
- Do not allow any Subsidiary, in one or several transactions to consolidate, merge with or join with any company or grant, yield or transfer all or substantially all of its assets, assets or income to any company (which is not a Subsidiary of the Company) or allow any company (which is not a Subsidiary of the Company) to merge with or in it.
- Do not allow the Total Indebtedness Ratio to EBITDA 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 holders, declare the totality of the bonds immediately due and payable. After the bonds have become immediately due and payable the Company must pay the Trustee an amount equal to the sum of the amount of the capital of the outstanding bonds, all interest earned thereon, the additional amounts and the amount of restitution (the "Amount of Depreciation for Events of Default"), calculated by the Company and notified to the Trustee in writing. For the purposes of the amount of depreciation for events of default, the "Sum of Restitution" shall be equal to the difference between (i) the sum of (a) the present value of the future capital and cash flows by interest on expected bonds (less any accrued interest), discounted at an annual rate equal to the yield of the treasury bonds in force at that corresponding time closest to the weighted average life remaining on the bonds calculated at the time of payment of the depreciation for events of default and (b) 0.50 per cent per annum and (ii) the amount of capital of the bonds in circulation.

## Elektra Noreste, S.A.

(51% Owned by Panama Distribution Group, S.A.)

### Notes to the financial statements for the year ended December 31, 2015

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 on the basis of the term of validity of the debt instrument using the effective interest method and is presented net of long-term debt on the balance sheet of the Company.

#### 15. Other financial liabilities

The other financial liabilities are composed of:

	2015	2014
<b>Non-current</b>		
Deposits received in guarantee	3,166,598	3,937,505
Construction contracts	1,971,938	-
Total non-current	<u>5,138,536</u>	<u>3,937,505</u>
<b>Current</b>		
Creditors	73,799,485	122,213,151
Purchases of goods and services	27,980,005	17,352,935
Government subsidies	22,488,971	-
Deposits received in guarantee	3,512,776	6,265,695
Advances and advances received	3,222	1,214
Other accounts payable	2,876,624	3,409,316
Construction contracts	23,819,263	19,816,282
Payable commissions	215,130	264,116
Total current	<u>154,695,476</u>	<u>169,322,708</u>
Total	<u>159,834,012</u>	<u>173,260,213</u>

#### 16. Employee benefits

The line item of employee benefits recognized to the cut-off date, presents the following composition:

	2015		
	Non-current	Current	Total
Assets:			
Post-employment benefits	39,642	-	39,642
Liabilities:			
Post-employment benefits	<u>(419,104)</u>	<u>(38,882)</u>	<u>(457,986)</u>
Total	<u>(379,462)</u>	<u>(38,882)</u>	<u>(418,344)</u>
	2014		
	Non-current	Current	Total
Assets:			
Post-employment benefits	529,116	-	529,116
Liabilities:			
Post-employment benefits	<u>(412,683)</u>	<u>(36,420)</u>	<u>(449,103)</u>
Total	<u>116,433</u>	<u>(36,420)</u>	<u>80,013</u>

## Elektra Noreste, S.A.

(51% Owned by Panama Distribution Group, S.A.)

### Notes to the financial statements for the year ended December 31, 2015

#### 16.1 Post-employment benefits

Includes the defined benefit plans detailed below:

