

**EMPRESA DE TRANSMISION  
ELECTRICA, S. A. (ETESA)**  
(Company 100% owned by the  
State of the Republic of Panama)

**Financial Statements**

As of June 30 2019 and 31 of December 31 2018  
and period ending of march 31 2019, 2018 and 2017

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**EMPRESA DE TRANSMISION ELECTRICA, S. A. (ETESA)**  
(100% company owned by the State of the Republic of Panama)

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**EMPRESA DE TRANSMISION ELECTRICA, S. A. (ETESA)**  
 (Company 100% owned by the State of the Republic of Panama)  
 (Panama, Republic of Panama)

**Statement of profit or loss**

For the period ended June 30, 2019, 2018, and 2017 and

(Figures in balboas)

	<u>2019</u>	<u>2018</u>	<u>2017</u>
<b>Income from ordinary activities</b>			
Transmission of energy	51,979,321	40,204,775	21,118,013
Connection	2,645,014	2,558,214	3,265,525
Integrated operation	7,443,498	5,916,932	7,400,930
<b>Total income of regular activities</b>	<u>62,067,833</u>	<u>48,679,921</u>	<u>31,784,468</u>
Other income	2,910,644	669,099	2,611,764
Transmission of energy	(5,996,872)	(13,736,717)	(33,205,128)
Connection	(65,769)	(59,311)	(76,797)
Integrated operation	(2,942,626)	(2,723,694)	(2,990,838)
Impairment on trade receivables			
Depreciation and amortization	(13,733,031)	(12,819,771)	(6,833,872)
Amortization of easement rights	(1,340,143)	(1,328,834)	(374,748)
General and administrative expenses	(5,651,479)	(5,278,217)	(4,669,242)
<b>Results of the activities of operation</b>	<u>35,248,557</u>	<u>13,402,476</u>	<u>(13,754,393)</u>
Finance costs, net	(16,106,582)		
Participation in the gain on investments in associated	1,416,088	(8,190,774)	(2,248,637)
Participation in the loss investment in joint venture	688,082		
<b>Profit before income tax</b>	<u>21,246,145</u>	<u>5,211,702</u>	<u>(16,003,030)</u>
Income tax			
Current	(4,123,833)	(1,562,960)	0
Deferred	0	0	4,581,417
<b>Total income tax</b>	<u>(4,123,833)</u>	<u>(1,562,960)</u>	<u>4,581,417</u>
<b>Net profit before the movement of net balances in the regulatory deferral activities accounts</b>	<u>17,122,312</u>	<u>3,648,742</u>	<u>(11,421,613)</u>
Net movement in balance of regulatory deferred activities accounts related to the result of the year	(7,500,036)	0	0
<b>Net profit after the movement of net balances in the regulatory deferral activities accounts</b>	<u>9,622,276</u>	<u>3,648,742</u>	<u>(11,421,613)</u>
Net profit per share before the movement of net balances in the regulatory deferral activities accounts	<u>0.33</u>	<u>0.07</u>	<u>-0.22</u>
Net profit per share after the movement of net balances in the regulatory deferral activities accounts	<u>0.19</u>	<u>0.07</u>	<u>-0.22</u>

*The notes on pages 9 to 69 are an integral part of the financial statements.*

<b>Equity and Liabilities</b>	<b>2019</b>	<b>2018</b>
<b>Equity</b>		
52,000,000 authorized shares of common stock; no par value.		
Issued and Outstanding	124,871,973	124,871,973
Capital Contribution	68,667,484	68,667,484
Retained earnings	145,406,096	134,721,148
Complimentary Dividend Tax	(4,977,709)	(4,977,708)
<b>Total equity</b>	<u>333,967,844</u>	<u>323,282,897</u>
<b>Non current liabilities</b>		
Loans and borrowings	25,000,000	483,932,040
International Bonds payable	500,000,000	0
Local Bonds payable	75,000,000	0
Provision for seniority premium	1,899,255	2,134,740
Provision for litigations	1,725,776	1,725,761
Tariff rate return payable	30,404,923	40,528,853
Withholdings to contractos	2,631,474	2,113,215
<b>Total of Non current liabilities</b>	<u>636,661,428</u>	<u>530,434,609</u>
<b>Current liabilities</b>		
Loans and borrowings	16,666,667	8,423,248
International Bonds payable	0	0
Local Bonds payable	0	0
Interest payable International Bonds	4,199,653	0
Interest payable Local Bonds	468,208	0
Interest payable	0	2,441,811
<b>Total loans payable</b>	<u>21,334,528</u>	<u>10,865,059</u>
Accounts Payable:		
Suppliers	32,526,311	75,930,663
Energy distributors	877,552	2,680,698
Energy Generators	9,722,696	13,207,019
Others	1,529,707	1,368,142
Third line of transmission	0	0
<b>Total accounts payable</b>	<u>44,656,266</u>	<u>93,186,522</u>
Withholdings to contractos	1,238,340	1,172,248
Accrued Expenses payable and other liabilities	5,474,240	6,740,509
Income tax payable	(169,895)	388,696
<b>Total current liabilities</b>	<u>72,533,479</u>	<u>112,353,034</u>
<b>Total liabilities</b>	<u>709,194,907</u>	<u>642,787,643</u>
Commitments and contingencies		
<b>Total equity and liabilities</b>	1,043,162,751	966,070,540
Creditors balance on accounts of deferral regulated activities accounts	<u>13,695,399</u>	<u>8,663,971</u>
<b>Total equity, liabilities and creditors balances payable from deferral accounts of regulated activities</b>	<u>1,056,858,149</u>	<u>974,734,511</u>

**EMPRESA DE TRANSMISION ELECTRICA, S. A. (ETESA)**  
 (Company 100% owned by the State of the Republic of Panama)  
 (Panama, Republic of Panama)

**Statement of financial position**

As period ending at June 30, 2019 and year at December 2018

(Figures in balboas)

<u>Assets</u>	<u>2019</u>	<u>2018</u>
<b>Non-current assets</b>		
Investment in associates	16,483,300	15,056,166
Investment in joint venture	2,365,763	2,517,599
Property, plant, equipment and improvements to the property, net of accumulated depreciation and amortization	569,494,088	582,227,988
Construction in the process	178,458,087	130,298,859
Right of way, net	82,004,714	83,344,856
Inventory of spare parts, net	3,862,233	4,206,432
Loan receivable associates	2,423,077	2,596,154
Seniority Premium Payment and Severance Fund	2,076,350	2,148,455
Advance to Contractors	12,420,049	9,950,429
Deferred asset	885,826	885,826
Other assets	2,759,591	2,116,603
<b>Total of non-current assets</b>	<u>873,233,078</u>	<u>835,349,367</u>
<b>Current assets</b>		
Cash	57,766,878	19,468,626
Restricted cash	0	0
Accounts receivable:		
Energy distributors	25,931,790	45,455,698
Energy generators	55,546,281	22,773,335
Government entities	588,464	588,464
Other market agents	1,324,671	1,174,099
Other	15,590,619	5,177,739
	<u>98,981,825</u>	<u>75,169,335</u>
Provision for uncollectible accounts	<u>(2,805,999)</u>	<u>(2,795,354)</u>
	96,175,826	72,373,981
Contract asset	12,638,510	24,164,280
Income tax paid in advance	0	0
<b>Total current assets</b>	<u>166,581,214</u>	<u>116,006,887</u>
<b>Total de assets</b>	1,039,814,292	951,356,254
Debtors balance on accounts of deferral regulated activities accounts	<u>17,040,857</u>	<u>23,378,257</u>
<b>Total assets and balances of accounts of deferred accounts of regulated activities</b>	<u>1,056,855,149</u>	<u>974,734,511</u>

The notes on pages 9 to 69 are an integral part of the financial statements.

**EMPRESA DE TRANSMISION ELECTRICA, S. A. (ETESA)**  
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**Statement of Changes in Equity**

For the year period June 30, 2019, 2 December and 2018

(Figures in balboas)

	Note	Capital	Contribution of Capital	Retained Earnings	Complimentary Dividend tax	Total of Equity
<b>Balance as at January 1, 2018</b>		124,871,973	68,667,484	123,090,634	(4,776,715)	311,853,376
<b>Total comprehensive Income</b>		0	0	(1,301,457)	0	(1,301,457)
<b>Impact of application of de new rules</b>		0	0	121,789,177	(4,776,715)	310,551,919
<b>Total of comprehensive Income</b>						
<b>Total comprehensive Income</b>		124,871,973	68,667,484	121,789,177	(4,776,715)	310,551,919
<b>Net profit</b>				12,931,971		12,931,971
<b>Total of comprehensive Income</b>		124,871,973	68,667,484	134,721,148	(4,776,715)	323,483,890
<b>Contributions and distributions of the Shareholder</b>						
Complimentary tax		0	0	0	(200,993)	(200,993)
Dividend declared						
<b>Total contributions and distributions to the Shareholder</b>						0
<b>Balance at December 31, 2018</b>		124,871,973	68,667,484	134,721,148	(4,977,708)	323,282,897
<b>Balance as at January 1, 2019</b>		124,871,973	68,667,484	134,721,148	(4,977,708)	323,282,897
<b>Total comprehensive Income</b>				9,622,276		9,622,276
<b>Net profit</b>				134,721,148		134,721,148
<b>Total of comprehensive Income</b>		124,871,973	68,667,484	134,721,148	(4,977,708)	332,905,173
<b>Contributions and distributions of the Shareholder</b>						
Update of income tax 2018		0	0	1,062,669	0	1,062,669
Contribution of the shareholder	21	0	0	0	0	0
<b>Total contributions and distributions to the Shareholder</b>				1,062,669	0	1,062,669
<b>Balance at June 30, 2019</b>		124,871,973	68,667,484	135,783,817	(4,977,708)	333,967,843

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**EMPRESA DE TRANSMISION ELECTRICA, S. A. (ETESA)**  
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**Statement of cash flows**

For the period ended June 30, 2019, December 2018 and 2017

(Figures in balboas)

	<u>Note</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
<b>Cash flows from operating activities</b>				
Net Profit		9,622,276	12,931,971	621,826
Adjustment for :				
Depreciation, property, plant, and equipment	11	13,733,031	28,886,255	23,445,943
Amortization of easement rights	13	1,340,143	2,689,002	1,480,406
Provision for uncollectible accounts	33	(186,059)	(1,849)	0
(Reversal) provision for obsolescence of inventories			0	(197,633)
Net loss (gain) sale of fixed assets	28	0	(4,573,712)	19,347
Participation in the gain of investment in associates	9	(1,416,088)	(1,803,613)	(781,221)
Participation in the loss of joint venture	10	(688,082)	180,163	187,575
(Reversal) provision for litigation and commitments		0	2,401,289	(1,685,371)
Provision for tariff rate return	24	(10,748,088)	781,611	13,899,200
Finance costs, net		16,106,582	20,044,895	7,440,169
Effect of discounting the deferred regulated activities accounts	19	(250,645)	(1,221,024)	2,032,497
(Income) tax expenditure on the current income	32	4,123,833	4,309,495	(852,581)
Expenditure of deferred income tax	32	0	(328,059)	3,616,972
		<u>31,636,903</u>	<u>64,296,424</u>	<u>49,227,129</u>
<b>Changes in:</b>				
Accounts receivable and contract assets		(12,102,997)	(61,954,906)	(133,024)
Other assets		(2,768,411)	(6,370,135)	6,054,553
Accounts payable		(48,530,253)	24,699,389	30,321,851
Other liabilities		(15,488,257)	(3,581,310)	(1,849,682)
Provision for seniority premium payment		(235,485)	421,980	(442,039)
<b>Cash generated form operating activities</b>		<u>(47,488,500)</u>	<u>17,511,442</u>	<u>83,178,788</u>
Income tax paid		0	0	0
Interest paid		(14,192,130)	(25,089,515)	(2,278,602)
<b>Net cash provided by operating activities</b>		<u>(61,680,630)</u>	<u>(7,578,073)</u>	<u>80,900,186</u>
<b>Cash flows from investing activities</b>				
Interest received		308,598	248,199	210,187
Changes in the severance fund		72,105	(225,966)	(267,729)
Dividends received from associates		140,790	812,394	715,000
Acquisition of fixed assets	11	(999,131)	(64,156,254)	(490,975)
Proceeds from the sale of fixed assets		0	5,000,000	0
Payments for construction in process	12	(48,159,228)	(19,451,872)	(53,449,707)
Rights of way adquisition	13	0	(24,627,741)	0
<b>Net cash used in investing activities</b>		<u>(48,636,866)</u>	<u>(102,401,240)</u>	<u>(53,283,224)</u>
<b>Cash flows from financing activities</b>				
Capital contributions		0	0	13,766,503
Complimentary dividend tax		0	0	0
Payment for the third line of transmission	26	0	(275,830,816)	0
Change in restricted cash		0	550,000	0
Loans received		625,000,000	452,669,977	49,324,092
Loans Payment		(488,133,029)	(99,308,142)	(34,544,597)
<b>Net cash provided by financing activities</b>		<u>136,866,971</u>	<u>78,081,019</u>	<u>28,545,998</u>
Cash used in the regulatory deferred accounts	19	11,748,777	25,214,863	(40,000,000)
Net increase in cash		38,298,252	(6,683,431)	16,162,960
Cash at the beginning of the year		19,468,626	26,152,057	9,989,097
<b>Cash at the end of the year</b>		<u>57,766,878</u>	<u>19,468,626</u>	<u>26,152,057</u>

The notes on pages 9 to 69 are an integral part of the financial statements.

## **EMPRESA DE TRANSMISIÓN ELÉCTRICA, S. A. (ETESA)**

(Company 100% owned by the State of the Republic of Panama)

**Notes to the Financial Statements as of June 30, 2018 and 2017 and for the years ended June 30, 2018, 2017 and 2016**

**(Figures en Balboas)**

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### **(1) Reporting Entity**

Electric Transmission Company, S. A., ("ETESA") is a corporation incorporated by the Public Deed No. 148 of 19 January 1998, as a result of the restructuring of the Institute of Hydraulic Resources and Electrification (IRHE) approved by the Cabinet Council of the Government of the Republic of Panama through the resolution No. 266 of 27 November 1997.

The activity of ETESA consists of transporting high voltage electrical energy from the point of delivery of the generating companies up to the receiving point of the distribution companies or large customers, including international interconnections. Similarly, ETESA is responsible for the operation of the national integrated system, whose goal is to meet the demand in the national grid in a safe, and reliable manner providing quality service, through the use of generation and transmission resources available. This includes the international interconnections, as well as the administration of the market of contracts and, occasionally, the local contract market.

ETESA was authorized by the State to sign the Interinstitutional Agreement with the Ministry of Economy and Finance for the incorporation and administration of the Stabilization Fund (FET) and through the Cabinet Resolution the Tariff of the West Fund (FTO).

ETESA started its operations 19 January 1998, its main office is located in the Avenida Ricardo J. Alfaro, Sun Tower Mall Rise Building No. 3. As of 31st.

The National Integrated System (integrated operation) is comprised by the following divisions:

- **National Dispatch Center**

The integrated operation is a public utility service that aims to meet, at every moment, the demand in the national grid, reliably, securely and provide a quality of service through the optimal use of available resources of generation and transmission, including international interconnections, as well as manage the contracted market and the spot local market.

The National Dispatch Center (CND) is a dependent organization of ETESA, and according to the mandate of the Act 6 of 3rd February 1997, ETESA, shall bear an appropriate accounting separation of revenues and costs for this integrated operation.

- **Hydro meteorological**

The Management of the Hydro meteorological Services provides hydro meteorological and hydrological services, at a national level, in the Republic of Panama. They are also responsible to be liaison with the national meteorological services of other countries in the area, and coordinate with the National Civil Protection System (SINAPROC), the warnings of extreme weather situations.