##### 16.1.1. Defined benefit plans

	Utilities subsidy		Other defined benefit plans		Total	
	2015	2014	2015	2014	2015	2014
<b>Present value of obligations due to defined benefits</b>						
Balance at beginning of year	(353,468)	(338,699)	(1,402,816)	(1,281,724)	(1,756,284)	(1,620,423)
Cost of present service	-	-	(81,253)	(51,242)	(81,253)	(51,242)
Income or (expenses) due to interests	(13,182)	(10,609)	(60,379)	(70,398)	(73,561)	(81,007)
Assumptions due to experience	(70,293)	(36,516)	(245,579)	(86,882)	(315,872)	(123,398)
Financial assumptions	49,354	(4,809)	43,204	(102,346)	92,558	(107,155)
Payments made by the plan	37,786	37,165	223,780	189,776	261,566	226,941
<b>Present value of obligations at December 31, 2015</b>	<b>(349,803)</b>	<b>(353,468)</b>	<b>(1,523,043)</b>	<b>(1,402,816)</b>	<b>(1,872,846)</b>	<b>(1,756,284)</b>
<b>Fair value of the plan's assets</b>						
Balance at beginning of year	-	-	2,021,129	1,819,110	2,021,129	1,819,110
Contributions made to plan	-	-	247,470	202,019	247,470	202,019
Payments made by the plan	-	-	(688,531)	-	(688,531)	-
<b>Fair value of the plan's assets at December 31, 2015</b>	<b>-</b>	<b>-</b>	<b>1,580,068</b>	<b>2,021,129</b>	<b>1,580,068</b>	<b>2,021,129</b>
<b>Surplus or (deficit) of the defined benefits plan</b>	<b>-</b>	<b>-</b>	<b>57,025</b>	<b>618,313</b>	<b>(292,778)</b>	<b>264,845</b>
Ajustment to the surplus due to asset limit	-	-	(125,566)	(184,832)	(125,566)	(184,832)
<b>Total defined benefits</b>	<b>-</b>	<b>-</b>	<b>(68,541)</b>	<b>433,481</b>	<b>(418,344)</b>	<b>80,013</b>

The Company has three post-employment defined benefit plans:

- **Seniority premium and severance payment fund**

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

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

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

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

- **Retirement bonus**

Current employees of the Company have the benefit of a B/.2,000.00 bonus when they benefit from their retirement by age granted by the Social Insurance Fund.

The weighted average of the duration in years for obligations from defined benefit plans at the cut-off date is from 2016 to 2056.

## Elektra Noreste, S.A.

(51% Owned by Panama Distribution Group, S.A.)

### Notes to the financial statements for the year ended December 31, 2015

The Company made contributions for defined benefits during the period for B/.247,470 (2014: B/.202,019) and expects to make contributions for the next annual period for B/.250,489.

The assets of the plan, managed by Pro Futuro, invests mainly in fixed terms 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 revenues for the change of the market value of the investments correspond to the administrator of the Fund.

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

Assumptions	Concept	
	2015	2014
Discount rate - seniority premium (%)	4.39	4.43
Annual salary increase rate (%)	4	4
Survival rates	Mortality Table of the Urban Population of the Republic of Panama	

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 at +1%	Decline in the discount rate -1%	Rise in salary increase at +1%	Decline in salary increase at -1%	Rise in the increase of the benefit at +1%	Decline in the benefit increase at -1%
Seniority premium	(134,310)	162,649	138,034	(116,835)	-	-
Utilities' subsidy	(23,093)	26,043	-	-	24,732	(22,324)
Retirement bonus	(6,069)	7,050	-	-	-	-
Total Post-employment benefits	(163,472)	195,742	138,034	(116,835)	24,732	(22,324)

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

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.

## Elektra Noreste, S.A.

(51% Owned by Panama Distribution Group, S.A.)

### Notes to the financial statements for the year ended December 31, 2015

#### 17. Provisions, contingent assets and liabilities

##### 17.1 Provisions

Item	Dismantling or restoration	Litigation	Others	Total
Balance at beginning of year	175,315	485,293	1,315,372	1,975,980
Additions	2,802	10,848	3,049,023	3,062,673
Utilization (-)	-	(5,000)	(913,480)	(918,480)
Reversals and unused amounts	-	(66,009)	(30,368)	(96,377)
<b>Balance at end of year</b>	<b>178,117</b>	<b>425,132</b>	<b>3,420,547</b>	<b>4,023,796</b>
Non-current	-	425,132	-	425,132
Current	178,117	-	3,420,547	3,598,664
<b>Total</b>	<b>178,117</b>	<b>425,132</b>	<b>3,420,547</b>	<b>4,023,796</b>

##### 17.1.1 Dismantling

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

- It was determined that 34 transformers should be discarded for being suspects in PCB content.
- 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.
- The legal obligation (implicit) of dismantling the transformers appears for the first time in ENSA in 2002 with the subscription of the Republic of Panama to the Rotterdam Convention.

##### 17.1.2 Litigation

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:

- Cases are reviewed by the legal advisers to determine, according to their development, the likelihood or not of incurring in outflow of resources.
- The legal advisers provide the best estimate for the reserve of litigations.
- The estimated date of payment is provided by the legal technicians.

## Elektra Noreste, S.A.

(51% Owned by Panama Distribution Group, S.A.)

### Notes to the financial statements for the year ended December 31, 2015

The following are the recognized litigations:

<b>Claims:</b>	<b>Valor</b>
Civil ordinary process for affecting third parties	300,000
Civil process for the development of the project of the Llano Bonito Substation	116,665
Civil process for the discount applied in billed services	6,110
Civil Liability Lawsuit for equipment damages	2,357
<b>Total recognized litigation</b>	<b>425,132</b>

#### 17.1.3 Other provisions

The Company maintains other provisions to cover compensations to customers that occur due to possible breaches in standards regulated by the Autoridad Nacional de los Servicios Públicos (ASEP). The amounts of these compensations are provided by the technical area of the Company which makes calculations based on indicators provided by the system.

#### Estimated payments

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

<b>Estimated payments</b>	<b>Dismantling or restoration</b>	<b>Litigation</b>	<b>Others</b>	<b>Total</b>
2016	178,117	-	3,420,547	3,598,664
2017	-	425,132	-	425,132
Total	<u>178,117</u>	<u>425,132</u>	<u>3,420,547</u>	<u>4,023,796</u>

#### 17.2 *Contingent liabilities*

<b>Type of contingency</b>	<b>Contingent liabilities</b>
Litigation	7,313,639
Guarantees	<u>83,212,422</u>
Total	<u>90,526,061</u>

## Elektra Noreste, S.A.

(51% Owned by Panama Distribution Group, S.A.)

### Notes to the financial statements for the year ended December 31, 2015

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. According to 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 Company submitted before the Supreme Court of Justice, 33 protections of guarantees, 19 of which have already been admitted and are pending to be resolved in the fund. With the presentation of these protections of warranty, the effects of the resolution AN No. 9075-Elec of September 7, 2015 were suspended.

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

Contingent liabilities:

<b>Libel</b>	<b>Value</b>
For being in default of the technical service quality standard	7,060,063
Civil Lawsuit due to damages caused by the cancellation of the contract	188,649
Lawsuit for property damages	60,000
Process for consumer protection due to demand in billing	4,927
<b>Total contingent liabilities</b>	<b>7,313,639</b>

The Company has granted the following guarantees:

<b>Third parties</b>	<b>Libel</b>	<b>Value</b>
Autoridad Nacional de los Servicios Públicos	Performance bond to guarantee compliance with obligation contracted in the Concession Agreement.	15,000,000
Generating Companies	Performance bond to provide credit surety and compliance with the obligations contracted in the Power Purchase Agreements.	61,765,487
Empresa de Transmisión Eléctrica, S.A.	Bank guarantee to assure the payment of one month of billing of the Transmission System.	1,255,120
Empresa de Transmisión Eléctrica, S.A.	Letter of credit as payment guarantee of the power purchase costs in the spot market.	4,768,051
Regulator Operating Entity	Letter of credit as payment guarantee of the power purchase costs in the spot market.	423,764
<b>Total guarantees granted</b>		<b>83,212,422</b>



## Elektra Noreste, S.A.

(51% Owned by Panama Distribution Group, S.A.)

### Notes to the financial statements for the year ended December 31, 2015

#### 18. Other liabilities

The detail of other liabilities is the following:

	2015	2014
<b>Non-current</b>		
Unearned income	711,520	820,773
Government subsidies	<u>2,303,914</u>	<u>2,409,510</u>
Total	<u>3,015,434</u>	<u>3,230,283</u>

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

	2015	2014
Balance at beginning of year	2,409,510	2,515,105
Recognized in the year's results	<u>(105,596)</u>	<u>(105,595)</u>
Balance at end of year	<u>2,303,914</u>	<u>2,409,510</u>

#### 19. Deferred regulatory accounts

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

## Elektra Noreste, S.A.

(51% Owned by Panama Distribution Group, S.A.)