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### **Notes to the Financial Statements as of June 30, 2019 and 2018 and for the years ended June 30, 2018, 2017 (Figures in Balboas)**

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The Hydrometeorology Management, in the meteorology field is responsible to process and analyze the information generated in the network of meteorological stations in the country; to plan, coordinate and project the national research in meteorology.

The Management of hydrometeorology, in the hydrology field is responsible for planning, coordination and setting out a projection of the national relative research of the inventory, quality and use of water resources in the country, to prepare the hydrologic forecasts that in the short and long term contributes to the operations of reservoirs serving the hydroelectric power stations in the country.

The Management of Meteorology is responsible for the construction, maintenance and operation of the national network of meteorological and hydrological stations. They provide the service of the measurement of water service levels and groundwater levels. They also operate the national telemetry system of hydrological variables and carry out the measurements of the river sediment flow.

#### **Legal and Regulatory framework**

In accordance with the Law, ETESA is responsible for preparing the investment and expansion programs of the electric power transmission network for the national interconnected system, operate and carry out the construction of new facilities and reinforcements of the transmission network; as well as to operate the national interconnected system, prepare the transmission expansion plan and the related generation plan, operate, maintain and provide the services related to the national network of meteorology and hydrology.

ETESA is regulated by the following entities:

#### **National Public Services Authority (ASEP)**

Established in accordance with the law of the regulator of public services of 1996. It is an autonomous entity of the Government of Panama with the responsibility to regulate, control and determine the rates for the provision of electricity services, among other services.

#### **The Secretary of Energy**

Its mission is to formulate, propose and promote the national energy policy in order to ensure secure supply of energy, rational and efficient use of resources and energy in a sustainable manner, according to the National Development Plan.

#### **(2) Basis of accounting**

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS).

The financial statements were approved by the administration to be issued on April 10, 2019.

This is the first set of the ETESA's annual financial statements in which IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have been applied. Changes to significant accounting policies are described in Note 7.

## **EMPRESA DE TRANSMISIÓN ELÉCTRICA, S. A. (ETESA)**

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### **Notes to the Financial Statements as of June 30, 2019 and 2018 and for the years ended June 30, 2018, 2017 (Figures in Balboas)**

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**(3) Measurement Base**

The financial statements have been prepared on the basis of historical cost.

**(4) Functional and presentation currency**

The financial statements are expressed in balboas (B/.), which is the functional currency of ETESA. The balboa is the monetary unit of the Republic of Panama, and its value is equal to the US Dollar and both currencies can be freely exchanged. The Republic of Panama does not issue paper money of their own, and in its place, the dollar of the United States is used as its legal currency.

**(5) Use of judgements and estimates**

In preparing these consolidated financial statements, management has made judgements and estimates that affect the application of the ETESA's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

a. Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements is included in the following notes:

Note 9 - Determination of significant influence on an investment in associates

Note 10 - Determination of whether there is an agreement or joint venture

Note 34 - Classification of leases.

Note 6(c) – Determination of the useful lives of property, plant, equipment and improvements to the property.

b. Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties at 31 December 2018 that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year is included in the following notes:

Notes 23, 24, 34 – recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources;

Note 33 - measurement of credit losses expected by commercial debtors and contract assets: key assumptions in determining the weighted-average loss rate.

i. Measurement of Fair values:

A number of the ETESA's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

ETESA has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the Finance department.

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The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that these valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which the valuations should be classified.

Significant valuation issues are reported to the ETESA's audit committee.

When measuring the fair value of an asset or a liability, the ETESA uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

ETESA recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

In Note 33 of Financial instruments includes additional information on assumptions made when measuring fair value.

**(6) Summary of significant accounting policies**

The accounting policies detailed below, have been consistently applied by ETESA with those used in the previous years.

**(a) Financial Instruments**

**i. Recognition and initial measurement**

Trade receivables and debt securities issued are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when ETESA becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

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*ii. Classification and subsequent measurement:*

*Financial assets – Policy applicable from 1 January 2018*

*See note 7 for impacts of the adoption of new accounting policies*

On initial recognition, a financial asset is classified as measured at: amortized cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless ETESA changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

- A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:
- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, ETESA may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at Fair Value with changes reported in the Statement of Income.

*Financial assets – Business model assessment: Policy applicable from 1 January 2018*

ETESA makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed, and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to ETESA's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

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*Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest: Policy applicable from 1 January 2018*

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin

In assessing whether the contractual cash flows are solely payments of principal and interest, ETESA considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, ETESA considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features; prepayment and extension features;
- and terms that limit ETESA's claim to cash flows from specified assets

*Financial assets – Subsequent measurement and gains and losses: Policy applicable from 1 January 2018*

Financial assets at amortized cost

These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

*Financial assets – Accounting Policy applicable before 1 January 2018*

ETESA classifies non-derivative financial assets into loans and accounts receivable and classifies non-derivative financial liabilities in other financial liabilities.

*i. Financial assets and liabilities – Classification, subsequent measurement and gains and losses*

ETESA initially recognizes the loans and receivables on the date they originate. All other financial assets and financial liabilities are initially recognized on the date of contract when ETESA becomes part of the contractual provisions of the instrument.

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ETESA derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which ETESA neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset. Any participation in these financial assets written off in accounts that are created or retained by ETESA is recognized as a separate asset or liability.

ETESA derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

*ii. Non derivative Financial Assets – Measurement*

Loans and receivables

These assets are initially measured at fair value plus any directly attributable transaction costs. Subsequently, they are measured at amortized cost less any impairment.

*iii. Non-derivative financial liabilities – Measurement*

Non-derivative financial liabilities are initially measured at fair value less directly attributable transaction costs. Subsequently, they are measured at amortized cost using the effective interest method.

Compensation

An asset and a financial liability will be subject to compensation, so that its net amount is presented in the statement of financial position, when and only when ETESA has, at the current time, the right, legally enforceable, to offset the amounts recognized and has the intention to settle for the net amount, or to realize the asset and settle the liability simultaneously.

*(b) Investments accounted for using the equity method*

ETESA's holdings in investments accounted for under the equity method include its ownership in associates, and in joint ventures.

An associate is an entity over which ETESA has significant influence but not control or joint control of its financial and operating policies. A joint venture is an agreement in which ETESA has joint control, through which ETESA is entitled to the net assets of the agreement and not rights over its assets and obligations for its liabilities.

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Participations in associates and joint ventures are accounted for using the equity method. Initially they are recognized at cost, which includes transaction costs. After the initial recognition, the financial statements include the participation of ETESA in the results and the comprehensive result of the investments accounted for under the equity method, until the date on which the significant influence or joint control ceases.

(c) *Property, plant, equipment and improvements to the property*

i. Recognition and Measurement

The property, plant, equipment and improvements to the property are valued at cost less accumulated depreciation, except for the land that is valued at cost.

The costs include the costs that are directly attributable to the acquisition of the asset. The costs of constructed assets include the costs of material, direct labor, and some other costs directly related to the constructed asset to have them in the condition for it be operated or to be used as intended.

The gains and losses on the disposal of property, plant, equipment and improvements are determined by comparing the net book value of the assets with the sales price and the gain or loss is recorded in "other income" in the income statement for that period.

ii. Depreciation and Amortization

Depreciation and amortization are calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line method over their estimated useful lives and is generally recognized in profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that ETESA will obtain ownership by the end of the lease term. Land is not depreciated.

The years of the useful life of for each asset are as follows:

	<b><u>Estimated Year of Life</u></b>
Sub-station equipment	35
Towers and Accessories	40
Poles and accessories	40
Overhead Conductors	35
Building and improvements	35
Communication Equipment	10
Office equipment and furniture	10
Transport equipment	5
Roads and trails	35
Computer Equipment	3
Laboratory equipment	10
Miscellaneous Equipment	10
Mechanical Equipment	10
Installation and equipment of cellar	10

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Depreciation methods, estimated useful life, and other residual values are reviewed in each balance sheet date and adjusted if necessary.

iii. **Subsequent Costs**

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

The cost of replacing a part of an asset of property, plant, furniture and equipment is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. The book value of the replaced part is not recognized. The costs of the daily maintenance of real estate, plant, furniture and equipment are recognized in the statement of profit or loss during the period in which they are incurred.

(d) **Construction in process**

The construction in process include the costs of projects considered in the Expansion Plan of the transmission network, which are in the stage of construction.

The costs of the projects under construction are transferred to fixed assets to be used, once the infrastructure (lines, substations, etc.) has been commissioned to enter commercial use.

The costs of the constructions in process include wages, benefits, interest on loans attributable to the construction and other direct costs associated directly to the projects. Similarly, following the industry practice, the entity includes as part of the costs of the constructions in process, certain expenditures for general and administrative expenses directly related to the projects.

(e) **Right of way**

This asset consists of the right that ETESA has for the passage of the towers and transmission lines, over third-party properties. The cost incurred to obtain the right of way is the amount paid by ETESA based on the appraisal made by the Panamanian Controllorship. The right of way acquired has a defined useful life and are measured at cost less accumulated amortization. Right of way are amortized using the straight-line method for 35 years, charged to the statement of income of each period.

(f) **Spare Parts Inventory**

The spare inventory is valued at cost. Costs are determined using the weighted average cost method. ETESA periodically evaluates the possible risk of deterioration of the spare inventory each year and if there are indicators of obsolescence, the adjustment is recognized against the statement of profit or loss.

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(g) *Regulatory deferral account balances*

ETESA is subject to the regulations and agreements issued by the ASEP, government entity that determine the amounts of revenue to be collected by ETESA based on the Maximum Allowable Income tariff for each period; as a result, ASEP allows for the deferral of certain cost that may be recovered through an increase in future tariffs (see note 19).

IFRS requires that these regulatory deferral accounts be presented separately in the financial statements in order to determine the impact of such amounts. Any impairment of the value of the deferral accounts that will not be recoverable through the approved rates, will be written off with through the statement of profit or loss in the line item of "movement of regulatory deferral accounts" in the period in which it is assessed, in a separate line from the ordinary operations of ETESA.

(h) *Impairment of Financial assets*  
*Non-derivative Financial Assets*

Policy applicable after 1st January 2018.

*Financial Instruments and Contract assets.*

ETESA recognizes credit risk loss allowance for:

- Financial assets measured at amortized cost.

ETESA measures the corrections of the value of the assets for the amount of the risk of default occurring over the expected life of the financial instrument, significantly since initial recognition, except for the value based on the application of IFRS 9.

The corrections in the value for trade accounts receivable are always measured at an amount equal to the expected credit losses during its life time.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit losses, ETESA considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on ETESA's historical experience and informed credit assessment and including forward-looking information.

ETESA assumes that the credit risk on a financial asset has increased significantly if it is more than 360 days past due.

ETESA considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to ETESA in full, and ETESA cannot redistribute the losses among the other agents of the electricity market, to ensure the maximum permitted income (IMP)
- or the financial asset is more than 360 days past due.

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The expected credit risk losses during the life time of the financial assets are the credit losses that result from all possible events of default during the expected life of a financial instrument.

The expected twelve-month credit risk losses are the part of the expected credit risk losses over the life of the financial assets that come from the non-compliance events on a financial instrument that is possibly within 12 months after the reporting date (or a lower period of time, if the instrument has a life of less than twelve months).

The maximum period considered when estimating credit risk losses is the maximum contractual period over which the ETESA is exposed to credit risk.

*Measurement of Expected Credit losses*

Credit risk losses are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that ETESA expects to receive).

Expected Credit losses are discounted at the effective interest rate of the financial asset.

*Credit impaired financial Assets*

At each reporting date, the ETESA assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have 360 days detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the debtors or issuer;
- a breach of contract such as a default or being more than 360 days past due;
- the restructuring of a loan or advance by ETESA on terms that the ETESA would not consider otherwise;
- it is probable that the debtors will enter bankruptcy or other financial reorganization;
- or the disappearance of an active market for a security because of financial difficulties.

*Presentation of allowance for Expected Credit loss in the statement of financial position*

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

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#### *Write-offs*

The gross carrying amount of a financial asset is written off when ETESA has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For individual customers, ETESA has a policy of writing off the gross carrying amount when the financial asset is 720 days past due based on historical experience of recoveries of similar assets and all collections efforts have been unsuccessful. For corporate customers, ETESA individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. ETESA expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with ETESA's procedures for recovery of amounts due.

#### *Policy applicable before 1 January 2018*

##### *i. Non-derivative financial assets*

Financial assets not classified as fair value through profit or loss were assessed at each reporting date to determine whether there was objective evidence of impairment.

Objective evidence that financial assets were impaired included:

- *default or delinquency by a debtor;*
- *restructuring of an amount due to ETESA on terms that ETESA would not consider otherwise;*
- *indications that a debtor or issuer would enter bankruptcy;*
- *adverse changes in the payment status of debtors or issuers;*
- *the disappearance of an active market for a security because of financial difficulties;*
- *or observable data indicating that there was a measurable decrease in the expected cash flows from a group of financial assets.*

#### *Financial assets measured at amortized cost*

ETESA considered evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets were individually assessed for impairment. Those found not to be impaired were then collectively assessed for any impairment that had been incurred but not yet individually identified. Assets that were not individually significant were collectively assessed for impairment. Collective assessment was carried out by grouping together assets with similar risk characteristics.

In assessing collective impairment, ETESA used historical information on the timing of recoveries and the amount of loss incurred and made an adjustment if current economic and credit conditions were such that the actual losses were likely to be greater or lesser than suggested by historical trends.

An impairment loss was calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses were recognized in profit or loss and reflected in an allowance account. ETESA considered that there were no realistic prospects of recovery of the asset, the relevant amounts were written off. If the amount of impairment loss subsequently decreased and the decrease was related objectively to an event occurring after the impairment was recognized, then the previously recognized impairment loss was reversed through profit or loss.

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(i) *Impairment of non-financial assets*

At each reporting date, ETESA reviews the carrying amounts of its non-financial assets (other than investment property, inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or Cash generating units.

The recoverable amount of an asset or Cash generating unit is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or Cash generating unit. An impairment loss is recognized if the carrying amount of an asset or Cash generating unit is greater than its recoverable amount.

Impairment losses are recognized in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the Cash generating unit, and then to reduce the carrying amounts of the other assets in the Cash generating unit, on a pro rata basis.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(j) *Share capital*

- i. Share Capital are classified as Equity. Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity, net of tax effect.
- ii. Dividends. The distribution of dividends to the shareholder of ETESA is recognized as a liability in the year in which the dividends are approved by the Board.

(k) *Amounts withheld to contractors.*

ETESA retains from 5% to 10% of the amount owed in relation to each payment made to contractor's subject to the provisions of the construction contracts, as established in each contract. Once the Project has been completed and received to satisfaction, the amounts retained are paid to the respective contractors.

(l) *Employee Benefits*

i. Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the ETESA has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

ii. Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available. See Policy 3.1 iii.

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(m) *Provisions*

A provision is recognized, if as a result of a past event, ETESA has a legal obligation implicit in the present that can be estimated reliably, and it is probable that an outflow of economic benefits will be necessary to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost. If the provision is estimated it will be payable in one year or less, no discount to its expected cash flows is recognized.

i. Litigation and commitments

ETESA in the normal course of their operations is exposed to demands or sanctions. A provision is recognized on the basis of the current situation for each case to the extent that it is probable that future economic outflows will be required and it is possible to determine the amount reliably.

ii. Tariff rate refund

The provision for the tariff return corresponds to the charges for use of the Transmission Main System (CUSPT) and for the rebilling of charges for the service of Integrated Operation (SOI) of the tariff rate year 4, corresponds to the best estimate of the adjustment to be applied to the agents in the market on the basis of tariff information available, pending to be ratified by the ASEP

iii. Provision for seniority Premium payment and Severance Fund

The Panamanian Work Code, of the Panamanian labor law, establishes the recognition of a seniority payment for the work carried out. For this purpose, ETESA has established a provision, in which it is calculated based on a week's salary for each year worked.