### Notes to the financial statements for the year ended December 31, 2015

The movement of the regulatory accounts is the following:

	<b>Assets (liabilities)</b>	
	<b>2015</b>	<b>2014</b>
Balance at beginning of year	11,105,450	4,185,753
Recognized in profit or loss	<u>(30,121,563)</u>	<u>6,919,697</u>
Balance at end of year	<u>(19,016,113)</u>	<u>11,105,450</u>

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

	<b>Assets (liabilities)</b>	
	<b>2015</b>	<b>2014</b>
Balance at beginning of year	(3,331,635)	(1,255,726)
Recognized in the year's results	<u>9,036,469</u>	<u>(2,075,909)</u>
Balance at end of year	<u>5,704,834</u>	<u>(3,331,635)</u>

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

## 20. Income from continuing operations

	<b>2015</b>	<b>2014</b>
<b>Rendering of services</b>		
Power service	<u>588,273,224</u>	<u>664,466,628</u>
Total rendering of services	<u>588,273,224</u>	<u>664,466,628</u>
<b>Other income</b>		
Fees	8,366,790	10,422,845
Other income	<u>7,029,533</u>	<u>2,979,958</u>
Total other income	<u>15,396,323</u>	<u>13,402,803</u>
Total	<u>603,669,547</u>	<u>677,869,431</u>

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

## Elektra Noreste, S.A.

(51% Owned by Panama Distribution Group, S.A.)

### Notes to the financial statements for the year ended December 31, 2015

#### 21. Costs of rendering services

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

	2015	2014
Purchase of energy	467,837,798	543,769,202
Personnel expenses	6,847,107	6,387,634
Maintenance and repairs	2,187,807	2,027,461
Operating leases	1,312,755	1,133,255
General	733,749	650,909
Taxes, contributions and rates	1,202,548	1,016,852
Orders and contracts for other services	17,480,109	14,685,600
Depreciation	20,175,796	18,363,182
Regulatory penalties	3,556,210	1,485,687
Provision for bad debts	2,722,995	2,086,591
Others	1,347,897	1,039,391
	<hr/>	<hr/>
Total costs for rendering services	525,404,771	592,645,763

#### 22. Administrative expenses

Details of the administrative expenses are as follows:

	2015	2014
Personnel expenses:		
Salaries and wages	4,733,495	4,312,447
Social security expenses	734,657	632,766
Benefits of the collective agreement	1,130,236	1,020,927
Total personnel expenses	<hr/> 6,598,388	<hr/> 5,966,140
Overhead:		
Taxes, contributions and rates	1,613,511	1,388,767
Comissions, fees and services	2,889,783	2,627,152
Leasing	731,502	658,837
Maintenance	1,961,768	1,977,416
Depreciation	3,203,765	1,962,364
Provision for contingencies	(60,227)	356,751
Others	3,010,741	2,616,086
Total overhead expenses	<hr/> 13,350,843	<hr/> 11,587,373
Total	<hr/> 19,949,232	<hr/> 17,553,513

## Elektra Noreste, S.A.

(51% Owned by Panama Distribution Group, S.A.)

### Notes to the financial statements for the year ended December 31, 2015

The Company signed an operating lease agreement not revocable for seven years, whose validity began in May 2007, for the use of the offices and operating facilities. In October 2013 an automatic extension was requested for an additional three years to the lease contract leaving its expiration in April 2017.

At the cut-off date, the minimum future payments by operating lease, not cancelable, are distributed in the following way:

	<b>2015</b>	<b>2014</b>
	<b>Operational leasing which cannot be cancelled</b>	
	<u>538,957</u>	<u>559,888</u>
At year one	538,957	559,888
Over one year and up to five years	<u>181,414</u>	<u>770,797</u>
	<u>720,371</u>	<u>1,330,685</u>

The quotas of operating lease recognized as the period expenses are B/.731,502 (2014: B/.658,837).

### 23. Other expenses

The detail of the other expenditures is as follows:

	<b>2015</b>	<b>2014</b>
Loss in disposal of fixed assets	<u>1,011,940</u>	<u>1,073,399</u>
Total	<u>1,011,940</u>	<u>1,073,399</u>

### 24. Financial income and costs

#### 24.1 Financial income

	<b>2015</b>	<b>2014</b>
Interests		
Bank deposits	69,760	157,447
Other earned interests	<u>138,149</u>	<u>196,020</u>
Total	<u>207,909</u>	<u>353,467</u>

## Elektra Noreste, S.A.

(51% Owned by Panama Distribution Group, S.A.)