For this purpose, the entity has established a provision, which is calculated on the worker's weekly salary for each year of work, or which is equal to 1.92% on wages paid in the year.

According to the Labor Code of the Republic of Panama, upon the termination, for any reason, of a contract with no time expiration, the worker is entitled to a seniority premium payment at the rate of a week's salary for each year of work since the beginning of the employment relationship.

The Law provides for the obligation of employers to establish a severance fund to pay the employees the seniority premium and other compensation for unjustified dismissal that is regulated by the Labor Code, amounted to B/.2,148,455 (2017: B/.1,922,489).

(n) *Revenue from operations*

The income of ordinary activities under IAS 18 or IFRS 15. Is recognized based on the characteristics of the main types of services: transmission, connection and integrated operations, the amount of income is based on the maximum amounts permitted according to the statement of tariffs approved by the ASEP. ETESA recognizes the income as the connection, transmission and integrated operation services are rendered over the time.

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Invoices for transmission, connection and integrated operation services are issued monthly and are usually payable in a period of 30 to 120 days.

Any consideration payable to customers are recognized once ETESA and the client reach an agreement, if there is no agreement, the ASEP will be involved to determine the claim amount to be paid, if any.

i. Income from transmission:

Revenue is recognized over time as the services are provided. The transmission toll revenues are recognized in as services are rendered monthly, and the client takes control of the service, the income for transmission is not dependent on the volume of energy transmitted but on the tariff per user set out in the statement of tariffs approved by the National Authority of Public Services (ASEP).

ii. Revenue per connection:

The maximum income permitted for the connection service is approved by the National Authority of Public Services (ASEP). The income per connection are calculated on the different types of connection assets made available by ETESA and paid by users, according to the "typical equipment" used. Revenue is recognized over time on a periodic basis depending on the assets made available to the user through the connection period.

iii. Revenue from the service of integrated operation:

The income from services of integrated operation (SOI) supplied by the National Dispatch Center (CND), are recognized in accordance to the estimate of maximum income allowed (IMP) by the operation of the National Interconnected System (SIN), and the administration of the Wholesale Electricity Market.

iv. The Income for the service of hydrometeorology (IPHM)

The income for the service of hydrometeorology (IPHM) are set in accordance with the maximum income allowed and then redistributed to the market participants based on the methodology set forth in the tariff.

The activity costs associated with the meteorological, hydrological function will be recovered as an administrative expense, in the integrated operations, except those that are collected directly from the interested parties. These costs related to the hydrological function and meteorological will be limited to 0.5% of gross revenues of the distributors, except donations, contributions or payments by the State or by entities outside the electric sector.

(o) *Recognition of expenditures*

Expenses are recognized in the income statement when there is a decrease in future economic benefits related to the reduction of an asset, or an increase of a liability which can be measured reliably.

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- (p) *Net Financial costs*,  
Financial costs, net, include interest expenses for financing activities and tariff reimbursement, net of interest earned on saving accounts and time deposits recognized using the effective interest method.
- (q) *Operating leases*  
Payments made under operating leases are recognized in the statement of profit or loss on a straight-line basis, during the term of the lease. The incentives for leases are recognized as an integral part of the total lease expense during the term of the lease
- (r) *Income tax*  
The income tax for the year includes the calculation of the current tax and deferred tax assets and liabilities. The income tax is recognized in the statement of profit or loss, except when it relates to items recognized directly in the equity, in which case it is recognized in other comprehensive income.

The current tax is the expected payment on the taxable income for the year, using the rates prevailing at the reporting date, and any other adjustment on the tax payable in respect of previous years.

Deferred tax is recognized considering the temporary differences between the book value of assets and liabilities, for financial purposes and the amounts used for fiscal purposes. Deferred income tax is measured at the tax rates expected to be applied to temporary differences when they are reversed, based on the substantially enacted and existing laws, as of the reporting date.

Unrecognized deferred tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable profits improves.

- (s) *Segment information*  
An operating segment is a component of ETESA that is dedicated to business activities of which income is earned and expenses are incurred, including revenues and expenses related to transactions with any of the other components of ETESA.

All the results of operation of the operating segments are reviewed regularly by the General Manager, who acts as the Chief Executive Decision Maker of ETESA to make decisions about the resources to be allocated to the segment and evaluate its performance, and for which the financial information is available. (Note 8).

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(t) *Fair value measurement*

Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which ETESA has access at that date. The fair value of a liability reflects its non-performance risk.

A number of ETESA's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities (see Note 6(A) (i)).

When one is available, ETESA measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then ETESA uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

If an asset or a liability measured at fair value has a bid price and an ask price, then ETESA measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If ETESA determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

(u) *Standards issued but not yet effective.*

A number of new standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted; however, ETESA has not early adopted the new or amended standards in preparing these consolidated financial statements.

**IFRS 16 Leases**

IFRS 16 Leases ETESA is required to adopt IFRS 16 Leases from 1 January 2019.

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ETESA has assessed the estimated impact that initial application of IFRS 16 will have on its consolidated financial statements, as described below. The actual impacts of adopting the standard on 1 January 2019 may change because:

- ETESA has not finalized the testing and assessment of controls over its new IT systems;
- and the new accounting policies are subject to change until ETESA presents its first financial statements that include the date of initial application.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

#### ***Leases in which ETESA is a lessee***

ETESA will recognize new assets and liabilities for its operating leases mainly of the administrative offices (see Note 34). The nature of expenses related to those leases will now change because ETESA will recognize a depreciation charge for right-of-use assets and interest expense on lease liabilities. Previously, ETESA recognized operating lease expense on a straight-line basis over the term of the lease, and recognized assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognized.

Based on the information currently available, ETESA estimates that as of January 1, 2019, it will recognize lease liabilities for B/.1,264,672 and assets for right of use for B/.1,264,672

ETESA does not expect the adoption of IFRS 16 to affect its ability to comply with the contractual clauses of the loans described in Note 22.

#### ***Transition***

ETESA plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings at January 1, 2019, with no restatement of comparative information.

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**Other standards**

The following amended standards and interpretations are not expected to have a significant impact on ETESA's consolidated financial statements.

- IFRIC 23 Uncertainty over Tax Treatments.
- Prepayment Features with Negative Compensation (Amendments to IFRS 9).
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28).
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19).
- Annual Improvements to IFRS Standards 2015–2017 Cycle – various standards.
- Amendments to References to Conceptual Framework in IFRS Standards.

**(7) Changes in significant accounting policies**

ETESA has initially applied IFRS 15 (see A) and IFRS 9 (see B) from January 1, 2018. A number of other new standards are also effective from 1 January 2018, but they do not have a material effect on the ETESA's financial statements.

Due to the transition methods chosen by ETESA in applying these standards, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standards, except for certain hedging requirements and separately presenting impairment loss on trade receivables and contract assets (see B).

The effect of initially applying these standards is mainly attributed to the increase in impairment losses recognized on financial assets (see B(ii)).

**A. IFRS 15 Revenue from Contracts with Customers**

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

Under IFRS 15, revenue is recognized when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgment.

ETESA has adopted IFRS 15 using the cumulative effect method (without practical expedients), with the effect of initially applying this standard recognized at the date of initial application (i.e. 1 January 2018). Accordingly, the information presented for 2017 has not been restated – i.e. it is presented, as previously reported, under IAS 18, IAS 11 and related interpretations.

Additionally, the disclosure requirements in IFRS 15 have not generally been applied to comparative information.

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**Income from ordinary activities derived from contracts with Clients:**

Under IAS 18, revenue from these contracts are recognized when a reasonable estimate of returns can be provided and that they meet all other criteria for revenue recognition. If a reasonable estimate cannot be done, the recognition of income will be deferred until the end of the repayment period or a reasonable estimate of returns can be determined. Under IFRS 15, revenue is recognized by these contracts to the extent that it is likely that a significant reversal does not occur in the amount of accumulated income.

For additional information on ETESA's accounting policies related to revenue recognition, see Note 3.1

**B. IFRS 9 Financial Instruments**

IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

As a result of the adoption of IFRS 9, ETESA has adopted consequential amendments to IAS 1 Presentation of Financial Statements, which require impairment of financial assets to be presented in a separate line item in the statement of profit or loss and OCI. Previously, ETESA approach was to include the impairment of trade receivables in other expenses. Consequently, ETESA reclassified impairment losses amounting, to B/. 829,336 recognized under IAS 39, from 'other expenses' to 'impairment loss on trade receivables' in the statement of profit or loss for the year ended 31 December 2016 (amount in 2017 was nil). Additionally, ETESA has adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018 but have not been generally applied to comparative figures.

The following table summarizes the impact, net of tax, of transition to IFRS 9 on the opening balance of retained earnings:

	<u>2018</u>
Retained earnings	
Recognition of expected credit losses under IFRS 9	1,859,224
Related taxes	<u>(557,767)</u>
Impact at 1st January 2018	<u>1,301,457</u>

**Classification and measurement of financial assets and financial liabilities**

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, FVOCI and FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

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IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

The adoption of IFRS 9 has not had a significant effect on ETESA's accounting policies related to financial liabilities. For an explanation of how ETESA classifies and measures financial instruments and accounts for related gains and losses under IFRS 9, see Note 3.a(ii).

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of ETESA's financial assets and financial liabilities as at January 1, 2018.

The effect of adopting IFRS 9 on the carrying amounts of financial assets at January 1, 2018 relates solely to the new impairment requirements.

	<u>Note</u>	<u>Original classification under IAS 39</u>	<u>New classification under IFRS 9</u>	<u>Amount in Books originally under IAS 39</u>	<u>New Amount in books under IFRS 9.</u>
<b>Financial Assets</b>					
Trade receivables and other accounts receivables.	a	Loan and receivable	Amortised cost	18,383,013	16,523,791
Cash	a	Loan and receivable	Amortised cost	<u>26,702,057</u>	<u>26,702,056</u>
<b>Total Financial Assets</b>				<u>45,085,070</u>	<u>43,225,847</u>
<b>Financial Liabilities</b>					
Bank loans		Other financial liabilities	Other financial liabilities	144,263,418	144,263,418
Accounts payable trade		Other financial liabilities	Other financial liabilities	<u>347,494,664</u>	<u>347,494,664</u>
<b>Total Financial Liabilities</b>				<u>491,758,082</u>	<u>491,758,082</u>

**Classification and measurement of financial assets and financial liabilities**

- Trade receivables and other accounts receivable that were classified as loans and items receivable under IAS 39 are now classified at amortized cost. An increase of B/.1,859,223 was recognized in the provision for impairment for these items' receivable in the initial accumulated earnings as of January 1, 2018 when the transition was made to IFRS 9.

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The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of ETESA's financial assets and financial liabilities as at 1 January 2018.

	Amount in Books under IAS 39 as of 31st <u>December, 2017</u>	<u>Remeasurement</u>	Amount in Books under IFRS 9 as of 1 <sup>st</sup> <u>January, 2018</u>
<b>Financial Assets</b>			
<b>Amortized Cost</b>			
<b>Cash</b>			
Initial balance before: Loans and other accounts receivable	26,702,057		
Remeasurement		(1)	
Initial Balance: Amortized Cost			26,702,056
<b>Trade Receivables and other accounts receivables</b>			
Balance before: Loans and other related receivables	18,383,013		
Remeasurement		(1,859,223)	
Initial Balance: Amortized Cost			16,523,790
<b>Total Amortized cost</b>	<b>45,085,070</b>	<b>(1,859,224)</b>	<b>43,225,846</b>

**Impairment of financial assets**

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortized cost and contract assets.

For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. ETESA has determined that the application of IFRS 9's impairment requirements at 1 January 2018 results in an additional allowance for impairment as follows:

**Loss allowance at 31 December 2017 under IAS 39**

Cash	1
Trade Receivables and contract assets	1,859,223
<b>Provision for Losses as of 1st January 2018 under IFRS 9</b>	<b>1,859,224</b>

**Transition**

The changes in the accounting policies resulting from the adoption of IFRS 9 have been applied in an accumulated manner.

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#### (8) Operating Segments

##### A. Bases for segmentation:

The entity has the following three strategic divisions, which correspond to the segments to be reported. These divisions offer various services and are administered separately since they require different management strategies and technology. The following summary describes the operations for each reportable segment.

Reportable segment	Operations
Transmission/Connection	Transport of electric energy in high voltage and transformation of the tension from the point of delivery of such energy by the generator, up to the point of receipt by the distributor or large customer. Includes charges for the use of the Transmission Main System (CUSPT). The connection service charges reflect the costs of connection assets, which are property of ETESA, assigned to a user.
National Dispatch Center	The integrated operation provided by the National Dispatch Center (CND), is a public utility service that aims to meet the demand of the national interconnected system, reliably, securely and with quality through the optimal use of available resources of generation and transmission, including international interconnections, as well as to manage the contract market and occasional market.
Direction of Hydrometeorology	Provide hydrometeorology and hydrology services at the national level in the Republic of Panama. It is responsible to be liaison with the national meteorological services of other countries in the area and coordinates with the National Civil Protection System (SINAPROC), the notice of alert against extreme weather events. In addition, it is responsible for the construction, maintenance and operation of the national network of meteorological and hydrological stations. It also prepares reports that the hydrological short- and long-term contribute to the operation of reservoirs serving the hydroelectric power stations in the country.
Other non-reportable segments	Other operations include investments in associates and joint ventures related to the transmission business at the regional level as the company that owns the network, Central American Network of telecommunications, S. A., and electrical interconnection of Colombia Panama, S. A., the recognition of revenues and expenses of interest and the sale of non-productive assets such as land. None of these segments comply with the quantitative thresholds for determining reportable segments that must be reported in 2018, 2017 and 2016.

The General Manager of the Entity reviews reports of internal management of each segment at least quarterly. The reportable segments of the entity are managed and operated in the Republic of Panama.

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B. Information about reportable segments  
Information related to each reportable segment is set out below. Segment profit (loss) before tax is used to measure performance because management believes that this information is the most relevant in evaluating the results of the respective segments relative to other entities that operate in the same industries.

June, 2019	Reportable segments				Total
	Transmission of electricity / Connection	National Dispatch Center (Centro Nacional de Despacho)	Hydrometeorology Division	Others	
Income of the segment to be disclosed	55,996,857	3,863,369	2,207,607	0	62,067,833
Profit before taxes to be disclosed	12,404,282	865,804	489,024	0	13,749,109
Profit before taxes to be disclosed, net of movement in balance of regulatory deferred accounts	0	0	0	0	0
Financial cost, net	16,106,582	0	0	0	16,106,582
Depreciation and amortization	(12,441,187)	(858,350)	(490,479)	0	(13,790,015)
Participation in the gain on investments in associated companies by the method of participation	2,104,170	0	0	0	2,104,170
Income tax, net	(3,711,449)	(247,429)	(164,953)	0	(4,123,833)
<b>Assets of the segment to be disclosed</b>	<b>953,482,083</b>	<b>65,783,204</b>	<b>37,589,862</b>	<b>0</b>	<b>1,056,855,149</b>
Investment by the method of participation in associated companies and joint ventures	0	0	0	0	0
<b>Liabilities of the segment to be disclosed</b>	<b>941,126,259</b>	<b>64,930,744</b>	<b>37,102,748</b>	<b>0</b>	<b>1,043,159,751</b>



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**(9) Interests in equity accounted investments**

Investments in associates are represented by investment in shares that ETESA maintains in the following companies:

	<u>June 30 2019</u>	<u>December 31 2018</u>
Empresa Propietaria de la Red, S. A.	16,535,714	15,001,964
Red Centroamericana de Telecomunicaciones S. A.	<u>(54,416)</u>	<u>54,202</u>
	<u>16,481,298</u>	<u>15,056,166</u>

The amounts recognized and reported in the results of the period are presented as follows:

	<u>2019</u>	<u>June 30 2018</u>	<u>2017</u>
Empresa Propietaria de la Red, S. A.	1,416,087	1,923,677	767,022
Red Centroamericana de Telecomunicaciones, S. A.	<u>(352,416)</u>	<u>(120,064)</u>	<u>14,199</u>
	<u>1,063,671</u>	<u>1,803,613</u>	<u>781,221</u>

The following is a summary of the financial information of the associates:

	<u>June 30 2019</u>	<u>December 31 2018</u>
a) Empresa Propietaria de la Red, S. A.		
Capital in common shares	<u>6,500,000</u>	<u>6,500,000</u>
<b>Percentage of participation</b>	<u>11.11%</u>	<u>11.11%</u>
Non-current assets	375,427,616	382,108,027
Current Assets	72,545,934	63,616,661
Noncurrent Liabilities	(261,911,860)	(268,167,214)
Current Liabilities	<u>(37,225,378)</u>	<u>(42,526,300)</u>
Net Assets (100%)	<u>148,836,312</u>	<u>135,031,174</u>
Recorded in Books: Participation of ETESA		
In the Net Assets (11.11%)	<u>16,535,714</u>	<u>15,001,964</u>
Income	26,538,852	67,164,867
Expenses of ordinary activities (100%)	(11,039,991)	(41,280,828)
Financial Costs	<u>(2,752,806)</u>	<u>(8,569,216)</u>
Comprehensive income of the period (100%)	<u>12,746,055</u>	<u>17,314,823</u>
Amount in Books: Participation of ETESA		
In comprehensive income (11.11%)	<u>1,416,087</u>	<u>1,923,677</u>
<b>Movement of Participation in associates:</b>		
Beginning Balance of the year	8,501,964	7,521,678
Participation in the profit	1,416,087	1,923,677
Dividends received	(828,866)	(812,500)
Other charges to the participation	<u>946,530</u>	<u>(130,891)</u>
Final Balance at the end of the year	10,035,714	8,501,964
Capital in Shares	<u>6,500,000</u>	<u>6,500,000</u>
	<u>16,535,714</u>	<u>15,001,964</u>

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### **Empresa Propietaria de la Red, S. A. (EPR)**

The company started operations in June, 2011 and its shareholders are: the Costa Rican Institute of Electricity (ICE- Instituto Costarricense de Electricidad) , Costa Rica; the National Electricity Company (ENEE- Empresa Nacional de Energía Eléctrica) of Honduras; the National Transmission Company (ENATREL- Empresa Nacional de Transmisión Eléctrica) of Nicaragua; the Executive Committee of the Lempa River (CEL- Comisión Ejecutiva del Río Lempa) of El Salvador; the National Electrification Institute (INDE- Instituto Nacional de Electrificación) of Guatemala; Electrical Interconnection S. A. E.S.P (ISA- Interconexión Eléctrica S. A.) of Colombia; the Federal Electricity Commission (CFE- Comisión Federal de Electricidad), Mexico and ENDESA of Spain, which participate in the equity in equal parts and have the power to intervene in political , financial and operation decisions.

The shareholders of the Empresa Propietaria de la Red, S. A. are the holders to equal parts of 6,500 common shares with nominal value of B/.1,000 each.

Clause four of the articles of incorporation of EPR establishes that none of the current or future shareholders, may own directly or indirectly, more than a 20% of the equity that makes up the issued capital in circulation. To date, the entity owns an 11.11% stake.

Clause eleven of the articles of incorporation of EPR establishes that the decisions and agreements of the Shareholders' Meeting, the highest body of decision-making, shall be taken with the favorable vote of the majority of the issued and outstanding shares, noting that for the cases that are specifically indicated in this clause, the affirmative vote of the holders of 85% of the issued and outstanding shares with the right to vote will be required.

The main objective of EPR is to design, finance, construct, operate and maintain a system of transmission of electrical energy of 230 kv which will interconnect with the electrical systems of the 6 countries that comprise the Electric Interconnection System for the countries of Central America (SIEPAC).

In the Board of Directors meeting of the Electric Transmission Company, S. A. (ETESA), held on September 29, 2009, a loan was authorized between ETESA and Empresa Propietaria de la Red, S. A., in order to fulfill the commitment made in the stockholders meeting of the company that owns the network, S. A., held on June 18, 2009, with the aim of providing support to partially finance the additional costs arising in the construction of the transmission line. Currently, the balance receivable for this loan is for B/.2,596,154 (2017: B/.2,942,308). The loan contract dated January 25, 2010, establishes that the term of the loan will be up to 15 years, including a grace period of 2 years from the date of first disbursement of the funds of this loan. The first and only disbursement made was April 12, 2011(6 months Libor plus 2%) adjustable and revisable. The interest earned during the year are B/.0 (2018: B/.131,617).

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	<b>June 30 2019</b>	<b>December 31 2018</b>
b) <u>Red Centroamericana de Telecomunicaciones, S. A.</u>		
Capital in common shares	<u>300,000</u>	<u>300,000</u>
<b>Percentage in participation</b>	<u>11.11%</u>	<u>11.11%</u>
Non-current assets	14,333,046	13,857,290
Current assets	1,173,468	2,321,170
Non-current Liabilities	(13,437,413)	(14,141,739)
Current Liabilities	<u>(2,540,890)</u>	<u>(1,548,850)</u>
Net Assets (100%)	<u>(471,789)</u>	<u>487,871</u>
Recorded in books: Participation of ETESA in net assets (11.11%)	<u>(52,415)</u>	<u>54,202</u>
Income	370,705	2,328,064
Expenses of ordinary activities (100%)	(701,410)	(2,227,116)
Financial costs	<u>(353,049)</u>	<u>(1,181,628)</u>
income of the period (100%)	<u>(683,754)</u>	<u>(1,080,680)</u>
Amount in books: Participation of ETESA In comprehensive income (11.11%)	<u>(75,965)</u>	<u>(120,064)</u>
<b>Movement of Participation in associates:</b>		
Beginning balance of the year	(245,798)	(126,564)
Other charges in the participation	(30,653)	831
Dividends in the profit	<u>(75,965)</u>	<u>(120,064)</u>
Balance at the end of the year	(352,416)	(245,798)
Capital in shares	<u>300,000</u>	<u>300,000</u>
	<u>(52,415)</u>	<u>54,202</u>

**Red Centroamerica de Telecomunicaciones, S. A. (REDCA)**

The company Central American Network of telecommunications, S. A., was incorporated with the Public Registry of Panama, as from 2<sup>nd</sup> October 2012 and was created in order to develop, design, finance, construct, maintain, operate and exploit fiber-optic networks in the first regional transmission system that will interconnect the electrical systems of Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica and Panama.

The company in conjunction with the Instituto Costarricense de Electricidad (ICE), Costa Rica; the National Electricity Company (ENEE- Empresa Nacional de Energía Eléctrica) of Honduras; the National Transmission Company (ENATREL- Empresa Nacional de Transmisión Eléctrica) of Nicaragua; the Executive Committee of the Lempa River (CEL- Comisión Ejecutiva del Rio Lempa) of El Salvador; the National Electrification Institute (INDE-Instituto Nacional de Electrificación) of Guatemala; Electrical Interconnection S. A. S.P.A (ISA-Interconexión Eléctrica S. A) of Colombia; the Federal Electricity Commission (CFE-Comisión Federal de Electricidad) of Mexico and (ENDESA) of Spain, participate in the equity in equal parts, of Red Centroamerica de Telecomunicaciones, S. A. (REDCA). The shareholders maintain an equal participation and have the power to interfere in the decisions of financial policies and operation, as well as influence the operations of REDCA.

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The shareholders of the Red Centroamerica de Telecomunicaciones, S. A. (REDCA) are the holders to equal parts of 2,700 common shares with nominal value of B/.1,000 each. Electric Transmission Company, S. A., maintains an investment of 300 shares of common stock for B/.300,000.

The articles of incorporation of REDCA establish that none of the current or future shareholders, may have directly or indirectly, own more than 15% of the shares that make up the issued and circulated equity of the company.

**(10) Investment in joint venture**

The investment in the business that establishes joint control, it is detailed below:

	<b>June 30</b>	<b>December 31</b>
	<b><u>2019</u></b>	<b><u>2018</u></b>
a) <b>Interconexión Eléctrica Colombia-Panamá, S. A.</b>		
Capital in common shares	<u>8,187,000</u>	<u>8,187,000</u>
<b>Percentage of participation</b>	<u>50%</u>	<u>50%</u>
Current assets (including cash and cash equivalents		
Cash.	4,737,410	5,036,328
Liabilities (including financial liabilities non		
current and excluded from accounts payable and		
other accounts payable)	(5,673)	(142)
Non-current liabilities (including non-current financial liabilities		
and excluded accounts payable and other payables.	<u>(212)</u>	<u>(987)</u>
Net Assets (100%)	<u>4,731,525</u>	<u>5,035,199</u>
Amount in Books: Participation of ETESA in		
net assets (50%).	<u>2,365,763</u>	<u>2,517,599</u>
Other Income	37,342	84,442
Cost of ordinary activities (100%)	<u>(342,170)</u>	<u>(444,769)</u>
Comprehensive Income of the period (100%)	<u>(304,828)</u>	<u>(360,327)</u>
Amount in books: Participation of ETESA in the		
Results (50%).	<u>(152,414)</u>	<u>(180,164)</u>
<b>Movement of the participation in Joint Ventures:</b>		
Balance at beginning of year	(5,669,401)	(5,619,406)
Participation in the net profit	(152,414)	(46,356)
Other charges to the participation	<u>578</u>	<u>(3,639)</u>
Balance at the end of the year	<u>(5,821,237)</u>	<u>(5,669,401)</u>
Share Capital	<u>8,187,000</u>	<u>8,187,000</u>
Investment	<u>2,365,763</u>	<u>2,517,599</u>

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#### Interconexión Eléctrica Colombia–Panamá, S. A.

Company duly created under the laws of the Republic of Panama. The share capital is composed of 50% interest owned by Interconexiones Eléctricas S. A. E.S.P. (ISA), and ETESA.

Interconexión Eléctrica Colombia–Panamá, S. A. has as main objective to give priority to the development and construction of the transmission line of direct current (HVDC) of 300 MW electrical interconnection project between Colombia and Panama; with a length of 614 Km (340 in Colombia and 274 in Panama).

The Entity recognizes its participation in the joint venture using the equity method of accounting based on the Standard of International Financial Reporting Standards (IFRS) 11 "Joint Agreements".

The losses incurred in the results for the years ended December 31, 2018, 2017 and 2016 of the company was, mainly related to costs and expenses related to the research project.

#### (11) Property, plant, equipment and improvements to the property

The property, plant, equipment and improvements to leasehold property, are detailed as follows:

<u>Cost</u>	<u>As of 31st December 2018</u>	<u>Acquisitions</u>	<u>Disposals</u>	<u>Capitalizations and reclassification</u>	<u>As of 30 st June 2019</u>
Elevating Sub Station Towers	116,747,632	0	0	0	118,030,466
Towers and accessories	211,440,398	0	0	0	212,723,232
Air conductors and tower accessories	297,540,982	(3,245,137)	0	0	291,730,178
Building and Improvement	25,780,529	207,035	0	0	25,987,564
Communication equipment	24,826,815	2,438,956	0	0	27,265,771
Furniture equipment and other office Eqp	3,968,037	37,444	0	0	4,005,481
Land & right of way	5,834,383	0	0	0	5,834,383
Transportation Equipment	6,907,506	0	(1,283,159)	196,827	5,821,174
Hydrometeorology assets	9,556,770	0	0	0	9,556,770
Transformers	64,091,978	0	0	0	64,091,978
Roads & Bridges	988,701	0	0	0	988,701
Computer Equipment	5,971,975	1,229,045	0	0	7,201,020
Laboratory equipment	1,286,786	0	0	0	1,286,786
Protection eqp control & measurement	26,917,308	310,486	0	0	27,227,793
Auxiliary equipment	8,997,492	0	0	0	8,997,492
Miscellaneous electrical equipment	1,373,319	21,302	0	0	1,394,620
Mechanical equipment	348,642	0	0	0	348,642
Special tools	649,521	0	0	(196,827)	452,694
Donated Assets	7,771	0	0	0	7,771
Tower Equipment's-ACP/STP	594,895	0	0	0	594,895
Conductor equipment & others -ACP/STP	504,105	0	0	0	504,105
Strategical STP sub station equipment's	35,199,120	0	0	0	35,199,120
Strategical CNX sub station equipment's	266,716	0	0	0	266,716
	<u>849,801,380</u>	<u>999,130</u>	<u>(1,283,159)</u>	<u>0</u>	<u>849,517,354</u>

**EMPRESA DE TRANSMISIÓN ELÉCTRICA, S. A. (ETESA)**  
(Company 100% owned by the State of the Republic of Panama)

**Notes to the Financial Statements as June 30, 2018 and 2017 and for the years ended June 30, 2018, 2017 and 2016 (Figures in Balboas)**

<b>Depreciation y amortization</b>	<b>As of 1st December 2018</b>	<b>Increase</b>	<b>Disposals</b>	<b>Reclassification</b>	<b>As of 31st June 2019</b>
Elevating Sub Station Towers	42,077,085	1,688,631	0	0	43,765,716
Towers and accessories	57,118,584	2,662,031	0	0	59,780,615
Air conductors and tower accessories	58,169,407	3,230,206	0	0	61,399,613
Building and Improvement	17,874,180	341,728	0	0	18,215,909
Communication equipment	16,805,845	1,245,143	0	0	18,050,989
Furniture equipment and other office Eqp	3,260,759	62,082	0	0	3,322,840
Transportation Equipment	5,395,527	313,791	(1,283,159)	45,926	4,472,085
Hydrometeorology assets	3,370,787	112,055	0	0	3,482,843
Transformers	31,463,440	833,726	0	0	32,297,166
Roads & Bridges	233,120	14,124	0	0	247,245
Computer Equipment	2,490,953	1,429,274	0	0	3,920,227
Laboratory equipment	1,286,787	0	0	0	1,286,786
Protection eqp control & measurement	17,368,321	719,069	0	0	18,087,389
Auxiliary equipment	4,327,303	127,993	0	0	4,455,297
Miscellaneous electrical equipment	916,292	52,576	0	0	968,868
Mechanical equipment	144,558	15,515	0	0	160,072
Special tools	489,509	697	0	(45,926)	444,281
Donated Assets	2,461	111	0	0	2,572
Tower Equipment's-ACP/STP	132,611	7,436	0	0	140,048
Conductor equipment & others -ACP/STP	128,427	7,202	0	0	135,628
Strategical STP sub station equipment's	4,493,728	865,195	0	0	5,358,923
Strategical CNX sub station equipment's	23,709	4,445	0	0	28,153
	<u>267,573,395</u>	<u>13,733,031</u>	<u>(1,283,159)</u>	<u>0</u>	<u>280,023,266</u>
<b>Net Balance</b>	<u>582,227,988</u>				<u>569,494,088</u>