### Notes to the financial statements for the year ended December 31, 2015

#### 24.2. Financial costs

	2015	2014
Interest expenses:		
Issuance of bonds	<u>13,063,761</u>	<u>13,365,346</u>
Total interests	<u>13,063,761</u>	<u>13,365,346</u>
Total expense for interests of financial liabilities which are not measured at fair value		
Less capitalized interests in qualified assets	(702,022)	(1,136,381)
Other financial expenses	<u>149,118</u>	<u>149,930</u>
Total	<u>12,510,857</u>	<u>12,378,895</u>

#### 25. Income tax

##### 25.1 Tax provisions

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

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

##### 25.2 Reconciliation of the effective rate

The conciliation between the applicable taxable rate and the effective rate and the composition of expenditure by income tax for 2015 and 2014 periods are as follows:

	2015	%	2014	%
<b>Result before taxes</b>	<u>45,000,656</u>		<u>54,571,328</u>	
<b>Tax in theory</b>	<u>13,705,381</u>	<b>30.5%</b>	<u>16,313,635</u>	<b>29.9%</b>
Plus items which increase revenue	80,466,963		6,969,702	
Less items which decrease revenue	(2,807,449)		(54,731,184)	
<b>Liquid ordinary income of the term</b>	<u>122,660,170</u>		<u>6,809,846</u>	
Less exempt income	69,760		157,447	
<b>Taxable liquid income</b>	<u>122,590,410</u>		<u>6,652,399</u>	
Income tax rate	30%		30%	
Income tax	36,777,123		1,995,720	
Another adjustment to the previous year income tax filing	136,805		-402	
<b>Current tax</b>	<u>36,913,928</u>	<b>30.1%</b>	<u>1,995,318</u>	<b>30.0%</b>
<b>Detail of the current and deferred expenses</b>				
Current tax	36,913,928		1,995,318	
Deferred tax	(23,208,547)		14,318,317	
<b>Income tax</b>	<u>13,705,381</u>		<u>16,313,635</u>	

## Elektra Noreste, S.A.

(51% Owned by Panama Distribution Group, S.A.)

### Notes to the financial statements for the year ended December 31, 2015

#### 25.3 *Income tax recognized in profits or losses*

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

	2015	2014
Current income tax		
Expense (income) for current income tax	36,777,123	1,995,720
Adjustments recognized in the current period related to the current income tax of previous periods	<u>136,805</u>	<u>(402)</u>
Total current income tax	<u>36,913,928</u>	<u>1,995,318</u>
Deferred tax		
Net expense (income) for deferred tax related to the origin and reversal of temporary differences	<u>(23,208,547)</u>	<u>14,318,317</u>
Total deferred tax	<u>(23,208,547)</u>	<u>14,318,317</u>

#### 25.4 *Income tax recognized in other comprehensive loss*

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

	2015	2014
Asset or liability for current income tax	58,217	47,227
Income tax	<u>75,905</u>	<u>10,990</u>
Total asset (or liability) income tax	<u>134,122</u>	<u>58,217</u>

The detail of the taxable effect corresponding to each component of "other comprehensive loss" from the separate statement of comprehensive loss is the following:

	2015			2014		
	Gross	Taxable Effect	Net	Gross	Taxable Effect	Net
New measurements of defined benefits plan	<u>(447,074)</u>	<u>134,122</u>	<u>(312,952)</u>	<u>(283,023)</u>	<u>58,217</u>	<u>(224,806)</u>
Total	<u>(447,074)</u>	<u>134,122</u>	<u>(312,952)</u>	<u>(283,023)</u>	<u>58,217</u>	<u>(224,806)</u>

## Elektra Noreste, S.A.

(51% Owned by Panama Distribution Group, S.A.)