**Cost**

	<b>As of 1st January 2018</b>	<b>Acquisitions</b>	<b>Disposals</b>	<b>Capitalizations and reclassification</b>	<b>As of 31st December 2018</b>
Elevating Sub Station Towers	113,884,347	875,787	(188,877)	2,176,375	116,747,632
Towers and accessories	210,706,958	733,440	0	0	211,440,398
Air conductors and tower accessories	222,912,462	830,917	0	73,797,603	297,540,982
Building and Improvement	25,408,299	0	0	372,230	25,780,529
Communication equipment	24,368,428	458,387	0	0	24,826,815
Furniture equipment and other office Eqp	3,674,520	318,914	(25,397)	0	3,968,037
Land & right of way	5,843,930	0	(9,547)	0	5,834,383
Transportation Equipment	6,071,319	837,042	0	(855)	6,907,506
Hydrometeorology assets	6,321,503	0	0	3,235,267	9,556,770
Transformers	63,642,390	449,588	0	0	64,091,978
Roads & Bridges	982,308	6,393	0	0	988,701
Computer Equipment	29,294,445	2,564,270	(25,887,595)	855	5,971,975
Laboratory equipment	1,286,786	0	0	0	1,286,786
Protection eqp control & measurement	26,382,285	737,245	(202,222)	0	26,917,308
Auxiliary equipment	8,820,643	176,850	0	0	8,997,492
Miscellaneous electrical equipment	1,262,213	111,106	0	0	1,373,319
Mechanical equipment	348,642	0	0	0	348,642
Special tools	1,839,005	0	(1,189,484)	0	649,521
Donated Assets	7,771	0	0	0	7,771
Tower Equipment's-ACP/STP	594,895	0	0	0	594,895
Conductor equipment & others -ACP/STP	504,105	0	0	0	504,105
Strategical STP sub station equipment's	35,199,120	0	0	0	35,199,120
Strategical CNX sub station equipment's	266,716	0	0	0	266,716
	<u>789,623,090</u>	<u>8,099,939</u>	<u>(27,503,122)</u>	<u>79,581,476</u>	<u>849,801,380</u>
<b>Net Balance</b>					

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<u>Depreciation y amortization</u>	<u>As of 1st January 2018</u>	<u>Increase</u>	<u>Disposals</u>	<u>Reclassification</u>	<u>As of 31st December 2018</u>
Elevating Sub Station Towers	38,728,157	3,433,598	(84,670)		42,077,085
Towers and accessories	51,761,304	5,357,280	0	0	57,118,584
Air conductors and tower accessories	50,101,219	8,068,188	0	0	58,169,407
Building and Improvement	17,127,777	746,403	0	0	17,874,180
Communication equipment	15,391,049	1,414,796	0	0	16,805,845
Furniture equipment and other office Eqp	3,188,203	97,470	(24,914)	0	3,260,759
Transportation Equipment	4,806,256	590,126	0	(855)	5,395,527
Hydrometeorology assets	2,927,246	443,541	0	0	3,370,787
Transformers	29,787,511	1,675,929	0	0	31,463,440
Roads & Bridges	204,704	28,416	0	0	233,120
Computer Equipment	24,969,126	3,407,514	(25,886,542)	855	2,490,953
Laboratory equipment	1,286,288	499	0	0	1,286,787
Protection eqp control & measurement	16,130,310	1,440,233	(202,222)	0	17,368,321
Auxiliary equipment	4,069,614	257,689	0	0	4,327,303
Miscellaneous electrical equipment	816,428	99,864	0	0	916,292
Mechanical equipment	110,622	33,936	0	0	144,558
Special tools	1,656,998	21,995	(1,189,484)	0	489,509
Donated Assets	2,239	222	0	0	2,461
Tower Equipment's-ACP/STP	117,739	14,872	0	0	132,611
Conductor equipment & others -ACP/STP	114,024	14,403	0	0	128,427
Strategical STP sub station equipment's	2,763,340	1,730,388	0	0	4,493,728
Strategical CNX sub station equipment's	14,818	8,891	0	0	23,708
	<u>266,074,972</u>	<u>28,886,255</u>	<u>(27,387,832)</u>	<u>0</u>	<u>267,573,395</u>
<b>Net Balance</b>	<u>523,548,117</u>				<u>582,227,988</u>

Additionally, there is B/.27,505,483 on equipment that is fully depreciated, however, they still remain in use.

### (12) Construction in progress:

The constructions in the process are detailed below:

<u>Projects:</u>	<u>Balance 2018</u>	<u>Additions</u>	<u>Capitalization</u>	<u>Balance 2019</u>
Main Transmission System	112,164,258	47,305,987	30,029	159,500,274
Right of way	5,047,482	508,487	0	5,555,969
Connection System	2,048,218	87,624	(111,028)	2,024,814
National Dispatch Center	4,747,774	202,228	0	4,950,002
Hydrometeorology	3,418,143	200,379	0	3,618,522
Management team support	378,157	0	0	378,157
Compensation	852,593	1,012,397	(1,076,874)	788,116
Regional Investments	1,642,234	0	0	1,642,234
	<u>130,298,859</u>	<u>49,317,102</u>	<u>(1,157,873)</u>	<u>178,458,088</u>

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	<u>Balance 2016</u>	<u>Additions</u>	<u>Capitalization</u>	<u>Balance 2017</u>
<b>Projects:</b>				
Main Transmission System	99,884,715	82,325,799	(71,964,937)	110,245,577
Right of way	2,190,048	2,857,434	0	5,047,482
Connection System	2,717,164	321,312	(160,540)	2,877,936
National Dispatch Center	1,662,482	3,085,293	0	4,747,775
Hydrometeorology	3,575,863	3,077,546	(3,235,267)	3,418,142
Management team support	1,839,351	0	(372,230)	1,467,121
Compensation	511,850	4,189,245	(3,848,502)	852,593
Regional Investments	1,642,234	0	0	1,642,234
	<u>114,023,707</u>	<u>95,856,629</u>	<u>(79,581,476)</u>	<u>130,298,859</u>

The costs of construction in process constitute the expenses that ETESA has incurred for the construction of several projects to improve the current systems of energy transmission.

As of 30 June 2019 and 2018 payments made associated to constructions in process are detailed below:

	<u>June 30 2019</u>	<u>December 31 2018</u>
Purchases made during the year	48,159,228	13,952,879
Payment of right of way	527,711	527,711
Withholdings to contractors	<u>3,869,814</u>	<u>4,971,282</u>
	<u>52,556,753</u>	<u>19,451,872</u>

**Withholdings to contractors**

The amounts withheld to contractors for construction contracts consists of the following:

		<u>June 30, 2019</u>					
<u>Beginning Balance</u>	<u>Increase</u>	<u>Payments</u>	<u>Reclassification</u>	<u>Ending Balance</u>	<u>Current Portion</u>	<u>Non-current Portion</u>	
<u>3,285,463</u>	<u>656,335</u>	<u>25,703</u>	<u>(46,281)</u>	<u>3,896,814</u>	<u>1,238,340</u>	<u>2,631,474</u>	
		<u>December 31, 2018</u>					
<u>Beginning Balance</u>	<u>Increase</u>	<u>Payments</u>	<u>Reclassification</u>	<u>Ending Balance</u>	<u>Current Portion</u>	<u>Non-current Portion</u>	
<u>5,821,708</u>	<u>2,515,874</u>	<u>(4,971,282)</u>	<u>(80,837)</u>	<u>3,285,463</u>	<u>1,172,248</u>	<u>2,113,215</u>	

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The right of way, net is detailed as follows:

	<b>June 30</b>	<b>December 31</b>
	<b><u>2019</u></b>	<b><u>2018</u></b>
<b><u>Cost</u></b>		
Beginning Balance	93,809,983	93,018,403
Additions	0	791,580
Ending Balance	<u>93,809,983</u>	<u>93,809,983</u>
<b><u>Amortization</u></b>		
Beginning Balance	10,465,127	7,776,125
Additions	<u>670,071</u>	<u>2,689,002</u>
Ending Balance	<u>11,135,198</u>	<u>10,465,127</u>
Net Balance	<u>82,674,785</u>	<u>83,344,856</u>

ETESA has the obligation to acquire the right of way for the strip of land in which the route of line 3 of transmission was established. This commitment of acquisition results in having to make estimated disbursements amounting B/. 13,194,960. The payments corresponding to this right of way are expected to be made from 2019 to 2024. In order to carry out these acquisitions ETESA is in the process of negotiating with the owners of the corresponding land.

With respect to the Guasquita-Panama II Transmission Line, for which currently ETESA does not have the estimate of the remainder payments to be made for right of way, has in total 832 properties, where 621 properties were already paid for a total value of B /.1,770,733.

**(14) Inventory of spare parts, net**

The inventory of spare parts used for the maintenance of the network of electric power transmission is detailed below:

	<b>June 30</b>	<b>December 31</b>
	<b><u>2019</u></b>	<b><u>2018</u></b>
Inventory of materials, parts and minor equipment	4,900,745	5,244,944
Less: Provision for inventory obsolescence	<u>(1,038,512)</u>	<u>(1,038,512)</u>
	<u>3,862,233</u>	<u>4,206,432</u>

The movement of the provision for obsolescence of inventory is presented below:

	<b>June 30</b>	<b>December 31</b>
	<b><u>2019</u></b>	<b><u>2018</u></b>
Balance at the beginning of the year	1,888,698	1,888,698
Provision used	<u>(850,186)</u>	<u>(850,186)</u>
Balance at the end of the year	<u>1,038,512</u>	<u>1,038,512</u>

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**(15) Advance to Contractors**

The advance to contractors relates to the following suppliers:

	<b>June 30</b>	<b>December 31</b>
	<b><u>2019</u></b>	<b><u>2018</u></b>
Celmec, S. A.	2,779,226	3,431,342
Elecnor, S.A.	1,963,388	2,483,569
Nacional de Seguros de Panamá y Centroamerica, S. A.	1,985,835	1,985,835
Cobra Instalaciones y Servicios, S. A.	1,434,545	855,395
Fatuto SA	1,017,003	0
Ingelmec, S. A.	261,673	672,506
Energía Integral Andina, S. A	287,438	287,601
Proyecto y Construcciones Canaima	161,046	161,046
Vimac, S. A.	56,155	56,155
Argencobra, S. A.	16,980	16,980
Hyosung Heavy Industries Corporation	<u>2,456,720</u>	<u>0</u>
	<b><u>12,420,049</u></b>	<b><u>9,950,429</u></b>

**(16) Other assets**

Other assets include the accounts receivable from the Sistema de Interconexión Eléctrica for the countries of Central America (SIEPAC) in the amount of B/.2,086,573 (2018: equal) which includes accrued interest to date for B/.446,401 (2017: equal), based on the terms of the amending agreement on the use of savings resulting from coordinated operation for the repayment of the loan for technical cooperation N°1002/OC-RG, signed between Electric Transmission Company, S. A. (ETESA) and the Inter-American Development Bank (IDB).

**(17) Cash**

Cash accounts are detailed as follows:

	<b>June 30</b>	<b>December 31</b>
	<b><u>2019</u></b>	<b><u>2018</u></b>
Petty Cash	47,800	47,800
Bank current accounts	<u>57,719,078</u>	<u>19,420,826</u>
Total cash	<u>57,766,878</u>	19,468,626
Restricted Cash (note 22)		-
<b>Cash</b>	<b><u>57,766,878</u></b>	<b><u>19,468,626</u></b>

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The other accounts with market agents, are summarized as follows:

	<b>June 30</b>	<b>December 31</b>
	<b><u>2019</u></b>	<b><u>2018</u></b>
AES Changuinola S De R.L.	172,220	172,185
Alternegy	217,346	213,899
Bahia LAS MINAS, S.A.	2,352	193,302
Pedregal Power	180,175	180,750
Jinro Corp	102,135	102,135
Others	<u>650,443</u>	<u>311,828</u>
	<u>1,324,671</u>	<u>1,174,099</u>

**(19) Regulatory deferral account balances**

As of June 30, 2019, ETESA recognized regulatory deferral account balances on regulated activities amounting to B/. 17,040,857, as per Resolution AN No. 12231 - Elec of March 28, 2018, which entitles ETESA to recover via the tariff for the Maximum Allowed Income (IMP), to be charged to the market agents, the amount of B/. 40,000,000, in the 2017-2021 tariff cycle, this amount is related to extraordinary costs incurred by ETESA in 2017. This amount is discounted using an average discount rate of 3.14% (2018: 2.56%).

As of June 30, 2019, ETESA recognized a liability for regulatory account balances for the amount of B/. 13,695,399 as per Resolution AN No. 12231 - Elec of March 28, 2018, which provides ETESA to collect up to B/. 40,000,000 of additional revenues through the IMP in the tariff cycles 2017-2021 and subsequently to reimburse the market agents such amounts plus interest. The reimbursement will be made as a reduction to the IMP in the tariff cycles of 2021-2025, 2025-2029, 2029-2033 and 2033-2037. ETESA must recognize an annual interest rate on the balance of 5%.

The movement of the regulatory deferred account debit balance is presented below:

	<b>June 30</b>	<b>December 31</b>
	<b><u>2019</u></b>	<b><u>2018</u></b>
Beginning Balance	23,378,257	37,967,503
Discharge made in the year	(8,221,006)	(15,763,720)
Adjustment of present value	<u>1,883,606</u>	<u>1,174,474</u>
Balance	<u>17,040,857</u>	<u>23,378,257</u>

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The movement of the regulatory deferred credit account balance is presented as follows:

	<b>June 30 2019</b>
Beginning Balance	8,663,971
Charges received during the year	4,850,729
Interest recognized	180,699
Balance	<u>13,695,399</u>

**(20) Balances and transactions with related parties**

Balances and transactions with related parties, are summarized as follows:

a) The Balances are:

	<b>June 30 2019</b>	<b>December 31 2018</b>
<b>Investment in Associates (note 8):</b>		
Empresa Propietaria de la Red, S. A.	16,535,714	15,001,964
Red Centroamericana de Telecomunicaciones, S. A.	<u>(54,416)</u>	<u>54,202</u>
	<u>16,481,298</u>	<u>15,056,166</u>
<b>Investment in Joint ventures (note 9):</b>		
Interconexión Eléctrica Colombia-Panamá, S. A.	<u>2,365,763</u>	<u>2,517,599</u>
<b>Loans Receivable – Associates (note 8):</b>		
Empresa Propietaria de la Red, S. A.	<u>2,423,077</u>	<u>2,596,154</u>
<b>Accounts Receivable and contract assets:</b>		
<b>Energy distribution companies:</b>		
Empresa de Distribución Eléctrica Metro Oeste, S. A.	10,256,616	22,536,331
Empresa de Distribución Eléctrica de Chiriquí, S. A.	(2,030,041)	3,938,839
Elektra Noreste, S. A.	<u>17,705,216</u>	<u>26,227,430</u>
	<u>25,931,791</u>	<u>52,702,600</u>
<b>Energy generating companies:</b>		
Aes Changuinola S.DE R.L	1,870,561	1,692,764
Aes Panamá, S.DE.R.L	2,027,499	2,824,334
Bahía las Minas Corp.	736,680	460,170
Enel Fortuna, S. A.	<u>1,807,996</u>	<u>1,292,537</u>
	<u>6,442,736</u>	<u>6,269,805</u>
<b>Government entities:</b>		
Oficina de Electrificación Rural	<u>588,464</u>	<u>588,464</u>
<b>Other market agents :</b>		
AES Changuinola, S. A.	172,220	0
AES Panamá, S. A.	0	71,710
Empresa Nacional de Energía, S. A.	2,830	2,830
Energía y Servicios de Panamá, S. A.	<u>434,073</u>	<u>434,073</u>
	<u>609,123</u>	<u>508,613</u>
<b>Cash</b>		
Banco Nacional de Panamá	<u>-1,311,816</u>	<u>6,344,505</u>

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	<u>June 30</u> <u>2019</u>	<u>December 31</u> <u>2018</u>
<b>Loans Payable</b>		
Caja de Ahorros	0	23,744,510
Banco Nacional de Panamá	0	0
<b>Accounts Payable</b>		
<b>Energy distribution companies:</b>		
Empresa de Distribución Eléctrica de Chiriquí, S. A.	338,000	338,000
Empresa de Distribución Eléctrica Metro Oeste, S. A.	842,343	842,343
Elektra Noreste, S. A.	<u>34,872</u>	<u>1,838,017</u>
	<u>877,553</u>	<u>3,018,360</u>
<b>Energy generating companies:</b>		
AES Panamá, S. A.	524,137	344,427
Autoridad del Canal de Panamá (ACP)	163,162	77,959
Empresa de Generación Enel Fortuna, S.A.	1,254,059	434,795
Elektra Noreste S.A	3,567,053	3,567,053
AES Changuinola, S. A.	238,513	489,555
Empresa de Distribución Eléctrica Metro Oeste, S. A	3,696,856	3,696,856
Empresa de Distribución Eléctrica de Chiriquí, S. A	157,506	157,506
Bahía las Minas Corp.	3,234	14,809
Energía y Servicios de Panamá, S. A	27,397	50,328
Others	<u>90,779</u>	<u>2,605,372</u>
	<u>9,722,696</u>	<u>11,438,660</u>

b) Transactions are as follows:

	<u>2019</u>	<u>June 30</u> <u>2018</u>	<u>2017</u>
<b>Income:</b>			
Transmission of energy	66,330,126	29,891,961	29,924,735
Connections	2,645,014	2,159,138	2,604,834
Integrated operations	<u>5,586,675</u>	<u>4,450,935</u>	<u>6,108,044</u>
	<u>71,561,815</u>	<u>36,502,034</u>	<u>38,637,613</u>
Interest paid for Loans	<u>0</u>	<u>36,479</u>	<u>0</u>

Accounts receivable with related parties are for fees for the use of the transmission network.

Accounts payable with related parties mostly correspond to energy services, that do not generate interest and are payable within 30 days.

The compensation received by key management personnel, directors and chief executives for short terms benefits are composed of allowances, salaries and other remunerations amounting to march 31 B/.1,154,630 (December 2018: B/.2,703,319; B/.2,615,941 for December 2017).

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### (21) Equity

#### Ordinary shares

The holder of ordinary shares is entitled to receive dividends as declared from time to time, and are entitled to one vote per share. There is only one shareholder, who is the Government of the Republic of Panamá

#### Capital contribution

On July 26, 2017, the Cabinet Council of the Republic of Panama issued the Cabinet Decree No. 21, by which it authorized, through the Ministry of Economy and Finance (MEF), to redeem early the obligations that ETESA kept with the Inter-American Development Bank (IDB) and the National Bank of Panama (BNP) for a total amount of B/. 28,826,524, corresponding to the closing of August 2017. From this amount B/. 15,060,021 was paid directly by the MEF and the difference B/. 13,766,503 was transferred to ETESA, for the subsequent payment to the aforementioned entities.

### (22) Loans Payable

The loans payable is detailed as follows:

	June 30 <u>2019</u>	December 31 <u>2018</u>
<u>Local Bonds:</u>		
Issuance of corporate bonds with a fixed interest rate of 3.85% per annum payable quarterly, due May 3, 2026.	75,000,000	0
<u>International Bond:</u>		
Issuance of Senior Unsecured Bonds with a fixed interest rate of 5.125% per annum, payable on a semiannual basis due May 2, 2049.	500,000,000	0
<u>Banco Nacional:</u>		
Revolving Line of credit by B/.30,000,000 Libor interest rate of 6M+2.0% Minimum 3.0%, payable semi-annually with a maturity date of 18 January 2020, and 26 March 2020.	0	0
<u>Caja de Ahorros:</u>		
Line of Credit of B/.3,000,000 with a Libor interest rate of 6M + 4% minimum of 5.5% per annum with a maturity of 60 months from the date of first disbursement and with a maturity dates between May 2019, April 2020 and October 2023	0	720,540
Long-term commercial loan of B/.30,000,000 with an interest rate of 5.5% per annum and with a maturity date of 11 December 2020.	0	23,023,969
<u>Corporación Andina de Fomento:</u>		
Loan with an interest rate of 6M Libor + 3.45% annual payable semi-annually, with maturity on 7 October 2030.	0	71,341,989
<u>Citibank, N.A.</u>		
Loan with an interest rate Libor of 3M + 2.25%, annual to be paid every 3 months with a maturity date of 17th September 2021.	0	400,000,000
Commissions	<u>0</u>	<u>(2,731,210)</u>
<u>Banco General S.A</u>		
Loan with libor interest rate of 6M + 2% semi-annually and with a maturity date of 22 March 2020.	0	0

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#### Banco Centroamericano de Integración Económica

Revolving Line of credit with rate Libor interest of 6M+1.75% payable semi-annually with a maturity date of 29 march 2020. 41,666,667 0

#### **Sub-total**

	616,666,667	492,355,288
Less current portion	<u>16,666,667</u>	<u>8,423,248</u>
<b>Total loans payable with maturities - non current</b>	<b><u>600,000,000</u></b>	<b><u>483,932,040</u></b>

The most significant representations and warranties of the loans are the following:

- Banco Nacional , S.A.-Line of Credit:

The line of credit is aimed at the partial financing of ETESA's working capital. The term of the credit line duration is one (1) year renewable at the option of the bank if it deems it convenient.

ETESA must maintain an active current account, on which authorizes the bank to directly debit any sums or expenses owed in respect of this loan.

- Caja de Ahorros - Long-term Commercial Loan No. 32783003457

(a) The long-term commercial loan will be used in order to cancel the interim construction loan.

(b) This loan has a maximum term of 5 years, renewable at the option of Caja de Ahorros for an additional period of 5 years, renewable for 3 more years counted from the date on which this loan is settled.

(c) 59 consecutive monthly payments payable with no less than B/.192,308 plus interest and FECl. A final additional payment will be made for the unpaid balance.

- Caja de Ahorros - Line of Credit::

(a) This line of credit is for B/.3,000,000 and will be exclusively for the purchase of vehicles for institutional use of ETESA.

(b) To use this credit line ETESA will make a formal request to Caja de Ahorros by means of a letter or form duly signed by the authorized representative of ETESA.

(c) For the purposes of disbursements checks will be issued in favor of the concessionaires of the vehicles for ninety percent (90%) of the sum of the proforma value.

(d) If, at the expiration of this term the Caja de Ahorros does not confirm the closure of this line of credit, it is understood that this is hereby extended for another period of five (5) years renewed automatically.

- Corporación Andina de Fomento - CAF

On 30 April 2015, Corporación Andina de Fomento (CAF) and ETESA, signed the loan agreement N° AC009144 for the amount of B/.100,000,000, with the objective of partially

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financing the investments planned for the Expansion Plan of the Electricity Transmission System of Panama. The contract was countersigned by the Office of the Comptroller General of the Republic of Panama on 5 October 2015.

This loan has a duration of fifteen (15) years counted from the date of closure with a grace period of twenty-four (24) months, where only the interest is canceled as agreed in the contract. Once the grace period has expired, each disbursement will be amortized in semi-annual and consecutive installments for each payment date.

Interest will be paid semi-annually according to each disbursement made by CAF at the rate of 3.45% per annum margin + the Libor rate for that period. This calculation will be made on the basis of 360 calendar days.

Loan disbursements shall be requested in writing by the disbursement request, duly signed by the authorized representative of ETESA. These disbursements should be carried out with ten (10) business days in advance of the date on which the disbursement is required

- The Bank of Nova Scotia (Panamá) S. A. Banco General, S. A. and Banco Nacional de Panamá  
On November 12, 2015, a contract of a syndicated loan was agreed upon between ETESA. as the debtor and the Bank of Nova Scotia (Panama), S. A. as an administrative agent, Banco General, S. A. and Banco Nacional de Panama, as original creditors, for the amount of B/.60,000,000 which aims to finance the costs of compensation and indemnisation for the constitution of a permanent right of way of the Third Transmission Line. The expiration date of this loan will be on September 7, 2018.
- Citibank, N.A.  
On August 15, 2018, a loan contract between ETESA as a borrower, Citibank, N.A. acting through its agency and a fiduciary division as an administrative agent, and Citibank, N.A. as initial lender for the amount of B/.400,000,000, which objective is the repayment of debt incurred in the project of the construction of the third line of transmission, the financial costs arising from the late payment, to cover and/or refinance short-term debt, as determined by ETESA and any other budgetary requirements related to its expansion plan. The expiration date of this loan is August 21, 2021.
- Banco General, S.A.  
On January 3, 2019, a loan contract was signed between Empresa de transmisión Eléctrica, S.A. as the debtor and Banco General, S.A. as the original creditor, for the sum of B/.50,000,000. These funds will be used for permitted indebtedness and other corporate uses of the company. The expiration date of this loan will be on March 22, 2020, however, it was cancelled in advance on May 9, 2019.
- Banco Centroamericano de Integración Económica  
On December 20, 2018 a revolving credit line contract was established between Empresa de transmisión Eléctrica, S.A. as borrower and the Central American Bank for Economic integration as a bank for the amount of B/.50,000,000 countersigned by The General Comptroller of The Republic of Panama on February 20, 2019, which aims to meet only

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and exclusively the working capital needs of the company. This contract lasts 18 months from the disbursement of the line of credit.

- **Local Bonds:**  
On May 3, 2019, Funds were received from the issuance of Corporate Bonds authorized by SMV No. 9719 of March 26, 2019 for the amount of B/. 75,000,000. The term for this issuance is 7 years form disbursement. The capital of this bond issuance is paid at maturity and the interest generated is payable quarterly.
- **International Bonds:**  
On 2 May 2019, funds were received for the issuance of the International Bonds authorized by SMV Resolution No, 144-19 of 23 April 2019 in the amount of B/. 500,000,000. This issuance has a 30 years of maturity counted from the date of disbursement. The bond is amortizable starting on year sixteen (16) and interest will be payable on semiannual basis.

**(23) Provision for Litigations and commitments**

ETESA maintains legal disputes and commitments arising in the normal course of business. The provision established for outstanding commitments and legal disputes, comprises the following:

	<u>June 30 2019</u>	<u>December 31 2018</u>
Lawsuits filed for alleged damages	1,725,761	1,725,761
	<u>1,725,761</u>	<u>1,725,761</u>

El movement of the provision for litigations and commitments are presented below:

	<u>June , 2019</u>				<u>Ending balance</u>
	<u>Beginning Balance</u>	<u>Increase</u>	<u>Reversals</u>	<u>Payments</u>	
Alleged legal damages	1,725,761	-	-	-	1,725,761
Interests in arrears	-	-	-	-	-
	<u>1,725,761</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,725,761</u>

  

	<u>December 31, 2018</u>				<u>Ending Balance</u>
	<u>Beginning Balance</u>	<u>Increase</u>	<u>Reversals</u>	<u>Payments</u>	
Alleged Legal damages	1,804,216	-	(78,455)	-	1,725,761
Interest in arrears	<u>2,840,770</u>	<u>2,401,289</u>	<u>-</u>	<u>(5,242,059)</u>	<u>-</u>
	<u>4,644,986</u>	<u>2,401,289</u>	<u>(78,455)</u>	<u>(5,242,059)</u>	<u>1,725,761</u>

**(24) Tariff rate return payable**

On December 5, 2017, the Public Services Authority (ASEP) ordered ETESA to return to the market agents a tariff adjustment at the end of the year period 2 and 3 of the tariff cycle for the use of the Transmission Main System (CUSPT) and by the rebilling of the actual charges for the service of Integrated Operation (SOI).

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The provisioned value corresponding to tariff period 4 (of the tariff cycle) was calculated based on the present value of discounted future cash flows, derived from these estimated obligations, using as a discount rate the yield of the global bonds of the Republic of Panama for the same term of 10 years.

Through resolutions issued by ASEP, ETESA is authorized to defer the application of the tariff adjustment for years 2, 3 and 4 (corresponding period between July 2013 and June 2017) to market agents so that payments are effective as of the month of July of the year 2021, for a period of eight to ten years, and annual interest rate of 5%

The composition of the tariff rate returns payable will be as follows:

	<u>June 30 2019</u>	<u>December 31 2018</u>
Account payable - CUSPT, according to Resolution 11667 of the 27 of September of 2017 tariff period 2 and 3	10,405,972	10,405,972
Account payable - CUSPT, according to Resolution 11667 of the 27 of September of 2017 tariff period 2 and 3	6,791,759	6,791,759
Accrued Interest of tariff period 2 and 3	2,773,874	2,149,716
Estimate of the tariff return for period 4 comprising of 1 July 2016 to 30 June 2017	<u>10,433,318</u>	<u>21,181,406</u>
	<u>30,404,923</u>	<u>40,528,853</u>

The movement of tariff rate return is as follows:

	<u>June 30, 2019</u>		
	<u>Beginning Balance</u>	<u>Increase</u>	<u>Ending Balance</u>
Account payable - CUSPT	10,405,972	-	10,405,972
Account payable - SOI	6,791,759	-	6,791,759
Accrued Interest tariff period 2 and 3	2,149,716	214,972	2,364,688
Estimated tariff period 4	<u>21,181,406</u>	<u>375,141</u>	<u>21,556,547</u>
	<u>40,528,853</u>	<u>590,113</u>	<u>41,118,966</u>

	<u>December 31, 2018</u>		
	<u>Beginning Balance</u>	<u>Increase</u>	<u>Ending Balance</u>
Account payable - CUSPT	10,405,972	-	10,405,972
Account payable - SOI	6,791,759	-	6,791,759
Accrued Interest tariff period 2 and 3	1,289,829	859,887	2,149,716
Estimated tariff period 4	<u>20,399,795</u>	<u>781,611</u>	<u>21,181,406</u>
	<u>38,887,355</u>	<u>1,641,498</u>	<u>40,528,853</u>

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**(25) Accounts payable to suppliers**

The accounts payable to suppliers are as follows:

	<b>June 30</b>	<b>December 31</b>
	<b><u>2019</u></b>	<b><u>2018</u></b>
Materials and supplies	23,341,430	51,303,724
Contracts for projects	7,226,336	23,912,607
Regional Market	<u>1,958,545</u>	<u>714,332</u>
	<b><u>32,526,311</u></b>	<b><u>75,930,663</u></b>

**(26) Accounts Payable – Third Line of transmission.**

As of December 31, 2018 ETESA, paid an outstanding balance for the construction of the Third Line of Transmission for the sum of B/.275,830,816, a turnkey project delivered in September 2017, the payment of which was guaranteed by The Bank of Nova Scotia (Panama), S. A.

**(27) Income from operations**

The effect of the initial application of IFRS 15 on income from ordinary activities from contracts with ETESA customers is described in Note 7. Due to the transition method chosen to apply IFRS 15, comparative information has not been restated, to reflect the new requirements.

**A. Income flows**

ETESA generates income mainly from the provision of services for power transmission, connection and integrated operations, as detailed below

	<b><u>2019</u></b>	<b><u>June 30</u></b>	<b><u>2017</u></b>
		<b><u>2018</u></b>	
Transmission			
Electric tracking	14,210,292	3,887,697	3,533,539
Stamping	37,769,028	36,317,079	17,584,474
Connections	2,645,014	2,558,214	3,265,525
Integrated operations			
Centro Nacional de Despacho	5,133,068	3,453,010	4,060,237
Hydrometeorology	<u>2,310,431</u>	<u>2,463,621</u>	<u>3,340,693</u>
Ordinary income from contracts with clients	<b><u>62,067,833</u></b>	<b><u>48,679,621</u></b>	<b><u>31,784,468</u></b>

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**B. Disaggregation of income from ordinary activities from contracts with customers**  
In the following table, revenues from ordinary activities from contracts with customers are disaggregated by main customers and the opportunity to recognize revenue. The table also includes a reconciliation between the disaggregated income and the segments on which ETESA must inform (see Note 8).