### Notes to the financial statements for the year ended December 31, 2015

#### 25.5 Deferred tax

The detail of the deferred tax is:

	<u>Initial Balance</u>	<u>Net changes included in the result</u>	<u>Changes included in OCI</u>	<u>Final Balance</u>
<b>Current assets</b>				
Accounts receivables	(11,986,280)	13,511,856	-	1,525,576
Inventories	65,207	214	-	65,421
<b>Non-current assets</b>				
Property, plant and equipment	(2,104,594)	139,524	-	(1,965,070)
Accounts receivables	(12,941)	12,941	-	-
Others	(103,267)	22,535	-	(80,732)
Investment properties	(311,194)	(101,373)	-	(412,567)
<b>Current liabilities</b>				
Employee benefits	10,927	738	-	11,665
Provisions	558,802	612,824	-	1,171,626
Other liabilities	346,935	(126,736)	-	220,199
<b>Non-current liabilities</b>				
Employee benefits	(34,930)	99,554	75,905	140,529
<b>Total deferred assets/liabilities tax</b>	<u>(13,571,335)</u>	<u>14,172,077</u>	<u>75,905</u>	<u>676,647</u>

#### 26. Profit per share

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

## Elektra Noreste, S.A.

(51% Owned by Panama Distribution Group, S.A.)

### Notes to the financial statements for the year ended December 31, 2015

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

	2015	2014
Net profit (loss) attributed to the holders of common equity instruments of the controlling company due to continued operations	31,295,275	38,257,693
Net profit (loss) attributed to the holders of common equity instruments of the controlling company, to compute basic profit	31,295,275	38,257,693
Net profit (loss) attributed to the holders of common equity instruments of the controlling company adjusted for the diluted effect	31,295,275	38,257,693
Weighted average of the amount of common shares, attributed to the basic profit per share	49,839,969	49,839,969
Weighted average of the amount of common shares adjusted by the diluted effect	49,839,969	49,839,969

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

#### 27. Disclosure of information on related parties

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

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

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

	<u>Income</u>	<u>Costs/expenses</u>	<u>Securities receivable</u>	<u>Securities payable</u>
<b>Other related parties:</b>				
2015	86,593,806	236,759,441	2,852,439	38,709,366
2014	73,622,796	291,976,241	1,602,489	28,327,633

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

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



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

(51% Owned by Panama Distribution Group, S.A.)

### **Notes to the financial statements for the year ended December 31, 2015**

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

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

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

	<b>2015</b>	<b>2014</b>
Remuneration of key management staff	<u>1,894,658</u>	<u>1,446,571</u>

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

#### **28. Capital management**

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

The Company manages its capital structure and makes adjustments in view of changes in economic conditions and according to 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, 2015 and 2014.

The Company keeps track of the capital by using an indebtedness index, 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 policy of the Company is to maintain this indebtedness index that does not exceed its EBITDA 3.25 times.

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.

(51% Owned by Panama Distribution Group, S.A.)

### Notes to the financial statements for the year ended December 31, 2015

	2015	2014
Short-term debt	27,000,000	12,000,000
Preferred Bonds 2021	101,764,850	101,518,185
Corporate Bonds 2018	20,223,889	20,173,412
Preferred Bonds 2027	78,987,236	78,915,479
Cash and bank balances	(2,146,109)	(4,214,886)
<b>Total net debt</b>	<b>225,829,866</b>	<b>208,392,190</b>
Common shares	106,098,875	106,098,875
Comprehensive profit or loss	(312,952)	(224,806)
Retained earnings	31,295,275	72,089,698
<b>Total equity</b>	<b>137,081,198</b>	<b>177,963,767</b>
<b>Total capital</b>	<b>362,911,064</b>	<b>386,355,957</b>
Indebtness index	165%	117%
Total indebttness to EBITDA	2.82x	2.45x

## 29. Objectives and policies of financial risk management

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

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

### 29.1 Market risk

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

## Elektra Noreste, S.A.

(51% Owned by Panama Distribution Group, S.A.)

### Notes to the financial statements for the year ended December 31, 2015

#### 29.2 Interest rate risk

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

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

As at December 31, 2015, the Company maintains 10% (2014: 10%) of the debt contracted at a floating interest rate and 90% (2014: 90%) to a fixed interest rate. Management's position with regard to its financing structure has been to contract most of its debt to a fixed rate within a range above 85% and to a variable rate of 15%.