For the year ended 31 December	Transmission / Connection				National Dispatch Center				Services of Hydrometeorology				Communication Service				Total	
	2019	2018	2017	2016	2019	2018	2017	2016	2019	2018	2017	2016	2019	2018	2017	2016	2017	
Principal clients	39,270,059	15,249,908	17,668,376	976,015	1,643,655	976,015	1,221,253	627,277	841,433	0	0	0	41,557,292	16,853,199	0	0	19,731,061	
Distributors	5,758,578	5,677,007	4,421,361	707,563	806,213	707,563	1,151,556	466,015	793,968	0	0	0	6,872,765	6,850,585	0	0	6,366,884	
Generators	10,803,708	21,746,075	2,293,534	1,659,432	2,683,199	1,687,428	1,370,329	1,705,562	14,994	14,994	0	0	13,637,777	24,975,836	0	0	5,686,524	
Other Market agents	55,832,343	42,672,990	24,383,271	3,543,010	5,133,067	3,543,010	4,060,236	2,463,624	3,340,963	0	0	0	62,067,833	48,679,621	0	0	31,784,470	
Opportunity for income recognition	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Services transferred over time	53,224,439	42,672,990	24,383,271	3,543,010	5,133,067	3,543,010	4,060,236	2,463,624	3,340,963	14,994	14,994	0	59,459,990	48,679,621	0	0	31,784,470	
Services transferred in a point of time	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Revenue from ordinary activities of contracts with clients	45,724,463	42,672,990	24,383,271	3,353,010	5,133,067	3,353,010	4,060,236	2,463,624	3,340,963	14,994	14,994	0	59,459,990	48,679,621	0	0	31,784,470	
Other income	2,607,844	0	0	0	0	0	0	0	0	0	0	0	2,607,844	0	0	0	0	
Income reported in the segment note	55,832,343	42,672,990	24,383,271	3,543,010	5,133,067	3,543,010	4,060,236	2,463,624	3,340,963	14,994	14,994	0	62,067,833	48,679,621	0	0	31,784,470	

**C. Contracts assets**

The contract assets relate to ETESA rights to consideration for the service rendered but not billed at the reporting date. The contract assets are transferred to receivables when the rights become unconditional. This occurs when ETESA issues an invoice to the customer.

Changes in contract assets during the year are detailed below:

	2019	2018
Beginning balance	24,164,280	17,711,560
Revenue recognized during the year included in contract assets	(4,846,903)	24,164,280
Transfers from contract assets recognized at the beginning of the period to receivables.	(6,678,867)	(17,711,560)
	<b>12,638,510</b>	<b>24,164,280</b>

These balances are basically related to ETESA's rights to receive a cash consideration for the re-invoicing of the services provided from January 1 to June 30, 2018, for which ASEP authorized through Resolution AN 12231 Elec dated March 28, 2018, where the maximum allowable income permitted (MAI) that covers the tariff period from July 2017 to June 2021 was approved. These amounts, according to the ASEP notification, will be invoiced to the market agents, in the period from January 1 to June 30, 2019.

**D. Maximum Allowance Income**

The following table includes information on the Maximum Allowable Income (MAI) approved by the ASEP. This information represents the expected income flows to be received by ETESA for the service:

	2019	2020	2021	Total
Transmission	76,183,465	137,757,000	107,479,000	345,905,069
Connections	4,068,986	9,562,000	9,872,000	24,675,420
Integrated Operations	9,139,502	11,398,000	9,083,000	33,962,257
	<b>89,391,953</b>	<b>159,717,000</b>	<b>126,434,000</b>	<b>403,542,746</b>

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The other income is detailed as follows:

	<u>2019</u>	June 30 <u>2018</u>	<u>2017</u>
Communication services	91,385	58,057	31,017
Profits on sale of fixed assets (land and property)	0	483	62,167
Others	<u>2,819,259</u>	<u>610,559</u>	<u>2,518,579</u>
	<u>2,910,644</u>	<u>669,099</u>	<u>2,611,763</u>

**(29) Costs, expenses and general and administrative expenses by nature**

The cost of services, general and administrative expenses by nature is detailed as follows:

	<u>2019</u>	June 30 <u>2018</u>	<u>2017</u>
Personnel costs (note 30)	7,845,512	7,927,755	8,828,863
Compulsory generation (1)	1,555,955	5,587,647	27,376,125
Repair and Maintenance	747,768	1,859,115	63,816
Commercial and financial services	1,202,180	1,981,778	1,437,776
Non-personal services	1,659,408	1,046,077	617,617
Materials and supplies	345,148	352,854	348,191
Rentals	439,284	486,250	438,171
Basic services	658,995	745,688	703,554
Travel and transportation	299,575	304,722	387,100
Fuel and lubricants	114,781	131,744	95,001
Taxes, regulation and inspection fees	1,256,459	770,356	409,924
International organizations	19,325	6,375	5,000
Others	<u>(1,487,643)</u>	<u>597,579</u>	<u>230,867</u>
	<u>14,656,746</u>	<u>21,797,939</u>	<u>40,942,005</u>

- (1) At June 2019, ETESA generated the sum of B/. 1,555,955 (2018: B/. 5,587,647, 2017 27,376,125) for compulsory energy generation cost. For 2017, B/. 40,000,000 were recognized by Resolution of 2017 by ASEP, as a tariff income within the calculation of the MAI and is going to be charged to the market agents during the years 2018-2021. The difference between the compulsory energy generation expense paid by ETESA and the regulated activities deferral accounts is mainly due to the effect of calculating the net present value of the latter. This generation was caused by the unavailability, particularly in the transmission lines, located in the west side of the country, which prevented the generating agents, in that geographical location, from being able to transport the energy in their entirety to the delivery points agreed with the companies of distribution. The allocation of this expense is calculated by the National Dispatch Center (CND), according to the methodology established in the transmission regulation.

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- (2) ETESA was sanctioned by the ASEP on December 19, 2017, and August 2018, to compensate customers and an administrative process of penalties for failure to comply with current existing regulations concerning electricity, respectively.

	<u>2019</u>	<u>June 30 2018</u>	<u>2017</u>
<u>Transmission</u>			
Personnel expenses	2,864,903	3,212,887	3,749,342
Compulsory generation (1)	1,555,955	5,587,647	27,376,125
Repair and Maintenance	701,997	1,780,335	30,747
Commercial and financial services	720,515	1,376,226	837,501
Non-personal services	871,575	378,592	253,321
Materials and supplies	273,314	272,840	213,487
Rentals	31,468	192,493	184,138
Basic services	370,122	307,411	287,878
Travel and transportation	132,788	185,812	210,897
Fuel and lubricants	96,518	68,936	61,692
Others	<u>(1,622,282)</u>	<u>373,537</u>	<u>0.00</u>
	<u>5,996,872</u>	<u>13,736,717</u>	<u>33,205,128</u>
<u>Connection</u>			
Personnel expenses	55,541	57,579	66,546
Others	<u>10,228</u>	<u>1731.66</u>	<u>10,251</u>
	<u>65,769</u>	<u>59,311</u>	<u>76,797</u>
<u>Integrated Operations</u>			
<u>Centro Nacional de Despacho</u>			
Personnel expenses	795,197	748,593	927,216
Repair and Maintenance	0	2,303	2,354
Commercial and financial services	88,349	105,639	22,405
Non-personal services	22,544	12,615	188
Materials and supplies	1,987	1,072	3,583
Rentals	1,216	1,216	1,824
Basic services	47,494	47,314	51,097
Travel and transportation	10,747	10,290	13,070
Fuel and lubricants	372	1,342	1,670
Other expenses	<u>15,040</u>	<u>33,238</u>	<u>26,758</u>
Sub-total National Dispatch Center	<u>982,946</u>	<u>963,622</u>	<u>1,050,165</u>

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	<u>2019</u>	<u>June 30 2018</u>	<u>2017</u>
Hydrometeorology			
Personnel expenses	658,767	539,892	690,260
Repair and Maintenance	9,590	9,595	5,908
Commercial and financial services	65,870	91,631	71,645
Non-personal services	12,375	5,641	4,496
Materials and supplies	21,237	11,004	7,148
Rentals	0.00	39,528	16,383
Basic services	16,080	8,389	28,197
Travel and transportation	44,847	37,409	57,044
Fuel and lubricants	5,503	7,147	4,935
Other expenses	<u>100,277</u>	<u>51,867</u>	<u>88,331</u>
Sub-total of hydrometeorology	<u>934,547</u>	<u>802,101</u>	<u>974,345</u>
Total Integrated Operations	<u>2,942,626</u>	<u>2,723,694</u>	<u>2,990,838</u>
<u>General and administrative expenses</u>			
Personnel expenses	2,568,510	2,555,645	2,610,413
Repairs and maintenance	35,618	52,901	20,569
Commercial and financial services	330,922	347,599	389,111
Non-personal services	713,976	648,002	347,866
Materials and supplies	34,162	66,399	120,400
Rentals	404,690	250,035	226,925
Basic services	187,748	349,704	313,863
Travel and transportation	88,062	55,273	76,827
Fuel and lubricants	12,008	50,270	25,514
Taxes, regulation and inspection fees	1,256,459	770,356	409,924
International organizations	19,325	6,375	5000
Other expenses	<u>0</u>	<u>125,658</u>	<u>122,831</u>
	<u>5,651,479</u>	<u>5,278,217</u>	<u>4,669,242</u>

**Conciliación details**

	<u>2019</u>	<u>June 30 2018</u>	<u>2017</u>
Transmission	5,996,872	13,736,717	33,205,128
Connection	65,769	59,311	76,797
Integrated Operations	2,942,626	2,723,694	2,990,838
General and administrative expenses	<u>5,651,479</u>	<u>5,278,217</u>	<u>4,669,242</u>
	<u>14,656,746</u>	<u>21,797,939</u>	<u>40,942,005</u>

**(30) Personnel expenses**

Here is a detail of the composition of Personnel costs and expenses, which is distributed in the areas of transmission, connection, integrated operation and general administration:

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	<u>2019</u>	<u>2018</u>	<u>2017</u>
Salary and other remunerations	2,226,637	2,130,074	2,023,731
Representation expenses	84,925	79,808	74,761
Overtime	338,754	302,494	278,669
Thirteenth month and bonuses	384,876	361,382	1,570,854
Employer's contributions to employee benefit plan	812,503	760,201	782,336
Benefit on collective agreement	71,135	210,155	157,121
	<u>3,918,829</u>	<u>3,844,114</u>	<u>4,887,472</u>

**(31) Finance costs net**

The finance costs are detailed as follows:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Interest on financing	16,415,180	886,707	1,802,799
Interest for tariff refund	(308,598)	(92,257)	(103,534)
Interests received	628,066	0	0
	<u>16,734,648</u>	<u>794,128</u>	<u>1,699,266</u>

**(32) Taxes**

The income tax returns of ETESA are subject to review by the tax authorities of Panama for the latest three years presented, including the year ended 31 December 2018, according to the current existing fiscal regulations.

The Tax Code indicates that companies in which the Panamanian state has share ownership greater than 40%, must pay income tax at a rate of 30% or whichever is greater among: (1) the net taxable income calculated by the established method (the "Ordinary Method"), or (2) the net taxable income that results from applying to the total of taxable income 4.67%, called the "alternative method for income tax calculation" ("CAIR"). Companies are obliged to perform both calculations of income tax.

Companies that incur losses and yet are expected to pay taxes under CAIR or due to the application of CAIR, its effective rate exceeds the applicable statutory tax rates for the fiscal period in question, may request the Directorate General of Revenue ("DGI"), to authorize the calculation of the tax under the Ordinary Method only.

The amount of the income tax calculated and estimated to be paid by ETESA for the period ended December 31, 2018, 2017 and 2016, was determined in accordance with the Ordinary Method.

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The following table discloses the amounts of current and deferred income taxes:

	<u>2019</u>	<u>June 30 2018</u>	<u>2017</u>
<b>Current Tax Expense</b>			
Current year (Tax Return)	4,123,833	1,562,960	0
Adjustment to taxes from previous years	<u>0</u>	<u>0</u>	<u>0</u>
	4,123,833	0	0
<b>Expense for deferred Income taxes</b>			
Current year	<u>0</u>	<u>0</u>	<u>0</u>
Total income tax	<u>4,123,833</u>	<u>1,562,960</u>	<u>0</u>

In December 2017 ASEP issued a resolution allowing ETESA to make deductible de balances owed to the market agents corresponding to the excess tariff charged to be returned (see note 24), based on this resolution, ETESA proceeded to amend income tax returns for the fiscal years 2014 and 2015, generating an adjustment, since the amounts have been considered as non-deductible expenses at the time.

Reconciliation between the statutory tax rate with the effective rate of ETESA is detailed below:

	<u>2019</u>	<u>June 30 2018</u>	<u>2017</u>
Profit before income tax	21,246,145	5,209,866	(16,179,439)
Movement in balance of regulatory accounts	<u>(7,500,036)</u>	<u>-</u>	<u>(16,179,439)</u>
	<u>13,746,109</u>	<u>5,209,866</u>	<u>0</u>
Rate of statutory income tax:	30%	30%	30%
	4,123,833	1,562,960	0
Fiscal Impact of:			
Non-taxable Income	0	0	0
Non-deductible expenses	0	0	0
Changes in estimates related to previous years	<u>0</u>	<u>0</u>	<u>0</u>
Total income tax	<u>4,123,833</u>	<u>1,562,960</u>	<u>0</u>

The Deferred income tax charged to the income statement is detailed below:

	<u>June, 2019</u>			
	<u>Opening Balance</u>	<u>Adjusted opening balance</u>	<u>Recognized in results</u>	<u>Final Balance</u>
Provision of litigation	368,098	-	-	368,098
Provision for voluntary retirement	517,728	-	-	517,728
Expected credit losses	-	-	-	-
Total deferred tax asset	<u>885,826</u>	<u>-</u>	<u>-</u>	<u>885,826</u>

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ETESA believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience

### (33) Financial Instruments - fair values and risk management

The effect of the initial application of IFRS 9 on ETESA financial instruments is described in Note 7. Due to the chosen transition method, the comparative information has not been restated to reflect the new requirements:

#### a. Accounting classifications and fair value measurement

The following are the book values and fair value of the financial assets and financial liabilities, including their levels in the hierarchy of value.

Financial assets at amortized costs	Total amount in books	June 30, 2019 Fair Value			Total
		Level 1	Level 2	Level 3	
Cash	57,766,878	-	-	-	-
Accounts receivable	116,620,335	-	-	-	-
Loans receivable associates	2,423,077	-	-	2,542,299	2,542,299
	<u>176,810,290</u>				
<b>Other financial liabilities</b>					
Accounts payable	44,656,267	-	-	-	-
Loans payable	616,666,667	-	-	683,207,479	683,207,479
Contractors retentions	3,869,814	-	-	-	-
	<u>665,192,748</u>				

  

Financial assets at amortized costs	Total amount in books	December 31, 2018 Fair Value			Total
		Level 1	Level 2	Level 3	
Cash	19,468,626	-	-	-	-
Accounts receivable	99,333,616	-	-	-	-
Loans receivable associates	2,596,154	-	-	2,713,863	2,713,863
	<u>121,398,396</u>				
<b>Other financial liabilities</b>					
Accounts payable	96,740,175	-	-	-	-
Loans payable	494,797,099	-	-	513,220,266	513,220,266
Withholdings to contractors	2,908,526	-	-	-	-
	<u>590,892,143</u>				

Valuation techniques used to measure fair value for disclosure purposes is detailed as follows:

- i. Financial assets and liabilities in the short term.  
The book value of non-derivative financial instruments approximates their fair market value due to the short-term maturities in order of liquidity.
- ii. Loan receivable

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Loans receivable originated by ETESA constitute financial assets that are measured at amortized cost. The fair value represents the amount deducted from the estimated future cash flows to receive.

iii. **Loans payable**

Valuation technique - Discounted cash flows:

The valuation model considers the present value of expected payments, discounted using a risk-adjusted discount rate.

b. **Financial Risk Management**

ETESA is exposed to the following risks arising from the use of financial instruments:

- i. Credit Risk
- ii. Financing and Liquidity risk
- iii. Market risk

i. **Risk Management framework**

The Company's board of directors has overall responsibility for the establishment and oversight of the ETESA's risk management framework. The board of directors has established the risk management committee, which is responsible for developing and monitoring ETESA's risk management policies. The committee reports regularly to the board of directors on its activities. ETESA's risk management policies are established to identify and analyze the risks faced by ETESA, to set appropriate risk limits and controls and to monitor risks and adherence to limits.