#### *Sensitivity analysis to interest rates*

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

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

	Increase/decrease in basic points	Financial Effect	
		In profit or loss before tax	In equity
<b>2015</b>			
Interest rate 3M LIBOR + Margin	+ 100	(202,778)	(141,945)
Interest rate 3M LIBOR + Margin	- 100	202,778	141,945
Interest rate 3M LIBOR + Margin	+ 200	(405,555)	(283,889)
Interest rate 3M LIBOR + Margin	- 200	405,555	283,889
<b>2014</b>			
Interest rate 3M LIBOR + Margin	+ 100	(272,857)	(191,000)
Interest rate 3M LIBOR + Margin	- 100	272,857	191,000
Interest rate 3M LIBOR + Margin	+ 200	(545,714)	(382,000)

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

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

(51% Owned by Panama Distribution Group, S.A.)

### **Notes to the financial statements for the year ended December 31, 2015**

#### **29.3 Foreign exchange risk**

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

#### **29.4 Credit risk**

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

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

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

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

The industrial and commercial customers typically provide deposits or bank guarantees equivalent to one month of estimated cost of service in order to be able to connect to the electricity services. These deposits or guarantees may be compensated against the overdue debt for this category of customers. The overdue Government accounts may vary depending on the approval processes of the budget of each 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.

## Elektra Noreste, S.A.

(51% Owned by Panama Distribution Group, S.A.)

### Notes to the financial statements for the year ended December 31, 2015

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

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

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

	<b>2015</b>	<b>2014</b>
Restricted cash and cash equivalents	2,146,109	4,214,886
Accounts receivable	14,301,115	13,616,501
Other accounts receivable	132,091	132,964
Deposits and guarantees	958,641	501,047
	<hr/>	<hr/>
Maximum exposure to credit risk	<u>17,537,956</u>	<u>18,465,398</u>

#### **29.5 Liquidity risk**

##### **Liquidity risk**

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

The Company has adopted practices for the management of liquidity risk that have the intention to maintain sufficient cash and liquid financial assets. The Company maintains lines of short-term financing with first-rate financial entities in Panama that provide us with the operational flexibility required to meet our energy purchase and other obligations. Due to the fact that 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.

## Elektra Noreste, S.A.

(51% Owned by Panama Distribution Group, S.A.)

### Notes to the financial statements for the year ended December 31, 2015

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

	Average effective interest rate	Less than 1 year	1 to 2 yaers	2 to 3 years	3 to 4 years	Over 4 years	Total contractual obligation
<b>2015</b>							
Non-derivative financial liabilities	-	165,194,611	-	-	-	-	165,194,611
Financial debt instruments with variable interest rate	3.46%	27,000,000	-	-	-	20,000,000	47,000,000
Financial debt instruments with fixed interest rate	6.56%	-	-	-	-	180,000,000	180,000,000
Total		192,194,611	-	-	-	200,000,000	392,194,611
<b>2014</b>							
Non-derivative financial liabilities		202,034,353	-	-	-	-	202,034,353
Financial debt instruments with variable interest rate	3.46%	12,000,000	-	-	-	20,000,000	32,000,000
Financial debt instruments with fixed interest rate	6.56%	-	-	-	-	180,000,000	180,000,000
Total		214,034,353	-	-	-	-	414,034,353

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

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

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

- 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.

(51% Owned by Panama Distribution Group, S.A.)

### Notes to the financial statements for the year ended December 31, 2015

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 valuation of the goods using the market method; these items are classified in level 1 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 valuations of goods have not changed with respect to the ones used in the previous 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>Unobservable variable</u>	<u>Range (weighted average)</u>
<b>Liabilities</b>			
Debt instrument - variable rate	Discounted cash flows	5.25% Discount rate	1.50% -2.50% LIBOR 3M + Margin

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

	2015				2014			
	Carrying Value	Estimated fair value		Total	Book Value	Estimated fair value		Total
Liabilities	Level 1	Level 3			Level 1	Level 3		
Debt Instrument - rate	180,752,086	195,472,800		195,472,800	180,433,664	198,647,600	-	198,647,600
Debt Instrument - variable	20,223,889	-	19,507,679	19,507,679	20,173,412	-	18,434,437	18,434,437
Total	<u>200,975,975</u>	<u>195,472,800</u>	<u>19,507,679</u>	<u>214,980,479</u>	<u>200,607,076</u>	<u>198,647,600</u>	<u>18,434,437</u>	<u>217,082,037</u>
		92%	8%			92%	8%	

### 31. Subsequent events

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

### 32. Approval of the financial statements

The financial statements were approved by the Board of Directors and authorized to be issued on February 17, 2016.

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