ETESA's risk management policies and systems are reviewed regularly to reflect changes in market conditions and the ETESA's activities. ETESA through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

ii. **Credit Risk**

Credit risk is the risk of financial loss to ETESA if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from ETESA's receivables from customers and investments in debt securities.

The carrying amounts of financial assets and contract assets represent the maximum credit exposure.

Impairment loss (reversal) on financial assets and contract assets recognized in profit or loss were B/. (1,849), 2017 nil, 2016 B/. 829,336.

**Trade receivables and contract assets**

ETESA's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk associated with the industry and country in which customers operate. The government of Panama establishes the maximum allowable income (IMP) through the ASEP to guarantee the recovery of costs

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and expenses of ETESA, the tariff is designed to distribute de IMP to the market participants. However, if a market participant declares bankruptcy, the pending balances would be distributed among the market agents, to guarantee the collection of the entire IMP.

ETESA limits its exposure to credit risk for debtors by establishing a maximum payment period of one and three months for customers.

More than 50% of ETESA's clients have transacted with it for more than 5 years, and no impairment losses have been recognized against these clients. When monitoring the credit risk of the clients, these are grouped according to their credit characteristics, if they are distributors, generators or other market agents, commercial history with ETESA and existence of previous financial difficulties.

As of December 31, 2018, the exposure to credit risk for commercial debtors and assets of the counterparty contracts was as follows:

	<b>June 30</b>	<b>December 31</b>
	<b><u>2019</u></b>	<b><u>2018</u></b>
Energy distributors	25,931,790	52,702,601
Energy generators	55,546,281	39,690,712
Government entities	588,464	588,464
Other market agents	1,324,671	1,174,099
Other	<u>15,590,619</u>	<u>5,177,740</u>
	98,981,825	99,333,616
Loan receivable associates	<u>2,596,154</u>	<u>2,596,154</u>
	<u>101,577,979</u>	<u>101,929,770</u>

For the accounts receivable held by the company as of March 31, 2019, the ETESA has considered necessary to make segmentations for the calculation of the collective provision in order to obtain a better estimate of the deterioration.

ETESA has segmented its accounts receivable portfolio into 3 groups:

- Government Clients (segment 1): These are clients of which the Panamanian State has control for more than 50% of the shares of the companies (IFRS 9: General method, stage 1).
- Clients with risk rating (rating) (segment 2): These are clients that have an international risk rating of at least BBB- (IFRS 9 approach: general method, stage 1).
- Remains of customers in the accounts receivable portfolio (segment 3): they maintain similar credit characteristics and are located in the same geographical area. (IFRS 9 approach: Simplified method - Provision matrix).

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Following is a summary of ETESA's exposure to the credit risk of commercial debtors and the contract assets.

	<b>June 30 <u>2019</u></b>	<b>December 31 <u>2018</u></b>
Segment 3	2,261,049	23,595,759
Segment 2	67,382,578	71,307,965
Segment 1	39,553,631	4,257,253
Travel Advance	0	172,638
Loans Receivable Associates	<u>2,423,077</u>	<u>2,596,154</u>
	<u>111,620,335</u>	<u>101,929,769</u>

At June 30, 2019, the aging of trade and other receivable and contract assets for all segments was as follows:

	<b><u>2019</u></b>
<u>Accounts receivable</u>	
Current	13,368,475
From 1 to 30 days past due	11,925,100
From 31 to 60 days past due	3,932,684
From 61 to 90 days past due	9,493,206
From 91 to 120 days past due	8,451,337
From 121 to 160 days past due	2,726,136
From 161 days and more past due	<u>58,853,213</u>
	<u>111,620,335</u>
<u>Loans receivable with related parties</u>	
Current	<u>2,596,154</u>

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#### **Expected credit loss assessment for individual customers as at January 1st and December 31, 2018**

ETESA uses an allowance matrix to measure the ECLs (Estimated Credit Loss) of trade receivables from individual customers, which comprise a very large number of small balances. Loss rates are calculated using a 'roll rate' method based on the probability of a receivable progressing through successive stages of delinquency to write-off. Roll rates are calculated separately for exposures in different segments based on the following common credit risk characteristics – geographic region, age of customer relationship and type of product purchased.

Loss rates are based on actual credit loss experience over the past 3 years. These rates are multiplied by scalar factors to reflect differences between economic conditions during the period over which the historical data has been collected, current conditions and ETESA's view of economic conditions over the expected lives of the receivables.

#### ECL methodology

In order to build a factor to be incorporated in the calculation of the expected credit losses under a simplified approach, ETESA has taken into consideration NPL ratio (past due credits) - SBP Panama, IPC - General Comptroller of the Republic of Panama, Unemployment rate - Comptroller General of the Republic of Panama.

#### **Expected credit loss assessment for corporate customers with risk assessment as at January 1st and December 31, 2018**

ETESA allocates each exposure to a credit risk grade based on data that is determined to be predictive of the risk of loss and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default and are aligned to external credit rating definitions from Moody's.

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The following table provides information about the exposure to credit risk and ECLs for trade receivables and contract assets for corporate customers as at December 31, 2018.

December 31, 2018

<u>Ratings</u>	<u>Equivalent to external credit rating (Agency)</u>	<u>Gross Carrying Amount</u>	<u>Loss Allowance</u>
Low Risk	BBB+	922	0
Low Risk	BBB	66,703,997	53,080
Low Risk	BBB-	4,603,047	5,387
		<u>71,307,966</u>	<u>58,467</u>

**Expected credit loss assessment for customers with risk assessment  
Government Clients as at January 1 and December 31, 2018**

The following table provides information about the exposure to credit risk and ECLs for trade receivables and contract assets for Government clients as at December 31, 2018.

<u>Sovereign Ratings</u>	<u>Equivalent to external credit rating (Agency)</u>	<u>Weighted average loss rate</u>	<u>Gross Carrying amount</u>	<u>Loss Allowance</u>
Panama	Between BBB-AAA	0.0053	4,257,253	10,562

**Comparative information under IAS 39**

An aging analysis of the delinquency of past due commercial debtors but not impaired as of December 31, 2017, is presented below.

	<u>2018</u>
<u>Accounts receivable</u>	
Current and not impaired	32,818,174
From 1 to 30 days	20,544,812
From 31 to 60 days	8,105,297
From 61 to 90 days	6,661,336
From 91 to 120 days	3,904,376
From 121 to 160 days	539,052
From 161 days and more	<u>26,760,568</u>
	<u>99,333,615</u>
<u>Loans receivable</u>	
Current & not impaired	<u>2,596,154</u>

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### Movements in the allowance for impairment in respect of trade receivables and contract assets

The movement in the allowance for impairment in respect of trade receivables and contract assets during the year was as follows. Comparative amounts for 2017 represent the allowance account for impairment losses under IAS 39.

	June 30 <u>2019</u>	December 31 <u>2018</u>
Balance as of 1 January according to IAS 39	2,795,354	937,980
Adjustment in the initial application of IFRS 9	<u>10,644</u>	<u>1,859,223</u>
Balance as of 1 January according to IFRS 9	2,805,999	2,797,203
Reversal of provision	<u>0</u>	<u>(1,849)</u>
Balance at the end of the year	<u>2,805,999</u>	<u>2,795,354</u>

### Cash

ETESA held cash of B/.57,766,878 at 30 June 2019 (2018: B/.19,468,626). The cash are held with bank and financial institution counterparties, which are rated AA- to AA+. Impairment on cash has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. ETESA considers that its cash have low credit risk based on the external credit ratings of the counterparties.

### iii. Liquidity Risk

Liquidity risk is the risk that ETESA will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. ETESA's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the ETESA's reputation.

#### Liquidity Risk Administration

ETESA is insured that in its management of liquidity, it maintains sufficient cash available to settle the expected operating expenses.

Liquidity risk is the risk that ETESA will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. ETESA's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient cash to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to ETESA's reputation.

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In addition, the Company maintains the following lines of credit facilities:

- A B/.30 million credit facility with Banco Nacional (the “Banco Nacional Facility”), with an interest rate of 6 month LIBOR plus 2% per annum.
- A B/.50 million credit facility with Banco General (the “Banco General Facility”), with an interest rate of 6 month LIBOR plus 2% per annum.
- A B/.50 million credit facility with Central American Bank for Economic Integration (the “CABEL Facility”), with an interest rate of 6 month LIBOR plus 1.75% per annum.
- The Company also has a local bond issuance program approved by the Panama Superintendence of the Stock Market (SMV) under Resolution No. 97-2019 for the issuance of up to U.S. \$300,000,000 in bonds.

The following are the remaining contractual maturities of the financial liabilities at the reporting date. The amounts are presented gross and undiscounted, and include contractual interest payments:

	Gross carrying amount	Total	March 31, 2019 Contractual Cash Flows		
			6 month or less	7 to 12 months	More than one year
Accounts Payable	44,503,647	44,503,647	22,783,670	21,719,977	
Loans payable	<u>553,084,537</u>	<u>641,288,010</u>	<u>49,075,179</u>	<u>49,075,179</u>	<u>543,137,652</u>
	<u>597,588,184</u>	<u>685,791,657</u>	<u>71,858,849</u>	<u>70,795,156</u>	<u>543,137,652</u>

	Gross Carrying amount	Total	December 31, 2018 Contractual cash flows		
			6 months or less	7 to 12 months	More than one year
Accounts Payable	93,186,518	93,186,518	30,898,041	62,288,477	0
Loans payable	<u>492,355,288</u>	<u>601,114,996</u>	<u>17,772,297</u>	<u>17,772,297</u>	<u>565,570,402</u>
	<u>585,541,806</u>	<u>694,301,514</u>	<u>48,670,338</u>	<u>80,060,774</u>	<u>565,570,402</u>

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The inflows/(outflows) disclosed in the above table represent the contractual undiscounted cash flows relating to derivative financial liabilities held for risk management purposes and which are not usually closed out before contractual maturity. The disclosure shows net cash flow amounts for derivatives that are net cash-settled and gross cash inflow and outflow amounts for derivatives that have simultaneous gross cash settlement

#### iv. Market Risk

Market risk is the risk that changes in market prices – e.g. foreign exchange rates, interest rates and equity prices – will affect ETESA's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

##### Exposure to Interest Rate Risk

The interest rate profile of ETESA's interest-bearing financial instruments as reported to the management of the ETESA is as follows:

	<u>June 30</u> <u>2019</u>	<u>December 31</u> <u>2018</u>
Fixed rate instruments		
Financial assets	2,423,077	2,596,154
Financial liabilities	<u>0</u>	<u>(23,023,969)</u>
	<u>2,423,077</u>	<u>(20,427,815)</u>
Variable rate instruments		
Financial liabilities	<u>(616,666,667)</u>	<u>(472,062,530)</u>

##### Fair value sensitivity analysis for fixed-rate instruments

ETESA does not account for any fixed-rate financial assets or financial liabilities at FVTPL, and ETESA does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the reporting date would not affect profit or loss. A change of 100 basis points in interest rates would have increased or decreased equity by B/.102,139 after tax (2017: B/.213,678). This analysis assumes that all other variables, remain constant.

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### (34) Commitments and contingencies

#### Operating Leases

ETESA, maintains leases with third parties, with a duration of one to two years, renewable by mutual agreement, which are listed below with their expiration date.

- GG007702017, contract for the office space lease of ETES in the building P.H. Sun Tower Mall, for B/.737.128 per year; for a term of three years, renewable by mutual agreement, with maturity on December 31, 2019.
- GG007702017, contract for the lease of ETESA's premises 7 and 21, in the building P.H. Sun Tower Mall, for B/.53.017 per year; for a term of three years, renewable by mutual agreement, with maturity on December 31, 2019.
- GG007702017, contract for the lease of ETESA's parking space in the building P.H. Sun Tower Mall, for B/.29.981 per year; for a term of three years, renewable by mutual agreement, with maturity on December 31, 2019.
- GG0079002017, contract for the lease of the building Great River, for use by the offices of the operations management and maintenance of ETESA, B/.154.080 per year; for a term of three years which may be extended by mutual agreement, with maturity on December 31, 2019.

#### Administration of Funds

Through various resolutions of the Panamanian State Cabinet through the Ministry of Economy and Finance, hires ETESA for the administration of various funds as follows:

- *Rate Stabilization Fund (FET)*  
To function as a financial mechanism that provides, in the short and medium term, the stabilization of the price of electric energy to the final consumer, which takes into account regulated tariffs.
- *Tariff of the West Fund (FTO)*  
Compensates market agents, for the amounts they stop receiving due to the stabilization of the electricity tariff of their regulated customers, in accordance with the Resolutions issued for these purposes by the National Authority of Public Services (ASEP), allowing the State to comply with the commitment acquired to stabilize rates to regulated customers, and to mitigate the transfer of their costs.
- *Energy Compensation Fund (FACE)*  
To make the payments corresponding to the generating electricity companies with mixed equity. The FACE is in the process of liquidation, and therefore, the remaining funds should be transferred to the FTO, at the time of closing.

#### Litigation

The following litigation was paid during the 2018:

##### *Third Electric Power Transmission Line*

On September 29, 2017, ETESA capitalized the turnkey project for the Third Electricity Transmission Line. The project was awarded to company Constructora Norberto Odebrecht, S. A. (see note 12). This project also contemplated the payment by the law of right of way that were equally capitalized (see note 14).

## EMPRESA DE TRANSMISIÓN ELÉCTRICA, S. A. (ETESA)

(Company 100% owned by the State of the Republic of Panama)

### Notes to the Financial Statements as of December 31, 2018 and 2017 and for the years ended June 30, 2018, 2017 and 2016 (Figures in Balboas)

On December 4, 2018, ETESA signed a transaction agreement with Constructora Norberto Odebrecht S.A. where it undertakes to pay the sum of B/.17,850,336.14 for additional costs related to Contract GG-138-2013; the payment was made on December 20, 2018 to Constructora Norberto Odebrecht S.A., for the agreed amount.

#### Lawsuit from Supplier

On September 20, 2016 a lawsuit was filed against ETESA for the amount of B/. 27,884,283, by CELMEC, S. A. who is currently a contractor providing mainly electrical substations. This lawsuit is mainly based on the late payments of 10 contracts that CELMEC, S. A. has managed with ETESA since the year 2011 to date currently, the external attorneys indicate that an agreement was reached with the company to cancel and pay the sum of B / . 5,242,059.

#### (35) Earnings per share

The calculation of basic and diluted EPS has been based on the following profit attributable to shareholder and the number of ordinary shares outstanding.

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Net profit for the year	9,622,277	12,931,971	621,826
Weighted-average number of ordinary shares at 31 March	52,000,000	52,000,000	52,000,000
Basic and diluted earnings per share	<u>0.19</u>	<u>0.25</u>	<u>0.01</u>

#### (36) Subsequent events

- ETESA on May 2, 2019 issued corporate bonds with a maximum maturity of thirty (30) years from the initial offer of the bonds and whose total amount of the issue is US \$500 million (Senior bonds 5,125% with maturity in 2049), authorized by resolution **SMV No. 144-19-23 April 2019**.
- ETESA on May 3, 2019 issues corporate bonds with a maximum maturity of seven (7) years from the initial offer of the bonds and whose total amount of the issue is US \$75 million, Series A, authorized by resolution **SMV No. 97-19-March 26, 2019**.